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ANSETT LOAN AND EXPORT-IMPORT AIRCRAFT FINANCING POLICIES

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

OVERSIGHT OF THE FINANCING POLICIES OF THE EXPORT-IMPORT BANK OF THE UNITED STATES AND PARTICULARLY ON THE BANK'S PRELIMINARY APPROVAL TO A LARGE LOAN TO ANSETT AIRLINES

MAY 12 AND 13, 1980

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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ANSETT LOAN AND EXPORT-IMPORT AIRCRAFT FINANCING POLICIES

MONDAY, MAY 12, 1980

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:10 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Stevenson, Garn, and Heinz.

The CHAIRMAN. The committee will come to order.

Will the witnesses rise and raise their right hands? Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mr. MOORE. I do.

Mr. ALLEN. I do.

Mrs. KAHLIFF. I do.

Mr. STINGEL. I do.

Mr. DE SAINT PHALLE. I do.

Mr. GLICK. I do.

Mr. CRUSE. I do.

The CHAIRMAN. Be seated.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee is holding hearings today and tomorrow on the aircraft financing policies and practices of the Export-Import Bank. The committee has called these hearings because of questions raised by a recent decision of the Bank to give preliminary approval to a large loan on highly concessionary terms to Ansett Airlines. Ansett, a domestic Australian airline, plans to buy at least 18 aircraft from the Boeing Co.

Today's hearing will examine how the Chairman of the Bank, John Moore, handled the loan application from Ansett and the Bank's action on the loan. We will hear from Mr. Moore and the other Directors of the Bank.

Tomorrow, the committee will focus on the policy implications of the Bank's decision in the Ansett case and Exim's overall policy on financing aircraft sales. We will also hear from several of the outside parties who were involved with the Ansett request or might have some knowledge about the Bank's consideration of the loan.

The Ansett decision has turned out to be one of the Bank's most controversial actions because of the generous term of the loan and dissension within the Exim Board over the wisdom of the decision. As one Director said recently, "Of all the cases that I have participated in since I've been at the Bank, this is the one for which I feel

least proud." A Treasury official was reported to have said, "The interest rate on the loan was far lower—100 basis points—lower than was necessary to match the Airbus interest rate." Documents also show the terms were far more favorable than those given last year to any of the six airlines that wanted to buy the same Boeing wide-bodied jets.

Because of the haste with which the request was approved and the loan's apparently preferential terms, several newspapers have suggested that Exim's consideration and decision may have been politically motivated. They cite a series of coincidences: A luncheon that Rupert Murdoch, the managing director of Ansett, had with President Carter the day Mr. Murdoch met with Chairman Moore to request the loan; the endorsement of President Carter's renomination 3 days later by the New York Post, which Mr. Murdoch owns; and the Bank's subsequent decision on the loan 6 days after the newspaper's editorial.

The committee has thoroughly examined all facets of the Bank's handling of the Ansett loan request. The Bank has turned over all of its documents relating to the loan and transcripts and tapes of the two Board meetings at which the loan was considered. Bank officials and directors have been interviewed at length. The State Department has furnished the committee with cables from the U.S. Embassy and consulates in Australia that bear on Ansett and the loan request.

At this point, there does not appear to be any documented evidence which in itself proves that the Bank's decision was politically motivated.

Nevertheless, serious questions remain about Chairman Moore's stewardship of the Bank and his role in negotiating the loan and pushing the Board of Directors to approve it.

What is clear from the committee's review of the matter is that Mr. Murdoch was very aggressive in his dealings with the Bank. He demanded a loan with the most generous financing terms on a total of 25 aircraft. He put the Bank under intense pressure to give him a decision within 10 days.

What is also disturbingly clear is that Chairman Moore did not give the matter the deliberate, dispassionate consideration it merited. He accepted Mr. Murdoch's demands at face value, without checking on the number of aircraft Ansett actually intended to buy or the basic elements of the competing aircraft offer. He pressed the Bank's Directors to accede to Mr. Murdoch's demands without thorough scrutiny by the staff and members of the Board, and without adequate consideration for the cost of the extraordinarily favorable financing proposed. As one Director told the committee staff, "It was push, push, push." This was hardly an ordinary push-push-push. It was push-push-push for a massive loan to a company owned by a publisher of a newspaper whose endorsement could be useful to a President who appointed Mr. Moore.

Moreover, Chairman Moore did not appear to understand that he was undermining a key principle of U.S. export financing policy—to match but not better a competitor's financing terms—a principle intended to contribute to negotiations to end predatory financing.

Under Mr. Moore's chairmanship, Exim has shifted its role. Instead of being a self-sustaining institution, it now aggressively

promotes exports through a large expansion of Government loans, many of them at rates well below the Government's borrowing costs. For the already hard-pressed taxpayer, this means that the taxpayer is picking up a greater share of the U.S. export tab.

In addition, the Bank is allocating a disproportionate share—roughly one-half—of its direct loan authority to one industry—aircraft. Excessive Exim financing of aircraft exports may have occurred at the expense of other exports and certainly reduced credit available to other sectors of U.S. business.

So this Senator is concerned as to whether Mr. Moore is exercising his fiduciary responsibility as Chairman of a Federal agency supported by the U.S. taxpayer. Senator Heinz.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Thank you, Mr. Chairman.

First, I thank you for calling these hearings on the issue of Exim's handling of the loan to Ansett Airlines and the broader question of Exim's role in America's export picture.

Today's hearing will focus on the specific question of the Bank Directors' conduct and procedures in approving the Ansett loan.

Mr. Chairman, you are well known for your skepticism about the value of the Eximbank and its role in export promotion. You've questioned on many occasions, and quite appropriately so, even though others may, such as myself, disagree with you, its value as an institutional part of our overall export strategy.

By contrast, I believe that the Bank's role as a provider of long-term credits and guarantees is an essential element in our export strategy and one that should and needs to be strengthened.

Over the past year, I might add, I have been campaigning for an increase in the Bank's direct credit authority, an increase I might add which has been repeatedly opposed by the administration, an administration that ironically takes credit for having an enlightened and aggressive trade policy. Administration opposition exists today despite the fact that as of today the Bank has less than $100 million left in its fiscal year 1980 direct credit authority and is likely to close down its operations as of the end of this month in the absence of additional lending authority.

That, Mr. Chairman, is why I find it so painful to be here today questioning the management of a bank that should be prudent. I would like to believe that the Bank which I have so long supported is run by shrewd, competent individuals who understand the competitive export problems of all segments of our economy and disburses the Bank's precious resources—namely, money and credit—in a prudent and impartial manner.

I would like to believe that and would like my colleagues in the Senate and the general public to believe in the value and the competence of the Eximbank, and that's why I'm here today and will be back again tomorrow, to see if we can restore public confidence in an institution which is vital to America's export competitiveness.

If mistakes have been made, it's important to understand the reasons for those mistakes so that we can learn from them. But if any political favoritism has entered into the administrative processes of the Bank, we owe it to the businesses affected—all the

businesses that will not be able to get credit as a result of that favoritism for one, and to the American people—we owe it to them to lay bare any such favoritism.

There are a number of important questions raised by the Ansett Airlines case which we will be addressing. Has Chairman Moore demonstrated in his direct personal involvement in this loan the sort of fairness and competence which one could reasonably expect from an individual in his position of responsibility? Have the Bank Directors as a whole demonstrated the judgment and critical acumen which one would reasonably expect from such individuals when dealing with the negotiating techniques of the applicants for Bank funds?

I must say, after reviewing the transcripts of the board meetings of February 26 and 28, I'm struck by the number of unanswered questions which remained unanswered at the time of the decision to proceed with the approval of the Ansett loan. There was confusion and disagreement as to the number of planes and the interest rate being offered by Boeing's competitor, Airbus Industrie. There seemed to be no rhyme or reason to the calculation of interest rates, although it is clear that the Bank deals with these questions on a daily basis. There seemed to be a high degree of credibility attached to the deadline of February 29 which Boeing and Rupert Murdoch set for completing action on the loan, even though this is a well-established negotiating ploy, certainly one which the Directors have encountered many times before. Why should the deadline have been afforded such credibility on this particular occasion?

I'm struck by the remarkable coincidence of appointment dates with the meeting for a $300 million low interest loan being scheduled just prior to a meeting with the President and with the applicant, and the first meeting being one whose favor is being sought at the second. Is the President's own staff so insensitive as to the appearance of impropriety that it failed to appreciate the implications of the sequence?

And while we're on the issue of propriety, I think that it's worthwhile to pause for a moment to reflect on the question of whether the members of the fourth estate, the press, who claim special privileges, do not also have special responsibilities to avoid situations in which apparent conflicts of interest arise. Is it right for opinion leaders to also be favor seekers from the same government they are expected to fairly evaluate?

What we need today more than ever before, in this time of cynicism about the American system, is to answer the questions which the American people have about the political process. Can we reassure the public that our basic institutions function well and impartially? Can we insulate the system from the possibility that the administration in power will not use that power to grant special favors to special people?

Those are the reasons, Mr. Chairman, for these hearings and the witnesses who will testify today and tomorrow. Many questions have been raised about the suspicious circumstances surrounding the Ansett loan case. We must set the record straight and we must let the chips fall where they may. If those suspicions can be reasonably laid to rest, we'll have removed even the appearance of impropriety from the actions of the individuals involved. If not, the

public deserves to know and this Congress can take appropriate action.

Thank you, Mr. Chairman.

The Chairman. Thank you, Senator Heinz. Senator Stevenson.

OPENING STATEMENT OF SENATOR STEVENSON

Senator STEVENSON. Thank you, Mr. Chairman.

The Eximbank exists to provide export financing to the extent commercial financing is unavailable or to the extent necessary to offset foreign government subsidized export financing.

Foreign competition is increasing in all industries, including commercial aircraft. The Airbus consortium enjoys direct and indirect backing from the major governments of Europe who subsidize sales with export credit backed by the foreign counterparts of Eximbank. This competition that produces high quality aircraft is healthy. This competition in subsidized export credits is not healthy.

All nations have an interest in ending subsidized export credit competition. The United States, for its part, has made repeated offers to do so. A new round of discussions to this end begins in Paris today. The Subcommittee on International Finance has scheduled a hearing on May 22 on legislation to strengthen Eximbank's ability to match foreign official export credits. The outcome of the meetings in Paris this week will be of special interest to the subcommittee. The terms of Eximbank's proposed loan to Ansett Airlines are not only more generous than the Bank's usual aircraft financing, but they are more so than those offered by Airbus. U.S. officials have repeatedly told the Europeans that Exim's aircraft offers were intended to match, not better, those of Airbus. Eximbank's offer to Ansett was excessively generous and could have undermined the effort to reach a common international line on aircraft financing.

Both Eximbank and the Treasury gave insufficient attention to this possibility in the rush to meet Mr. Murdoch's demands. Mr. Moore, who is President of the Bank and Chairman of its Board and who should have been most sensitive to the international negotiations, pressed the Bank to act quickly and to grant exceptional terms. There was little effort to check the facts and conserve the Bank's resources. What restraint was exercised was demanded by other members of the Bank's Board.

Eximbank is vital to the competitiveness of the United States in international markets. This review of the Bank's actions and policies is in no way intended to weaken the Bank. It should strengthen that institution and our efforts to assure that U.S. industry and agriculture can compete in a competitive world market. That is our purpose.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Stevenson.

President Moore, do you have a statement you would like to make?

STATEMENT OF JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES, ACCOMPANIED BY H. K. ALLEN, FIRST VICE PRESIDENT AND VICE CHAIRMAN; MARGARET W. KAHLIFF, DIRECTOR; DONALD E. STINGEL, DIRECTOR; THIBAUT DE SAINT PHALLE, DIRECTOR; WARREN W. GLICK, GENERAL COUNSEL; AND JAMES C. CRUSE, VICE PRESIDENT, POLICY ANALYSIS

Mr. MOORE. Yes, Mr. Chairman, I have a statement for the record and a summary if I may.

The CHAIRMAN. I appreciate that very much. Your statement for the record will be printed in full in the record at this point. Go right ahead.

Mr. Chairman, members of the committee, thank you for this opportunity for the Board of Directors of the Export-Import Bank of the United States to appear before your committee regarding the Ansett case and Eximbank's aircraft lending policy. I want to state firmly that in connection with this case no pressures of any kind have been brought to bear upon the Bank or me by the President or any other person in the White House, the State Department, the Embassy in Canberra or any other Government agency. Nor was I motivated or influenced at any time by the possibility that the New York Post might endorse the President for reelection.

The Bank has already made available to you all records that we possess on the Ansett case. Members of the Bank's staff and Board have been questioned extensively by the committee staff, and I am prepared myself to answer questions you or your committee may have on the case. I would, however, like to meet a few introductory remarks.

Mr. Chairman, the issue in the case is not political influence. The issue is simply competition—what we perceived the competitive need to be and the measures we determined were necessary to meet that competitive need.

Our focus on competition is not just a decision on the part of the Bank; it is expressly required by our legislative charter. I would like to quote to you one of the seven references to competition in our act. It was added by Congress in November 1978 when we had the last major revisions to our charter:

> The Export-Import Bank of the United States is authorized to provide guarantees, insurance, and extensions of credit at rates and terms and other conditions which are, *in the opinion of the Board of Directors of the Bank,* competitive with those provided by the government-supported export credit instrumentalities of other nations. (Emphasis added.)

To understand the issue of competition better in the Ansett case, we must place it within the context of the overall world aircraft industry which we will discuss in greater detail at tomorrow's hearing. Let me just say that the aerospace industry is now on the brink of a "second jet age," a period that is expected to result in massive demand for a new generation of aircraft which will carry the industry into the next century. Eximbank recognizes the importance of assisting manufacturers in winning initial export orders so as to insure follow-on business over the next 15 to 20 years.

The type of aircraft that faces the most competition is the medium-range aircraft like the B–757, B–767, DC–9 Super 80, DC–

10-10, L-1011-1 and the L-1011-100. The European A-300 and A-310 Airbus have proven themselves to be formidable competitors against all of these aircraft. Airbus ordershave tripled in the past year, and in 1979 Airbus has won over 55 percent of all medium-range orders. Moreover, the Airbus is competitive with both narrow- and wide-bodied medium-range aircraft.

Let us now turn to the facts of the Ansett case. The two major domestic airlines in Australia are Trans-Australia Airline (TAA) and Ansett Airlines. The two airlines have long followed a policy of buying the same kind of aircraft. In 1979, without making for any competitive bids from other aircraft suppliers, TAA purchased 12 Airbus A-300B4 aircraft. On February 11, 1980, Airbus offered financing for a similar sale to Ansett.

On February 19, 1980, Boeing and Ansett informed the Bank that Ansett was in the final stages of a major decision regarding the purchase of new aircraft. They would either purchase a fleet of 12 Airbus A300B4's or new Boeing aircraft consisting of 12-767's, 4-727-200's and 9-737-200's. Although it would have been logical on the basis of the old two-airline policy to assume that Ansett would purchase the Airbus, a major change in the company's ownership had taken place which gave Boeing reason to hope that an offer by it, if sufficiently competitive, would be given serious consideration.

The number of airplanes involved in the Boeing offer is considerably larger than that in the Airbus offer because the deliveries of the Airbus had a 13-month headstart over the B-767's. Although, the 727's and 737's could be delivered in 1981, they are smaller than the Airbus, and the only way in which Ansett would be able to match TAA's capacity expansion would be to offer more frequent flights by using a larger number of aircraft. Mr. Wurdoch indicated that the delivery dates on the Airbus offer were good only until February 29, 1980, and thus, he would have to have an Eximbank decision by that date.

AIRBUS FINANCING MOST ATTRACTIVE

Boeing and Ansett states that the Airbus financing offer which Ansett found most attractive was the 85 percent financing in a basket of European currencies and U.S. dollars. Specifically, 40 percent of the loan was to be in French francs at 8.75 percent, 40 percent in deutsche marks at 6.50 percent and 20 percent in U.S. dollars at 9.25 percent. The blended interest rate would be 7.95 percent. In response to my questioning, Mr. Murdoch emphatically states that he would not make allowance for any difference in the relative hardness of the various currencies but would look to the nominal interest rates and their blend alone in making his decision. This is by no means an unusual reaction from a prospective borrower, probably because no one can accurately foresee the relative costs of various currencies over a 10-year period.

It was clear that if Boeing were to have a chance of winning the Ansett order, Eximbank would have to offer extremely competitive financing. On February 26, 1980, the Board considered the transaction, and as is standard practice with cases of this size, referred it to the National Advisory Council on International Monetary and Financial Policies (NAC) for review. Because of the time con-

straints and to facilitate NAC review, I went to see first Mr. Bergsten of the Treasury and his staff and then Mr. Wallich of the Federal Reserve Board and his staff to explain to them the competitive situation as I saw it. On February 28, the NAC advised Eximbank that it offered no objection to consideration of the case by the Eximbank Board.

At a meeting on February 28, 1980, the Board authorized a preliminary commitment covering 5-767 aircraft, 4-727 aircraft, and 9-737 aircraft on the following terms—for the 767's, an 85 percent loan at 8 percent; for the 727's, a 50 percent loan at 8.375 percent; and for the 737's, a 40 percent loan at 8.4 percent and a guarantee of private loans equal to 20 percent of the financing. This financing package was available only if Ansett purchased all of the named aircraft. I believe it was necessary to support the full package of Boeing aircraft because that kind of package was needed to compete with Airbus' delivery schedule and capacity. It was also necessary for Eximbank to offer rates lower than the normal scale to match the overall blended interest cost of 7.95 percent on the Airbus offer. Furthermore, if you blend the private financing with our rates, our offer actually resulted in a weighted average interest rate to Ansett of about 9.3 percent, which is almost 1.5 percent above the Airbus blended rate.

We also authorized a second preliminary commitment on standard NAC-approved aircraft guidelines—that is, less favorable terms than for the first preliminary commitment—to cover just the 727 and 737 aircraft should Ansett decide to purchase only those aircraft. Finally, we authorized a separate letter of interest indicating our willingness to consider financing the additional 7-767 aircraft at a later date.

In summary, the issue in the Ansett transaction, as in the majority of the cases before the Board these days, was to determine the terms and conditions of the Eximbank offer that would be competitive with what Airbus was willing to provide. There is no one correct set of terms and conditions in the Ansett case or any other case for that matter. A slightly higher interest rate or a slightly smaller loan might have been acceptable to Ansett but in the real world of competition, we can only use our best judgment, keeping in mind that if our financing offer is not sufficiently competitive, we may jeopardize, as in this case, hundreds of millions of dollars of U.S. exports and some 28,000 jobs for U.S. workers. I believe the Board used its best judgment in the Ansett case, and I am confident that we made the right decision.

Mr. Chairman, thank you for giving me the opportunity to appear before your committee. All of the Directors of the Bank are prepared to answer any questions you or the members of your committee may have.

[Complete statement of Mr. Moore follows:]

Statement of the Honorable John L. Moore, Jr.
President and Chairman
Export-Import Bank of the United States
Before the
Committee on Banking, Housing and Urban Affairs
United States Senate

May 12, 1980

Mr. Chairman, Members of the Committee, thank you for this opportunity for the Board of Directors of the Export-Import Bank of the United States to appear before your Committee regarding the Ansett case and Eximbank's aircraft lending policy. I want to state firmly that in connection with this case, no pressures of any kind have been brought to bear upon the Bank or me by the President or any person in the White House, the State Department, the Embassy in Canberra or any other government agency. Nor was I motivated or influenced at any time by the possibility that the New York Post might endorse the President for re-election.

The Bank has already made available to you all records that we possess on the Ansett case. These include the preliminary commitments and letter of interest, the Board memoranda, transcripts and tapes of meetings of the Board at which the case was discussed and all relevant background materials. We have also prepared a chronology of all events and detailed charts showing the kinds of financing we have made available in support of medium-range aircraft exports throughout the world since 1977. Members of the Bank's staff and Board have been questioned extensively by the Committee staff, and I am prepared to answer questions

you or your Committee may have on the case. I would, however, like to make a few introductory remarks.

Mr. Chairman, the issue in the case is not political influence. The issue is simply competition--what we, the Board of Directors of Eximbank, perceived the competitive need to be and the measures we determined were necessary to meet that competitive need.

Let me explain at the outset a little about our Board. We are a diverse group. Not only is the Board made up of Democrats and Republicans, but I am also proud that each of the members has a different business background. Each brings his or her own ideas and perceptions of the ways in which we can most effectively carry out our function of providing competitive export financing. H.K. Allen, our Vice Chairman, has owned and managed several banks in the private sector. Maggie Kahliff has owned and operated very successfully two small businesses. Thibaut de Saint Phalle has had broad experience in international business, banking and law. Don Stingel has had a distinguished career in industry as an engineer and was president of a major firm engaged in international engineering and construction projects.

With our diversity of experience, you can't expect the Board always to agree on every aspect of a case. What we do agree on is the need to meet competition and at the same time to reduce competition. These goals are not incompatible; indeed, when discussions and negotiations do not succeed, the most effective way to reduce competition among the export credit

instrumentalities throughout the world is to demonstrate our resolve to meet competition wherever it is offered.

Our focus on competition is not just a decision on the part of the Bank or the Executive Branch; it is expressly required by our legislative charter. Sections 2(b)(1)(A), 2(b)(1)(B) and 2(b)(7) of the Export-Import Bank Act of 1945 already contained six references to the need to meet or reduce competition when we had the last major revisions to our charter in November, 1978. Apparently, Congress believed these provisions were not adequate and added Section 1908(b) to the Export-Import Bank Act Amendments of 1978, which I would like to quote to you:

> The Export-Import Bank of the United States is authorized to provide guarantees, insurance, and extensions of credit at rates and terms and other conditions which are, in the opinion of the Board of Directors of the Bank, competitive with those provided by the government-supported export credit instrumentalities of other nations.

To understand the issue of competition better in the Ansett case, we must place it within the context of the overall world aircraft industry. I don't want to dwell on this subject at length now, because we will be going into it in much greater detail at tomorrow's hearing.

Let me just say that one of the two major capital goods export performers for the United States in the past two years has been commercial aircraft. The aerospace industry is now on the brink of a "second jet age," a period that is expected to result in massive demand for a new generation of aircraft

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which will carry the industry into the next century. There are two main reasons for this demand. First, stricter noise and pollution control regulations which will take effect at major airports by the mid-1980's will compel airlines either to retire 10-year old airplanes in their fleets or retrofit the engines. In some cases the older airplanes such as the DC-8's and the B707's are simply wearing out anyway. Second, with the tremendous increase in fuel cost--prices doubled in 1979 alone--airlines must look for aircraft that will be more fuel efficient.

Eximbank recognizes the importance of assisting aircraft manufacturers in winning initial export orders so as to ensure follow-on business over the next 15-20 years. I recognized that this transaction probably represented the last chance to enter the large Australian market. At the same time, the Bank faces tightening budget constraints. Therefore, in situations where there is no competition abroad, Eximbank has adopted a policy of limiting its assistance to as little as 30% financial guarantees with all of the financing being made available at private market rates and most of the risk taken by private lenders. In contrast, where there is known competition, the Bank has provided greater financial assistance in the form of loans and guarantees. The exact terms and conditions of our assistance will depend upon the circumstances of a particular case, especially the terms of the financing offered by foreign competition. Furthermore, in the aircraft

sector as in all other export sectors, we are conducting a continuing review of the state of competition, what we must do to meet it and what resources are available to us in light of our current budgetary constraints. As part of that review, from time to time we consult with the industry itself.

The type of aircraft that faces the most competition is medium-range aircraft like the B-757, B-767, DC-9 Super 80, DC-10-10, L-1011-1 and the L-1011-100. The European A300 and A310 Airbus have proven themselves to be formidable competitors against all of these aircraft. Airbus orders have tripled in the past year, and in 1979 Airbus won over 55 percent of all medium-range orders. Moreover, the Airbus is competitive with both narrow- and wide-bodied medium-range aircraft. In brief, the Airbus has established itself as an aggressive, long-term competitor to U.S. aircraft manufacturers, having won 257 firm aircraft orders from 33 airlines since 1976 with options for 147 more.

With that background in mind, let us turn to the facts of the Ansett case. The two major domestic airlines in Australia are Trans-Australia Airline (TAA) and Ansett Airlines. While TAA is government-owned and Ansett is privately owned, the Government of Australia is willing to guarantee loans of both companies. Morever, the two airlines have long followed a policy of scheduling flights at the same times and buying the same kind of aircraft. In 1979, without asking for any competitive bids from other aircraft suppliers, TAA purchased 12 Airbus A300B4 aircraft. On February 11, 1980,

Airbus offered financing for a similar sale to Sir Reginald Ansett, Chairman of the Board of Ansett.

On February 19, 1980, Boeing and Ansett informed the Bank that Ansett was in the final stages of a major decision regarding the purchase of new aircraft. They would either purchase a fleet of 12 Airbus A-300B4's or new Boeing aircraft consisting of 12-767's, 4-727-200's and 9-737-200's. Although it would have been logical on the basis of the old two-airline policy to assume that Ansett would purchase the Airbus, a major change in the company's ownership had taken place. Specifically, in 1979, Ansett was acquired jointly by the News Corporation, Ltd., a communications company headed by Rupert Murdoch with substantial interests in the United States, and Thomas Nationwide Transport, Ltd. headed by Sir Peter Abeles, a multi-national transport group which also has interests in the United States and Canada. Sir Reginald Ansett was left with only one vote on the Board of Directors. While we were told that he definitely favored maintaining the old two-airline policy and hence the Airbus purchase, the rest of the Ansett Board was said to be evenly divided between support for Sir Reginald's position and the possibility of enabling Ansett to offer narrow-bodied, frequent service to compete with the wide-bodied aircraft of TAA. Furthermore, the marketing people at Ansett were said to favor purchase of the Airbus, whereas the engineers preferred the Boeing 767. The final vote was expected to be close.

The number of airplanes involved in the Boeing offer is considerably larger than that in the Airbus offer, because the deliveries of the Airbus had a 13-month headstart over the B-767's. Although the 727's and 737's could be delivered in 1981, they are smaller than the Airbus and the only way in which Ansett would be able to match TAA capacity expansion would be to offer more frequent flights by using a larger number of aircraft. Mr. Murdoch indicated that the delivery dates on the Airbus offer were good only until February 29, 1980, and thus, he would have to have an Eximbank decision by that date.

Boeing and Ansett stated that the Airbus financing offer which Ansett found most attractive was the 85% financing in a basket of European currencies and U.S. dollars. Specifically, 40% of the loan was to be in French francs at 8.75%, 40% in Deutschmarks at 6.50% and 20% in U.S. dollars at 9.25%. The blended interest rate would be 7.95%. In response to my questioning, Mr. Murdoch emphatically stated that he would not make allowance for any difference in the relative hardness of the various currencies but would look to the nominal interest rates and their blend alone in making his decision. This is by no means an unusual reaction from a prospective borrower, probably because no one can forecast accurately the relative costs of various currencies over a 10-year period.

In assessing the impact of financing costs upon a borrower, it is not enough to look at the numbers, but the borrower's perception must be examined as well. It was clear that Ansett considered the Airbus offer to be attractive -- that is, it provided financing on very favorable terms to Ansett. It was equally clear that if Boeing were to have a chance of winning the Ansett order, Eximbank would have to offer extremely competitive financing.

The staff prepared a memorandum for the Eximbank Board requesting guidance on the requested loan at a meeting on February 26, 1980. I urged the Board to make a competitive offer and after extensive discussion, the Board referred the case to the National Advisory Council on International Monetary and Financial Policies (NAC) which met that afternoon.

The next day--February 27, 1980--I went to see first Mr. Bergsten of the Treasury Department and his staff and then Mr. Wallich of the Federal Reserve Board and his staff to explain to them the background of the competitive situation on the case as I saw it. I frequently consult with both Mr. Bergsten and Mr. Wallich by telephone and sometimes in person. In view of the time constraints within which the Board had to operate if it were to enable Boeing to make a competitive offer, I thought it would facilitate NAC review of the case if I were to meet personally with Messrs. Bergsten and Wallich and their respective staffs. On February 28, 1980, the NAC advised Eximbank that it offered no objection to consideration by the Eximbank Board of the case.

At a meeting on February 28, 1980, the Board considered the case again and authorized a preliminary commitment covering 5-767 aircraft, 4-727 aircraft, and 9-737 aircraft on the following terms--for the 767's, 85% loan at 8%; for the 727's, a 50% loan at 8.375%; and for the 737's, a 40% loan at 8.4% and a guarantee of private loans equal to 20% of the financing. This financing package was available only if Ansett purchased all of the named aircraft. I believe it was necessary to support the full package of Boeing because that kind of package was needed to compete with Ansett's delivery schedule and capacity and to overcome the inclination of some executives of Ansett to maintain the two-airline policy. It was also necessary, in my opinion, for Eximbank to offer rates lower than the normal scale to match the overall blended interest cost of 7.95 percent of the Airbus offer. Furthermore, if you blend the private financing with our rates, our offer actually resulted in a weighted average interest rate to Ansett of about 9.3%, which is almost 1.5 percent above the Airbus blended rate.

We also authorized a second preliminary commitment on standard NAC-approved aircraft guidelines--that is, less favorable terms than for the first preliminary commitment --to cover just the 727 and 737 aircraft should Ansett decide to purchase only those aircraft. Finally, we authorized a separate letter of interest indicating our willingness to consider financing the additional 7-767 aircraft at a later date.

Details of the financing offers were given to Boeing and Ansett on Friday, February 29, 1980, as I had promised Mr. Murdoch, in order to meet his deadline from Airbus.

On March 17, 1980, Eximbank was informed by our consulate in Melbourne that Ansett had announced its decision to purchase 5-767 aircraft, 4-727 aircraft, and 9-737 aircraft. No request has been received to date to finance the additional 7-767 aircraft not covered by our preliminary commmitment.

The two formal preliminary commitment letters and the letters of interest were sent to Boeing on March 18, 1980.

In summary, the issue in the Ansett case, as in the majority of the cases before the Board these days, was to determine the terms and conditions of the Eximbank offer that would be competitive with what Airbus was willing to provide. There is no magic formula for computing an exact number; as I said before, in some ways coming up with a competitive offer is as much a matter of analyzing the psychology and perception of a borrower as it is looking at numbers. Congress itself has expressly recognized the subjective aspect of such a decision. You will recall the wording of the provision Congress added in 1978--that the Bank should provide financing which "in the opinion of the Board of Directors of the Bank" is competitive.

Thus, making decisions about individual cases can be extremely difficult, but this is just what the Board has been set up to do. We recognize that there is no one correct

set of terms and conditions in the Ansett case or any other case for that matter. A slightly higher interest rate or a slightly smaller loan might have been acceptable to Ansett but in the real world of competition, we can only use our best judgment, keeping in mind that if our financing offer is not sufficiently competitive, we may be jeopardizing, as in this case, hundreds of millions of dollars of U.S. exports and some 28,000 jobs for U.S. workers. I believe the Board used its best judgment in the Ansett case, and I am confident that we made the right decision.

Mr. Chairman, thank you for giving me the opportunity to appear before your Committee. All of the Directors of the Bank are prepared to answer questions you or the members of the Committee may have.

Mr. MOORE. Mr. Stingel has a statement for the record and would like to give a brief summary of it.

The CHAIRMAN. Mr. Stingel, go right ahead, sir.

Mr. STINGEL. Mr. Chairman, I have submitted my formal lengthier statement for the record but wish to summarize some of the key points here.

U.S. commercial jet aircraft still dominate the world market, but since its first sale in 1976, Airbus, a product of a European consortium, has enjoyed unprecedented success, delivering 93 planes to date, and receiving a total of 257 firm orders with another 147 options for the A-300 and A-310 versions. These are more orders and options combined than for Boeing's new-generation 767's and 757's, the only totally new aircraft "in the works" in the U.S. commercial aircraft industry.

Where 11 previous European attempts to develop and successfully market a commercial aircraft which would gain worldwide recognition have failed, Airbus appears to be on its way to success in commercial operation and financially to its backers—it is fuel-efficient, projects a very low noise level, and has a low cost of operation per passenger mile.

Turning to the Ansett case, Ansett, a private airline in Australia, competes head-to-head with Trans-Australia Airlines (TAA), a government-owned domestic airline, both flying generally the same routes and on nearly the same schedules. In the past each has emulated the other in purchasing aircraft models and at about the same time.

TAA had recently bought the Airbus A-300 on favorable financing terms and Airbus had offered four A-300's to Ansett on even more favorble terms in a basket of currencies—Dm, FF, and U.S. dollars—at an average interest rate, as it was evaluated by Ansett,

of 7.95 percent on 85 percent financing cover, and with the option of four more planes. Airbus could deliver 18 months sooner than Boeing.

Boeing, anxious to sell to Ansett as the only other important potential buyer in Australia, came to Eximbank for a competitive financing package to meet Airbus competition. In doing so, accompanied by Mr. Murdoch, Boeing did no differently than dozens of other U.S. exporters we have dealt with who try to convince Eximbank they need favorable financing terms to win export orders.

When the final decision was made by the Board on February 28, 1980, to offer a preliminary commitment on five 767's, coupled with four 727's and nine 737's, the commitment did two things—it matched approximately the number of seats in the new-generation 767's against those in four A-300's, at the same 85 percent cover and at approximately the same rate of interest as viewed by the customer, Ansett, and it provided the added inducement of older-generation 727's and 737's at far less favorable financing terms to fill the gap until the 767's could be delivered.

I emphasize that in making its decision on February 28, the Board knew the competitive situation, and nothing in the way of information gained since has changed the basic facts we had then.

I can personally assure this committee that the Eximbank Board is in no way politicized, and also can assure you that each Board member thinks and acts quite independently, bringing together varied skills and opinions on each case. The Board, in my opinion, is aggressive in following the mandates of the Congress in facilitating U.S. exports in the best interests of the United States and was doing this job in the Ansett case.

NO POLITICAL PRESSURE

I know of no political pressure from the White House or anywhere else in the administration on me or other members of the Board to secure my affirmative vote in the Ansett case. If I were asked to vote again today on the same case, based on the facts as we knew them then or as we know them now, I would cast my vote affirmatively the same way. I believe Eximbank's actions in the Ansett case insured the purchase of U.S. aircraft.

Thank you.

The CHAIRMAN. Thank you, Mr. Stingel. Did you want your longer statement printed in full in the record?

Mr. STINGEL. Yes, please, Mr. Chairman.

The CHAIRMAN. Without objection, that will be done.

[The complete statement follows:]

STATEMENT OF DONALD E. STINGEL, DIRECTOR, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman, Mr. John L. Moore, Jr., Chairman and President of the Export-Import Bank, has completed his statement before your Committee regarding the Ansett case and Eximbank's aircraft lending policy.

As a member of Eximbank's Board of Directors I also have some comments about the case from another viewpoint, and want to develop these thoughts for the Committee in a logical sequence.

The U.S. commercial jet aircraft still dominates the world market in spite of dramatic gains of Airbus competition since the first Airbus was sold in 1976. This domination has resulted in a strong favorable U.S. trade balance in this key capital

goods export area—one of the few lately—supporting thousands of continuing U.S. jobs in one of our healthier industries. This position must be maintained!

In the meantime Airbus has enjoyed unprecedented success in the development and marketing of the first real competition to our jet aircraft industry. Where the Caravelle, the BAC-111, the Comet, the Trident and the Concorde, to name a few, among a total of eleven previous well-publicized European aircraft attempts, have never gained worldwide recognition, and above all have never reached a level of general sales acceptance sufficient to pay off development costs and turn a profit, the Airbus is apparently very successful in every respect in commercial operation—fuel efficient, low noise level, excellent overall cost of operation, and general acceptance in the marketplace, and does expect to reach an eventual profitable position for its consortium backers.

As of March, 1980, Airbus Industries had delivered 93 planes and in total had received 257 firm orders for the A-300 and A-310, with options for 147 more, a total of 404 planes, already more than any previous commercial aircraft ever developed by Western Europe. Airbus holds more actual orders and options for its products than Boeing has today for its new generation 767 and 757 which are still what is known in the industry as basically "paper" aircraft with no commercial in-flight experience, and with the first plane not scheduled for delivery to an airline until 1983. Sales of Boeing's new family of planes are of necessity based in part, then, on Boeing's proven reputation for designing and building other excellent jet aircraft such as the 747, the 737 and the 727.

Now let us turn to the Ansett case itself. Trans-Australia Airline (T.A.A.), the Government-owned domestic airline of Australia, directly in competition with Ansett on routes and schedules, had already purchased Airbus as the future backbone, of the T.A.A. jet fleet, and on favorable financial terms and conditions. Normally in the past T.A.A. and Ansett have purchased the same types of equipment and usually at about the same time. Ansett was the last hope in Australia for Boeing's new generation of planes, the only U.S. entry competitive with the Airbus, and even if Ansett management bought Boeing they would be taking a chance to depart from a long-established practice of matching T.A.A.'s purchases.

Ansett, through Mr. Murdoch, had been able to get from Airbus a very favorable financing package on 4 A-300's for current purchase, with the option of future purchase of 4 more at the same terms. The 85 percent financing offered by Airbus was at a weighted average of 7.95 percent in a basket of 3 currencies—40 percent Dm, 40 percent FF, and 20 percent U.S. dollars. Mr. Murdoch had stated that, to him, each currency stood on its own merits, regardless of term, and he could not discount one in favor of another. He was able to convince Airbus of this, and even though Airbus originally offered the same currency mixture on the basis of 10 years at 9.0 percent for FF, 7.0 percent for Dm, and 9.5 percent for dollars, Airbus did reduce these figures to 8.75 percent, 6.5 percent, and 9.25 percent respectively, thus the 7.95 percent blend. I know of no all-dollar offer ever being made by Airbus to Ansett.

Boeing, naturally anxious to sell its planes in the Australian market and cognizant of potentially later delivery schedules than could be offered by Airbus, and Mr. Murdoch went all-out to convince Eximbank that there was strong Airbus financing competition. In doing so they acted no differently than many other U.S. exporters or foreign purchasers which have approached the Bank hand-in-hand to secure the best possible Eximbank financing package. If either an exporter or a buyer can convince us to give more loan cover at a lower rate of interest it makes selling easier for the exporter and costs the buyer less in the long run. The crisis of meeting a deadline, "or else", often an ingredient of a request for a financing package, has to be carefully evaluated by Eximbank as it was in the Ansett case.

In the meantime we *did* know pretty well the true content of the Airbus offer and nothing I have been able to develop since has resulted in any basic change to the information the Eximbank Board had available to evaluate when the February 28th decision was made.

Thus, on that date when the Board, with 4 or 5 members present (I included), agreed to the Commitment package of 5—767's, 4—727's, and 9—737's, I fully believed, as I still do, that we had put together the correct financing package (albeit under pressure by Boeing and Ansett to meet a deadline which may or may not have been as absolute as we were led to believe). The two other types of aircraft—the 727's and the 737's—were added to the package to fill the time gap unitl the 767's could be delivered, since Airbus deliveries could have been made to Ansett about 18 months sooner than deliveries of Boeing's 767.

Also worthy of mention again are the various mandates of the Congress to be aggressive in helping the U.S. exporter meet foreign competition, certainly a factor in the Ansett case. Further, the continued failure of U.S. negotiators to resolve with

their foreign counterparts what we believe are inequities or non-agreements in the Consensus, the so-called Gentlemen's Agreement and the Standstill, especially concerning commercial jet aircraft, certainly influence the Ex-Im Board in highly competitive cases such as this one.

Before the Ansett case, I knew nothing about Mr. Murdoch and have never met the man. I view his attempts to get a favorable financing package from Eximbank, in conjunction with Boeing, no different than attempts of dozens before him as explained earlier in my statement.

I can assure this Committee, however, beyond any doubt that the Board of Eximbank is in no way politicized. The Board works very well together with varied skills and opinions brought to bear independently on each loan case being heard and decided upon. The Board is aggressive in following its mandate to facilitate exports in the best interests of the United States. In the Ansett case I know of no political pressure from the White House, or anywhere else, to secure my affirmative vote or that of any other member of the Board. If I had the opportunity to again vote on the case it would be in the same manner. My further subsequent investigation of the facts in the case have only strengthened my belief that the finally offered financial package of February 28, 1980 was necessary to insure that the U.S. plane builder won the contract over Airbus. Fortunately this was the result, at least partially due to Eximbank's aggressive financing in the case.

The CHAIRMAN. Mr. Moore, in the seven financing deals for Boeing 767's approved by Eximbank last year, the Bank's credit share was a weighted average of 70 percent and the interest rate was a weighted average of 8.7 percent and terms ranged between 42.5 and 85 percent coverage and 8.5 and 8.75 percent interest.

Now in the Ansett case, the Bank approved 85 percent coverage at an 8-percent interest rate. The coverage was at the very top of the range and the interest rate was an all-time low on Boeing 767's, 48 of which have been financed by the Eximbank.

Those figures demonstrate that the financing terms for the Boeing 767's in the Ansett deal are the most generous approved by Eximbank. How do you justify that?

Mr. MOORE. Mr. Chairman, the Airbus offer was for a core package of wide-bodies which is, of course, the only product of the European consortium. As is typical of many of the cases coming before the Bank, there may be direct competition with a wide-bodied, medium-range plane like the 757's and 767's or the DC-9-80, which is not a wide-bodied but is directly competitive. Then you have all the other products of the American aircraft manufacturers which in the case of Ansett and in many other lines are necessary.

I do point out that our coverage on the 727's was 50 percent and on the 737's was 40 percent, plus 20-percent guarantee support at private market rates of interest. The total cost to Ansett Airlines was 9.3 percent, if you compute the private bank financing at 17 percent—and it's hard to know how people do compute that when rates were at about 20 percent at that time.

The critical element in the Bank's point of view was to consider the setting of the decision to made in Australia by Ansett Airlines.

The CHAIRMAN. Let me just interrupt. Mr. Moore, you said when you blend it with the private bank financing— the fact is, that what we are concerned with or what I am concerned with at least, as a Senator and as one who has some responsibility over the Eximbank, is what your terms were and what you provided was the most favorable rate of interest by a considerable difference. Is that not true?

Mr. MOORE. As to the core package, it was exactly the same as the European offer. As to the other——

The CHAIRMAN. I'm not talking about the offer. I'm talking about how it compared with the previous financing of Boeing 767's and my question was, was this not the most favorable and, if so, why, and you're saying, well, you've got some other blends and so forth; but as far as the Eximbank terms were concerned, both in interest rate and in coverage, this was the most favorable you had provided?

Mr. MOORE. As we proceed on a case-by-case basis, we have to consider the competition in the particular case.

The CHAIRMAN. I understand. We'll get to that later. Go ahead.

COMPANY TAKEOVER BATTLE

Mr. MOORE. So you have to consider the fact of what was going on at Ansett Airlines. It had been the subject of a takeover battle for some time in Australia. At the end of December, two companies, Mr. Murdoch's and another called Thomas Nationwide Transport, had each acquired approximately 50 percent of the stock of the airline. Both of those companies are publicly owned companies and if the new management was to come in and change a very old policy of competing with TAA (Trans Australian Airlines) on the same kind of planes they would also be facing stockholders who would have to have an explanation as to the interest rate paid and they would see a 7.95 percent offer from Europe and if we were higher than 8 percent they would see a higher rate. So in the judgment of the Board we thought we had to match it as to that portion.

As to the rest, we offered approximately the same as we do in all 727 and 737's, based on the standard policy adopted by the NAC (National Advisory Council). The total blended package then was something like 60 percent covered and an interest cost to the buyer of 9.3 percent and that is the relevant fact as you look at the competition.

Let me make another point for you, Mr. Chairman. The French portion of the credit, the 40 percent at 8¾ percent in French francs, is supported by a different system. There the banks which cover the financing take their paper to the Bank of France and discount it at an interest rate of 3.5 percent on over 90 percent of the face of the paper. That enables the private banks then to have a blended cost of 8¾ percent. So if you wanted to compare that angle, you would be asking about our matching a 3.5 percent rate which we were not doing.

I would like to give one other comparison that we have learned about subsequently which was in another country in an entirely different sector in which the Germans were controlling the bidding and we only learned of it after the tentative deal was stuck with the buyer. In that case, the buyer insisted on a package which was 50 percent in deutsche marks and 50 percent in dollars. This was being put together right at the time we were considering the Ansett case, and the Germans proposed an interest rate in deutsche marks of 6¾ and the dollar rate they set was at 8¼ and presumably they knew how to evaluate the degree of subsidy in each of the currencies.

The CHAIRMAN. Mr. Moore, I want to get to the competitive element a little later on, but at any rate, you don't challenge the

statement that the financing terms for the Boeing 767 on the Ansett deal were the most generous approved by Eximbank.

Now the second question is this: isn't it true that your meeting with Fred Bergsten at Treasury on February 27 about the Ansett loan was the first time—the only time until that point that you had met with him about a particular loan that did not involve a major policy issue?

Mr. MOORE. I doubt that that's actually the case, Mr. Chairman. It was certainly the first time I have requested the two meetings at the two different departments—the Department of Treasury and the Federal Reserve—when the staff was present because of the time constraints. If I hadn't asked for the staff and Mr. Bergsten, it would have taken them some time to move the matter up the different chains of command.

The CHAIRMAN. So you took that unusual step in order to expedite the action by the Treasury Department?

Mr. MOORE. Yes, sir.

The CHAIRMAN. And that was the only time, the first time at least, that you had taken that kind of expediting action?

Mr. MOORE. Certainly in terms of a particular case asking for the staff and the top person handling our affairs in the Department to be present at the same time.

The CHAIRMAN. Isn't it the case that preliminary commitment requests normally take 3 to 4 weeks for Eximbank consideration and Board action?

Mr. MOORE. If there's no particular deadline, I think that is a correct average. In other cases where there is a deadline to meet, we meet it.

The CHAIRMAN. But other members of the Exim Board have called the Ansett request very complicated and said they were operating in an intense pressure atmosphere. Why did you insist that the Bank and its board decide this complicated case in a scant 10 days?

Mr. MOORE. Because the only way to give timely word to Ansett, which had until February 29 to make its decision and hold its options for deliveries of the Airbus on the same schedule TAA would receive, was for us to act by the 28th, which, of course, is the 29th in Australia, and that we did.

The CHAIRMAN. I wonder how good that judgment turned out to be. Isn't it true that you learned shortly after Exim approved the Ansett preliminary commitment on February 28, a day before the alleged Airbus deadline, Mr. Murdoch had received a two-week extension of the Airbus offer?

Mr. MOORE. We learned that later, yes, sir.

The CHAIRMAN. Didn't that raise questions in your mind about whether it had in fact been a firm February 29 deadline set by Airbus?

Mr. MOORE. No, it did not.

The CHAIRMAN. Well, that was a very convenient 2-week extension he was able to get. You just accepted his statement that the deadline was February 29?

Mr. MOORE. We did, and——

The CHAIRMAN. Isn't it true, as Senator Heinz has pointed out in his opening statement, that this is a predictable, almost inevitable

negotiating ploy, that a smart negotiator like Mr. Murdoch would be very likely to use, to say, "Come on. You've got to give us the answer now," so he can push you and you have to act without giving the Board an opportunity to get into this complicated matter?

Mr. MOORE. It certainly could well be, although I would mention that Exim has had a long history of dealing with Ansett Airlines and, undoubtedly, will have a long one in the future. If he had misled us in any way it would be to the disadvantage of his airline in the future.

The CHAIRMAN. But you hadn't had a long record of dealing with him while Mr. Murdoch was in charge.

Mr. MOORE. No, sir.

The CHAIRMAN. Doesn't that change the situation, like having a new coach for the Redskins?

Mr. MOORE. I don't believe it will.

INADEQUATE BRIEFING TIME

The CHAIRMAN. Let me ask Mr. de Saint Phalle, did you feel you were adequately briefed when the Ansett loan request was taken up at the February 26 Board meeting? Did you feel you had adequate time in which to make a considered decision?

Mr. DE SAINT PHALLE. No, sir; I did not.

The CHAIRMAN. Mrs. Kahliff?

Mrs. KAHLIFF. No, I did not think I had had adequate time to be briefed and that's the reason why Thibaut and I requested that we bring it back and get some more information.

The CHAIRMAN. Mr. Stingel was not involved, as I understand. Is that correct?

Mr. STINGEL. I was not present at the February 26 meeting, but before I voted on February 28 I made my own investigation of the facts and I voted affirmatively.

Mrs. KAHLIFF. Mr. Chairman, it wasn't that we were opposed to the loan. We just didn't feel like we knew enough about it, and we asked to have it referred and let the staff bring us some more information, which Mr. Moore did.

The CHAIRMAN. Mr. de Saint Phalle, didn't you say, "Of all the cases that I have participated in since I have been at the Bank, this is the one for which I feel least proud?"

Mr. DE SAINT PHALLE. Yes, sir, I did, and let me explain this in the context in which it belongs.

I have been exceedingly proud of the job that this Board has done under the Chairman's direction, and I thought this was an unusual case and that the staff had not had enough time on it, and the two Directors who were there only had about 20 minutes or half an hour to read the case before we went to the Board meeting. That has to be understood in the context, I think, in which the Board operates. You have two members of the Board who are operating officers and they have a direct operating function. You have three members of the Board who are not as apt to meet the customer and find out about the case it is presented by the staff prior to the Board meeting, and we do not discuss any case among Board members until it comes before the Board.

So I think that what I said has to be seen in this context. I didn't think the staff really had the time they needed to go into the case. It seemed to me it was a complicated case, and I would have preferred to have more time to consider it.

The CHAIRMAN. My time is up. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Chairman Moore, what do you perceive your role to be as chairman? Are you supposed to be an advocate for those who seek Exim loans or should you be a critical evaluator of the proposals presented to the Board.

Mr. MOORE. Both, Senator Heinz. Let me point out something too, that must have become apparent to you if you read the transcipt of those Board meetings.

In the last 3 years we have had a different approach to the management of Exim from some years in the past. We recruited diverse members for the Board with very good talents. For example, Don Stingel has an engineering background and served as president of a company in Pittsburgh that under his leadership was very active in at least 30 countries in export business. Mr. de Saint Phalle came to us with a long career in international law and in teaching of international law and economics. Mrs. Kahliff came to us with highly successful experience in running two small businesses on her own. And Mr. Allen was a banker before he came with us. So we have a diverse Board.

Now my philosophy is not to try to dictate to the Board and, as Mr. de Saint Phalle said, under the Sunshine Act we are a collegial body and may not discuss cases except together in a formal Board meeting. So there's no way for me to go from one Board member to another before it's brought up in the Board meeting.

I have found over these 3 years that you don't need to be a strong Chairman in a meeting. All the factors that are relevant in a case will be raised by the directors. For example, in this case, Mr. de Saint Phalle was considering the number of aircraft and how much coverage did we have to offer in order to be competitive. I was mainly looking at the interest rate. That's a familiar pattern and our roles will change from meeting to meeting, but I can assure you that every case gets a very, very careful scrutiny.

But my overall responsibility as operating head of this institution under the directions of Congress is to see that we are competitive. We always have the judgmental question as to whether we are being too competitive and whether that might hurt or help the other part of our charge right now, which is to try to negotiate less subsidy on export credits by our competitors abroad.

Senator HEINZ. Chairman Moore, that's an interesting statement from two points of view. First, the granting of this credit to Ansett Airlines utilized a substantial amount of the Bank's remaining authority to the extent that the Bank is going to be out of money at the end of this month and here we have fairly generous terms to say the least.

So on the one hand, it's difficult to reconcile how, if one applies the term stewardship within any variation of its literal meaning, that stewardship is advanced by somebody or a chairman who seeks to utilize with some rapidity the remaining amount of liquidity that the Bank has.

The second comment I would make is that in reading the transcript of the February 26 Board meeting, it appears that everything was very hasty. The staff preparation was done hastily. Mr. Peacock, the loan officer of the Asia division, apologizes for errors in the working memo on the Ansett loan. He explains that he had only 24 hours to prepare it. And over the course of the meeting, as you read through the transcript, it's obvious that there's crucial data—you didn't even have the balance sheet of Ansett Airlines and, more importantly, didn't have the complete details of the competitive offer from Airbus Industry. Your own staff begins the meeting by stating, "It's suspicious that Boeing and Murdoch were pushing the Eximbank to the wall with their negotiating tactics, that it was inconceivable"—that's your staff's characterization—"that Ansett could have been contemplating a $800 million purchase without having given the Asia division any kind of inkling of this."

Your response was to assure him and your fellow directors that Ansett had been the target of takeover bids in 1979, that Murdoch had only very recently taken control of Ansett—that is to say, within the last 2 months; that Ansett's decision—that is, Murdoch's decision to buy additional aircraft may have been sudden but, after all, Boeing called you in January as soon as they got wind of it and so it was therefore important not to hold any hard feelings against either Boeing or Ansett.

Now it strikes me that your reassurances at the outset of the meeting and later in that meeting and also at the subsequent one on the 28th seemed to have the character of an agent for the applicants rather than someone who is an impartial judge or somebody who seeks to be both an advocate and a judge.

Mr. MOORE. Senator Heinz, on the first question on the budget, it's been an interesting year for Eximbank as you well know because I know that you personally followed this very carefully.

The administration's first request was for $4.1 billion in direct loans. The Senate Appropriations Committee voted $6 billion for us for this current fiscal year. The day before our first Board meeting on the Ansett case, the conference committee agreed on $5 billion, so that the present circumstances in which we find ourselves under the continuing resolution level of $3.75 billion did not look like the best judgment on that day.

I know of no way, when we don't know now almost 8 months through our fiscal year what our budget is going to be, to do anything other than to proceed case by case as the cases come before our Board.

On the question of the difficulty for the loan officer, our regular loan officer for Australia, Ken Telesca, was in Australia at the time this case came in. The Vice President for the Asia Division assigned it to Mr. Peacock, whose normal responsibilities included India and the Philippines. Mr. Peacock was not basically familiar with all of the background, as Mr. Telesca would have been had he been present, so he had to start the meeting by saying, quite appropriately, that he did not have the financials. We keep financials all the time on Ansett Airlines because they are a regular customer, but Mr. Peacock was under a disadvantage also of not having been assigned to the case since we didn't know what it was

until it came in at the time we met with Mr. Murdoch and the Boeing representatives the week before. Mr. Houston, the Vice President for Asia, was with me at that meeting, but Mr. Peacock did not know what had happened in that meeting or what the background of the case was.

Therefore, I was put in the position in the Board meeting of having to explain the background since I was the only person on the Board who had been present at the meeting. I agree that in reading the transcript it could look to you as if I were some kind of agent. That is normally not the case. It did look that way in that meeting. I think it reads that way to me too. Believe me, when we finished—and I think I'm correct in saying that we spent the longest time on this case we ever have in that Board meeting because that transcript represents an hour's discussion—we raised every issue and many of the complicated things raised a lot of points we didn't know about at the time but we found out which later, the next day, before I went to see Mr. Bergsten and Governor Wallich. And before it was considered by the other NAC agencies and discussed at the second Board meeting.

ALL OR NOTHING PACKAGE

Senator HEINZ. Mr. Moore, you have discussed the interest rate and I'm quite frankly surprised at the way the interest rate issue has been discussed. You argued at the meeting on the 26th with Director Saint Phalle that you've got an all or nothing package of 12 767's and 13 narrow-bodied jets at 8 percent interest and 85 percent cover. Mr. de Saint Phalle vigorously and repeatedly presses his case that the 727's and 737's would be needed by Ansett in any event for fleet modernization and they are available much earlier than either the Airbus or the 767's, but you consistently pressed Murdoch's position.

Taking at face value your assertion that staff that had been present at earlier meetings wasn't there and you had to do that, why did you persist in, it seems to me, insisting that something that clearly wasn't competitive with the Airbus, wasn't needed in the same sense as the 767's, were going to be needed to be part of a package deal?

Mr. MOORE. I insisted until Mr. de Saint Phalle made his point which was very sound, and then we all agreed by the end of the meeting. Mr. de Saint Phalle's point was that we should not deviate from the NAC policy on 727's and 737's, and we did not on the separate offer on those planes in case they bought the Airbus plus those planes.

Senator HEINZ. Isn't it a bit unusual for you to insist that you stray away from the NAC policies?

Mr. MOORE. No, we weren't straying away. The NAC policy sets initial benchmarks and then you do more if you have to in order to meet competition. That's the way the NAC policy paper runs, and we resolved that issue I think highly successfully in the way Mr. de Saint Phalle presented it, which was quite correct.

Senator HEINZ. My time has expired now. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

I'd like to begin by asking all of the members of the board a simple question. Do you all agree that the responsibility of the Bank is to match, not better and therefore escalate foreign competition? Is there any disagreement to that proposition?

Mr. MOORE. No.

Senator STEVENSON. The record will show a lot of nodding heads and no disagreement.

Mr. Moore, you said in conclusion that the Bank Board exercised its best judgment and based on what I know I don't quarrel with that statement, but that judgment was not the judgment which you recommended to the Board.

If I understand this correctly, you recommended at the February 26 meeting a total Exim financing of $656,854,000 at 8 percent, 85 percent coverage for 25 aircraft, together with spare engines, spare parts, and ground equipment. Is that correct?

Mr. MOORE. No, Senator. I didn't recommend anything. The case was presented by staff on that basis as well as alternative bases, and we started discussing it. Mr. de Saint Phalle started discussing the number of planes from that simple fact sheet; if we were going to do that, this is what it would look like.

Senator STEVENSON. Well, let me ask the other members of the Board. Was that your understanding, that this was not recommended by the staff and the chairman? Mrs. Kahliff, would you like to start?

Mrs. KAHLIFF. I understood he was asking us to do—or that it was being recommended by the Chairman that we do the whole package at 8 percent. That was my understanding.

Senator STEVENSON. The whole package of $656,854,000?

Mrs. KAHLIFF. The 25 aircraft.

Senator STEVENSON. What was your understanding?

Mr. DE SAINT PHALLE. That was my understanding as well.

Senator STEVENSON. You were there?

Mr. ALLEN. I was out at the time.

Senator STEVENSON. You weren't involved in this?

Mr. ALLEN. No.

Senator STEVENSON. Mr. Stingel, what was your position?

Mr. STINGEL. I was not present at the February 26 meeting, but when it came back to the board on the 28th the aircraft number had been reduced.

Senator STEVENSON. I understand that, but I'm asking about the 26th meeting.

Mr. STINGEL. No, I was not present.

Senator STEVENSON. Well, there were three Board members present?

Mr. MOORE. Yes, Senator Stevenson.

Senator STEVENSON. Two felt this was a recommendation. Let's leave that aside for the moment and let me ask you if, even if it wasn't a recommendation, what then was the basis for this figure of $656 million for all of the purposes mentioned at 8 percent? My understanding is that at that time Airbus had only offered financing for four aircraft. Is that wrong?

Mr. MOORE. No; I think that is correct, Senator. During that meeting there was some confusion, and we didn't learn for a certainty until after the meeting that their firm financing offer was

for four planes only. That's correct. We were starting that meeting not knowing exactly the number, knowing only the number that we had been asked to finance.

Senator STEVENSON. Wasn't it stated at the meeting that the offering of financing for the four aircraft included financing in dollars at 9.5 percent?

Mr. MOORE. There was some statement that there was an oral offer to finance all of the package at 9.5 percent. We were never able to verify that and apparently it really wasn't so.

Senator STEVENSON. Didn't Mr. Duff of your staff state that at the meeting?

Mr. MOORE. He thought at the time of the meeting that there was an oral offer of some sort. We have not been able to verify it since. There could well have been, but we think it may have been some discussion with the Trans Australia Airlines rather than Ansett.

Senator STEVENSON. Isn't it true that TAA, the competitor of Ansett, had an offer for Euro dollar financing at 9.5 percent?

Mr. MOORE. I don't know. That could be where that came from, Senator.

Senator STEVENSON. Well, at this point, what did you know about the Airbus deal, including the terms of financing which you're charged with meeting? If you didn't know what the terms were, why was the board discussing—with two of the three members believing that they were discussing a recommendation for a figure of $656 million?

Mr. MOORE. That figure came from just multiplying out what 85 percent of the U.S. content of the whole requested package would be. I would imagine that the loan officer himself did not mean to recommend that. We just had before us the different ways you could approach the case.

Senator STEVENSON. Well, I'm told—I'll have to verify this somehow—that Mr. Duff of your staff had verified the Airbus offer that afternoon or the next day and the offer included 9.5 percent, all dollar financing, and then the mixed currency financing with which there presumably is no quarrel. That was for how much, about $150 million?

Mr. MOORE. That would be right, Senator. I think it was four Airbuses which run about $40 million apiece I think.

Senator STEVENSON. About $150 million at that time or $160 million, and the Bank was considering a recommendation of $656 million at 8 percent.

Now you have indicated that the 8 percent was competitive because the mix of one of the Airbus proposals came out at I guess about 8 percent.

Mr. MOORE. 7.99 percent.

Senator STEVENSON. Is this common for the Bank to disregard the currencies involved and the market rates of interest of different currencies?

Mr. MOORE. Quite the reverse, Senator Stevenson. We try to make a judgment of the relative values of currencies. Now it's hard to do because you're talking in the time frame of 10 years.

I can give you one example where China Airlines from Taiwan had our offer of a financial guarantee and a financing package at

9¾ percent fixed rate of interest about a year ago and they came in and politely declined us saying that they preferred to take floating dollars in private markets because their estimate was that that would cost them 8.4 percent over the next 10 years. They're shrewd, and I guess they're right.

I personally feel that the dollar over the next decade will be a stronger currency than any of those you're dealing with there. Mr. Saint Phalle, however, like most money people, tends to look a little more in the short term and analyze the next 6 months or a year, and he's felt, as he stated in that meeting, that the dollar is not as strong a currency as the deutsche mark.

You're dealing with a perception of buyers who are going to pay this over a 10- or 12-year period.

Senator STEVENSON. Do you want to respond to that, Mr. de Saint Phalle, what it costs to borrow money in the market?

Mr. DE SAINT PHALLE. Well, Senator, it's a difficult question. I was somewhat surprised and pleased at the evidence of Mr. Murdoch's faith in the way in which we will be handling our economic affairs in the future. I think this is pleasing. I have had a tendency to think that unless we do something more about our exports, our dollar may get into further trouble, and this is what we are dealing with, of course, all the time at the Bank.

I can see what I think my own perception of the deal happens to be and I have been constantly surprised in the course of our handling these financial cases that the perception of the customer is indeed, as the chairman points out, quite different. We have had repeated instances where the customers says, well, your dollar has gone down so much, it can now only go up; and that's a perfectly valid perception. If you see what has happened to the Deutsche mark and the dollar since the Ansett transaction, indeed the dollar has had a tendency to firm up.

So we are dealing not so much in what the individuals on the board think, but in trying to ascertain what the customer may think, and I think this is what we were trying to do.

MATCHING FOREIGN FINANCING

Senator STEVENSON. What I'm trying to find out with this last question is whether it makes any sense at all for the Bank, with an acknowledged responsibility to match foreign financing, to match mixed currency financing at 8 percent with dollar financing at 8 percent. Airbus in this case recognized the different market rates of interest by offering 9.5 percent dollar financing, I believe.

Mr. MOORE. I don't believe that's the case, Senator.

Senator STEVENSON. Let's not argue over that. Let me get an answer to the abstract proposition from Mr. de Saint Phalle. If you're going to match the dollars—a mixed currency deal—shouldn't your match reflect differences market rates of interest?

Mr. DE SAINT PHALLE. I think normally one would think that if you were doing a dollar financing you would be competitive in a slightly higher figure.

Senator STEVENSON. Thank you.

The CHAIRMAN. Senator Garn.

Mr. MOORE. Could I make a further response to that? You should look at these packages that Airbus uses, and they have quite a lot

of leverage in it because they are offering only 20 percent in dollars. So they have a lot of latitude to make us look like we are being overcompetitive. I just go back to the case I mentioned earlier where at the same point in time the Germans themselves in evaluating the relation of the deutsche mark to the dollar in a substantial case where they had to put out both currencies themselves set the rates at 6¾ deutsche marks and 8¼ in dollars; which is exactly the spread we offered in the Ansett case, and you should not overlook the French francs which at any point in time, then, now or in the future, have a heavier degree of subsidization by far at 8¾ than the 9¼ dollar rate.

Finally, I would just take this moment to point out, Senator Stevenson, that this is the folly that we are operating in with the present arrangement we have with the other export credit agencies. We are made to deal with one unitary interest rate. The United States bargaining position is to support exactly what you're saying; that every year, periodically, you work off of what the Government borrowing rate is in a particular currency for a 10-year bond and then price off of that so we would have an established way in which we would all know what the relative value of the currencies were and could stick by it.

I'm simply saying that from the U.S. point of view we should have that system.

The CHAIRMAN. Senator Garn.

Senator GARN. Thank you, Mr. Chairman. I apologize for not being able to be here at the beginning of the hearings due to the conflicts that I have had in other activities, and I don't have any questions at this time.

The major reason that I don't is that Senator Heinz has been the one who has done a great deal of research into this and spent a lot of time on it. He is chairman of the subcommittee that has jurisdiction in this area.

Senator HEINZ. Ranking minority member, not chairman.

Senator GARN. I'm thinking of next year, John. He corrected me and said ranking minority, and that's essentially true, but we intend to do something about that as soon as we possibly can, and when I move over and take your seat, Mr. Chairman, then John will be chairman of the subcommittee.

The CHAIRMAN. Senator Garn, you keep referring to that as if it's practically automatic, but you're going to have to work for it.

Senator GARN. I'm trying to make it a self-fulfilling prophecy is what I'm trying to do.

In any event, I would like to defer to Senator Heinz because he has spent so much time and effort in this area and he's well prepared, and so I defer to John.

The CHAIRMAN. Very good.

When I finished my first period of questioning I was raising the question about how well prepared the other members of the board were to act on this.

Now as I understand it, Mr. Allen, you were out of the country during this and took no part in the whole situation; is that right?

Mr. ALLEN. That is correct.

The CHAIRMAN. And Director Stingel, you came in on February 28, I believe?

Mr. STINGEL. That's correct.

The CHAIRMAN. The two other members of the Board besides Mr. Moore who followed this closely were Mrs. Kahliff and Mr. de Saint Phalle; is that right?

Mrs. KAHLIFF. That's right.

Mr. DE SAINT PHALLE. Yes.

The CHAIRMAN. Mr. de Saint Phalle, what I was questioning you about—I raised the issue that you had indicated that you were least proud of this decision of any since you have been on the Board and you answered that was correct. Then I want to ask you about a further quotation. You said that this was a complicated case and had a limited amount of time that particular day.

We were inadequately briefed. Mrs. Kahliff and I were trying to get something accomplished and reviewed in altogether much too short a time frame. It's not a very good and not a very satisfactory situation. It was push, push, push.

Now you said that; is that correct?

Mr. DE SAINT PHALLE. That is right, Senator.

The CHAIRMAN. And that is still your view?

Mr. DE SAINT PHALLE. Yes, it is.

The CHAIRMAN [reading]:

I did not know a great many things about this case at the time I considered it that I know now. I have had, ever since I came to the Bank, complete confidence in Chairman Moore. I was bothered enough at this case that after the meeting was over I went up to see Mr. Sauer who I consider to be my godfather and I said, "Walter, am I completely out of line?" He said, "Thibaut, you came back with those points three times even though you were told in polite terms to shut up," and he said, "I think you were absolutely right." So yes, I was very bothered about this case and I'm still very bothered about this case and I'm torn apart by it because I don't understand it.

Does that describe your feeling at the time this case was discussed and you were pushed to make a prompt decision?

Mr. DE SAINT PHALLE. Mr. Chairman, perhaps rightly and perhaps wrongly, I was under the impression that we were being given a case involving some 25 aircraft which were going to be financed to the extent of 85 percent at an interest rate of 8 percent, and I felt that this was going beyond what we were required to do to compete with 4, 8, or 12 Airbuses, and I tried to focus the attention of the Board on matching the 767's with the Airbus aircraft and I had assumed for the sake of argument that we were dealing with 12 airplanes on the Airbus side because nobody seemed to know just how many Airbuses were involved. I had no problem, but I consider that I'm stretching it about to the utmost to deal on the basis of 8 percent, 85 percent coverage, on the 767's. But I voted for that transaction and I'm comfortable with it. However, I did not feel that the other 13 aircraft should be handled in the same manner.

The CHAIRMAN. Now, Mrs. Kahliff, you have been quoted to have said this:

I think we did the wrong thing. We could have given them a higher interest rate and still met the competition.

You also were reported to have said—

I certainly would not vote for the 8 percent interest rate again for the 767's. We could have gone to 8¾ and 9 percent and not had any problem meeting competition. I was flabbergasted when I found out we had misread the Airbus offer. We could have given and set a higher interest rate. We ought to have done so.

INACCURATE STATEMENT

Mrs. KAHLIFF. That's an inaccurate statement that I said that I would not vote for the case again, because I did vote for it and I am comfortable with it. What I did say was that I would not vote for the 8 percent for the four aircraft or just the 767's if I had understood that the 9½ that Mr. Duff was talking about was the Airbus offer.

My understanding was that that was the blended rate for the entire package and I would vote for the entire package, but I would not vote for 8 percent the Airbus offer had been 9.25. That was something I was confused about that day. I thought the 9.25 was the blended rate for the entire package.

The CHAIRMAN. And what was the Airbus offer in dollars? 9.5, was it not?

Mrs. KAHLIFF. That's what Mr. Duff—I'm not looking at the transcript right now, but I believe his statement said that he thought there was an offer of 9.25 from Airbus. I thought that was the entire package.

Senator STEVENSON. We have that, Mr. Chairman.

Mrs. KAHLIFF. I was confused about that. I did not know that the 9.25—and I don't think that's ever been verified—was just for the Airbus. Is that correct?

The CHAIRMAN. Well, the information I have is conflicting, I must say.

Mrs. KAHLIFF. All right.

The CHAIRMAN. The information I have from the staff is 9.5.

Mrs. KAHLIFF. 9.5, but 9.5 for the blended package, for the entire package. That's what I thought.

The CHAIRMAN. That's what you thought?

Mrs. KAHLIFF. I thought the whole package was either 9.25 or 9.5.

The CHAIRMAN. Mr. Duff said he also reported they were making an offer which he said was on the same terms—full cover for 9.5 percent in dollars. "I was puzzled that it was 9.5 rather than 9¼ since the dollar rate at in the basket was only 9¼." But he said he confirmed the 9.5.

Mrs. KAHLIFF. But I thought that was the entire package because the chairman was talking about 25 aircraft and I thought he meant the offer.

The CHAIRMAN. That's one of the difficulties. This was a multi-million dollar decision and it was pushed at a time when some members of the Board who were doing their conscientious best to follow this didn't have the fact, didn't understand it clearly.

Mrs. KAHLIFF. That's right, but remember one thing: that was the first meeting that we are talking about and we did not go along with that. We did ask for more information before we made a final decision. It was confusing and that's the reason we didn't vote on the case that day.

The CHAIRMAN. Mr. Moore, isn't it true that Eximbank directors usually receive briefing memos on cases that are to be considered by the Board at least two days before the Board meeting? Isn't it unusual for the Board directors to receive their briefs 20 minutes before the Board meeting?

Mr. MOORE. It is unusual. Normally we get our packages on Friday afternoon before the Tuesday meeting so we have the weekend to review them, and I have no reason to know why Mr. de Saint Phalle and Mrs. Kahliff didn't get theirs before 20 minutes before the meeting.

Our general counsel is trying to find out what happened, but I don't know if he has.

The CHAIRMAN. Was the memo ready Friday evening?

Mr. MOORE. I don't know that.

The CHAIRMAN. That's my information.

Mr. MOORE. It normally would be.

The CHAIRMAN. It should have been given to them whenever it was available, should it not?

Mr. MOORE. It should, yes. That's the normal procedure.

Mrs. KAHLIFF. Mr. Chairman, may I make a statement about that? I cannot say it didn't come in on Monday, but I had my loan portfolio Friday afternoon and I took it home and studied it and I didn't look at it on Monday. Tuesday morning in the 8:30 meeting, Mr. Moore said we would be having the meeting a little earlier because he wanted to help us with the Ansett case, and I thought "I don't have an Ansett case." So I then went back to the office and found the Ansett case, and I really cannot say it didn't come in until that morning. It might have come in on Monday, but nobody told me about it and if it did come in on Monday I did not know it, and that's the reason I didn't get it until just an hour before the meeting.

The CHAIRMAN. Mr. Moore, isn't it true that the Bank staff usually makes a recommendation for the Board action in the preliminary commitment memo to Board directors and why wasn't one made in this case?

Mr. MOORE. Because the case had come on so fast and they put to the Board a request for Board guidance rather than a recommendation. That's why we discussed it at such length at the first meeting, and the only decision at that meeting was to refer the matter in the form of a package that Mr. de Saint Phalle had designed during the course of that meeting, to the NAC and to find out as much as we could in addition. Incidentally, we did have good cooperation and did find out exactly what the offers were from Airbus and were able to verify them and be absolutely certain about them by the next morning.

PROFIT FROM EXIMBANK'S GENEROSITY

The CHAIRMAN. As far as the Committee can tell, the only source of information that you had on the Ansett request and intentions and the competing Airbus offer was Mr. Murdoch and Boeing. Both of those parties stood to profit from Eximbank's generosity.

Mr. Moore, could you tell us where you got the information on which you based your actions?

Mr. MOORE. We had conversations regularly with the representatives of the governments involved in the consortium and we had good cooperation to verify that information.

The CHAIRMAN. Is it true or not true that you had been only talking to self-interested parties in this case and relied on them for your information?

Mr. MOORE. That is not true. We had direct confirmation of these matters from Airbus. We also had a written copy of their offer to Ansett.

Mr. STINGEL. Mr. Chairman, one thing I'd like to mention. I do my own investigation on every case and by February 28 I had done so in the Ansett case. I think where the 9.5-percent rate in dollars came about was that this was Airbus's offer for the original 10-year package. There never was, in my opinion, a dollar offer for the 100 percent package, only for 20 percent of the package. The original 10-year offer was at 8.3 percent. It was reduced to 7.95 percent and that's what we received from Murdoch and Boeing and that's what we compared with.

The CHAIRMAN. Well, let me ask you, Mr. Moore, why didn't you verify the information you received from Mr. Murdoch and Boeing about Airbus, especially with the February 29 deadline and the Airbus financing offer in U.S. dollars at 9.5 percent?

Mr. MOORE. We sought to verify the February 29 deadline but apparently did not. We verified all other information with Airbus.

The CHAIRMAN. You simply had to take then the assurances of interested parties—Mr. Murdoch and Boeing?

Mr. MOORE. On the date their option expired with Airbus for deliveries, it would be on the same schedule as TAA, we did.

The CHAIRMAN. Weren't you aware of State Department cables from Australia sent since last December that discussed in detail the Ansett aircraft purchasing plans?

Mr. MOORE. Mr. Chairman, to the best of my recollection, I saw those cables some time back and probably was aware of them.

The CHAIRMAN. Was that before or after your February 29 meeting with Mr. Murdoch?

Mr. MOORE. I think it would have been well before.

The CHAIRMAN. Well, they did show that Ansett was interested in Boeing, did they not?

Mr. MOORE. Yes, indeed, and they should be. They're an excellent firm.

The CHAIRMAN. My time is up. Senator Heinz.

Senator HEINZ. Mr. Moore, to put the interest rate question in perspective for once and for all, do you now believe that a higher interest rate would have been successful in obtaining the orders for Boeing from Ansett?

Mr. MOORE. No, I don't, Senator. The most persuasive fact to me was that this matter was going to have to be presented on the broadly based public stockholders of two companies—Thomas Transport and Newspaper Productions, or whatever Mr. Murdoch's company is called—those are both widely held stocks and to explain to stockholders in Australia and perhaps in other countries the relative values of the deutsche mark, the French franc, and the dollar would not have been possible. So while I think theoretically one can talk about the value of the dollar being lower and therefore the interest rate would be higher, I do not think it was practical in that circumstance, and I feel that would still be a most persuasive fact in looking at the case.

As to the core package, that's directly competitive with Airbus.

Senator HEINZ. I find that a remarkable statement. You're saying that the basket of currencies was an irrelevant number here?

Mr. MOORE. No, sir. I think it was a relevant number.

Senator HEINZ. The 7.95 or 7.99 with fee?

Mr. MOORE. Right.

Senator HEINZ. Now that's rather interesting because it implies that the interest rate on the deutsche mark which was at 6 percent should be a factor in the kind of interest rates you offer. What relevance does the 6-percent interest rate on the deutsche mark have here? Why not set our interest rate on the deutsche mark? After all, it's part of the basket. Maybe we should set it at 6 percent.

Mr. MOORE. We have not done so, Senator, but your point is sound. Many of the buyers would prefer to have exactly the rate and insist on it in fact.

Senator HEINZ. But my point is, what's relevant is the interest rate on the U.S. currency and the argument that you have presented that the Australian dollar was going to be strong against all currencies in the future was actually characterized by Mr. Heidrich in your meeting as saying, "I think we are mixing apples and oranges to come up with 7.95 percent, the French franc at 8¾ and there's a 9¼ dollar component here. If we went in at the median point, 8⅝, that's a very good package." You said, "Good package. I think they'll turn it down." Now Mr. Heidrich said, "I don't think they will."

Who is Mr. Heidrich? Mr. Heidrich is a staff member of the bank?

Mr. MOORE. Yes.

Senator HEINZ. A moment ago you said there was no staff present at the meeting that was familiar with the details of this. In fact, Mr. Heidrich was very familiar with this only you wouldn't let him talk. He tries to argue that "I'm somewhat disturbed at this 8 percent because the financial people that we met with talked about our scales depending on the deliveries here of somewhere between 8½ and 8¾ and they thought that was a very reasonable interest rate."

Now he's talking about Ansett Airlines financial people, the 8¾ percent?

Mr. MOORE. That's right.

Senator HEINZ. So he's been in touch with the Ansett Airlines people and they're saying 8¼, 8¾, or 8⅜ and that's very reasonable. These are the very financial people that you said a moment ago that are going to have to present the case to the stockholders of the Murdoch conglomerate.

Mr. MOORE. No; that's not correct, Senator. Mr. Murdoch and Mr. Peter Abeles will have to present it to their own stockholders separately. These are representatives of Ansett Airlines itself and from the way they will look at it, Senator Heinz, they will be looking at a 9.3-percent package on the 85-percent coverage of the whole package. So all of our statements really wound up being quite consistent.

Senator HEINZ. Well, so you say, but that's not the way I read it. I read it as you're being told in the meeting of the 26th by your

staff that Ansett thinks 8½ or 8⅜ is very reasonable, and then you say, "No, it's not" on the very next opportunity, "a good package. I think they'll turn it down." Mr. Heidrich says, "I don't think they will." Mr. Moore says, "I would rather go with 8 and back off some cover along Thibaut's lines."

Mr. MOORE. Correct, and that's what we did. The main thing I was suggesting was the rate on the part that we were in direct competition on, on the 7.95. As you see, we did exactly the interest rates Mr. Heidrich was mentioning on the 727's and 737's.

ANSETT DECIDES TO BUY BOEING

Senator HEINZ. Were you aware or have you become aware of the cable from the U.S. consulate in Melbourne that was dated February 15? Apparently it didn't arrive until March 7, somewhat after the 28th obviously, that says, "Based on a meeting on February 15 between Ansett and Exim people, that Ansett, as of February 15, had decided to buy Boeing."

Mr. MOORE. I was not aware of it at the time of the meetings. I would have been very cheered if I had been.

Senator HEINZ. But you subsequently became aware of it, did you not?

Mr. MOORE. I guess I have, Senator. I don't really remember that one, but if it's there, I probably saw it.

Senator HEINZ. So now did Mr. Heidrich know about that information in that cable?

Mr. MOORE. I would assume after March 7 he would have.

Senator HEINZ. Is Mr. Heidrich here?

Mr. MOORE. I believe he is.

Senator HEINZ. Mr. Heidrich, are you here?

Mr. HEIDRICH. Yes, I am, Senator.

Senator HEINZ. Did you know about the information in the so-called Ansett-Exim meeting of February 15—did you know about the facts or assertions in that cable that Ansett had decided to buy Boeing prior to February 26? Did you know that?

Mr. HEIDRICH. No, I did not. I think that cable that came in from the State Department may have had strong indications that Ansett was favorably disposed to the Boeing aircraft, but I don't know that they had made a decision at that point.

Senator HEINZ. Yet there was a member of the Exim staff there at that meeting. Who was there at the February 15 meeting?

Mr. HEIDRICH. In Melbourne, I was at that meeting, along with Ken Tellesca who is the loan officer for Australia, Alice Mayo, who is an economist, and John Brois, who is our chief engineer.

Senator HEINZ. So you were at the February 15 meeting?

Mr. HEIDRICH. Yes, sir.

Senator HEINZ. Well, I'm a little confused. Did you not report in the cable sent March 7 received in Washington March 7, based on that February meeting, that Ansett had pretty well made up its mind to buy Boeing?

Mr. HEIDRICH. I thought the cable that you referred to, Senator, was a cable in December that was a report by our consulate in Melbourne to the effect that they felt that Ansett was leaning toward Boeing, but I sent no such cable from Australia.

Senator HEINZ. Well, here's the cable I'm referring to. This is the cable subsequent to the February 15 meeting, the so-called March 7 cable, and it says:

> Point No. 4: Comment: While Ansett executives are not likely to tip us off when they reach the watershed of going all the way with Boeing, we have the feeling that they are at that point.

Now what does that mean?

Mr. HEIDRICH. I think that Paul Aylward, who is our Economic Counselor in Melbourne and who attended the meeting with the Eximbank team, had that opinion of what was going on or what the Ansett people might do. It is also quite possible that after we left Melbourne he may have gone back to the Ansett people and had subsequent discussions with them and wrote that cable.

Senator HEINZ. You didn't share that opinion?

Mr. HEIDRICH. I felt they were leaning toward Boeing myself, yes. I think I so reported to the Board.

Senator HEINZ. Did you express that at any time during the February 26 meeting?

Mr. HEIDRICH. I don't know whether it was the 26th or the 28th meeting, but at one of the Board meetings I said to the Board that I felt Boeing had a very good chance and felt Ansett was favorably disposed to the Boeing aircraft.

Senator HEINZ. Did that seem to make much impression on the board members?

Mr. HEIDRICH. I can't really answer that.

Senator HEINZ. Well, Mr. Chairman, let me thank Mr. Heidrich for his information.

Mr. Moore, Ambassador Alston from Australia and you visited in early February; is that correct?

Mr. MOORE. I thought it was January, but you could be right.

Senator HEINZ. Was it late January or February?

Mr. MOORE. I don't remember the date.

Senator HEINZ. January 27 I'm informed. He dined with you; is that right.

Mr. MOORE. I dined with him; yes, sir.

Senator HEINZ. That's a significant difference.

Mr. MOORE. Yes, sir. It's one of who pays.

Senator HEINZ. Who did pay?

Mr. MOORE. He did.

Senator HEINZ. No; we did.

Mr. MOORE. No.

Senator HEINZ. His vouchers are submitted ultimately unless it was a personal occasion.

Mr. MOORE. I would be very surprised if we paid for it. It was a personal occasion.

Senator HEINZ. Very well. We cleared that up. Was that the only time during his visit here that you conversed with or met with Mr. Alston.

Mr. MOORE. Yes.

Senator HEINZ. Did the Murdoch Ansett Exim loan come up at any time?

Mr. MOORE. It did not.

Senator HEINZ. Isn't that a little surprising that it didn't?

Mr. MOORE. No; I didn't know anything about it at the time, so I couldn't, and I don't know whether he knew anything about it at the time. At any rate, it did not come up.

Senator HEINZ. Did you discuss the New York primary?

Mr. MOORE. No.

Senator HEINZ. You're an old law partner of his. You're active in politics together. You didn't talk about Jimmy Carter?

Mr. MOORE. I'm certain we talked about Jimmy Carter.

Senator HEINZ. And you didn't talk about the New York primary?

Mr. MOORE. No; I don't think so.

Senator HEINZ. You must not have cared that much.

Mr. MOORE. I care a great deal, Senator.

Senator HEINZ. Well, very well. My time has expired. Thank you.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

I have a document dated February 20, 1980, which starts: "Preliminary Commitment Memorandum to the Board of Directors." It says, among other things, "* * * financial plan total cost of U.S. financial services—to be financed as follows—$565,854,000."

Is this a standard form for consideration by the Board in a meeting such as was held on February 26? I assume this is the document that was considered at that February 26 meeting.

Mr. MOORE. What's the date, February 20? It's a standard one where you have a request for Board guidance and it looks pretty standard otherwise.

Senator STEVENSON. This document says, among other things, after "Summary,":

> Boeing met with Chairman Moore and members of the staff on February 19, 1980, and informed us for the first time that Ansett was in the final stages of a major decision between two fleet alternatives: purchase of the above Boeing aircraft or purchase of 12 Airbus A-300B-4 aircraft with alleged very favorable financing. Eximbank is asked to provide financials as outlined for the alleged Airbus financing which is said to be a critical element of the decision.

On the next page it says, "Recommendation," "Request for Board Guidance."

REQUEST BOARD GUIDANCE

Mr. Cruse, let me ask you a couple of questions. Is this a familiar standard form for preliminary commitment memorandums considered by the Board at its meetings on loans?

Mr. CRUSE. I don't believe that I would have any particular expertise on this. I think the general counsel——

Senator STEVENSON. Would Mr. Glick be a better one to ask?

Mr. GLICK. Yes, sir; this is the normal form.

Senator STEVENSON. Is it normal for staff in preparing these forms to request the Board's guidance or make recommendations after the word "recommendation"?

Mr. GLICK. Usually there's a recommendation, but it's not uncommon to have a request for guidance.

Senator STEVENSON. Now is it customary for the Bank in deciding whether they have to match competition to determine what the foreign competition is, what the terms are?

Mr. GLICK. Are you asking me?

Senator STEVENSON. Yes.

Mr. GLICK. Yes, sir, we normally do make an effort to find that out.

Senator STEVENSON. What do you normally do? Go see European competitors in OECD?

Mr. GLICK. Yes, sir.

Senator STEVENSON. Did you in this case? Did the staff?

Mr. GLICK. This is where I'm not an expert. I think the staff did contact Airbus, Boeing, and Ansett, all three.

Senator STEVENSON. Before the meeting on the 26th?

Mr. GLICK. No, sir; not before the 26th.

Senator STEVENSON. This was considered at the meeting of the 26th. The Board was being asked for guidance. Ordinarily when the Board was acting on the loans, doesn't it have such information before it?

Mr. GLICK. It normally does, but I think because of the time constraints they were——

Senator STEVENSON. Let me worry about the time constraints. I'm just trying to find out what was done on the February 26 meeting. Had the OECD been contacted?

Mr. GLICK. Not to my knowledge.

Senator STEVENSON. Is it true that the Eximbank had a team in Australia at this time?

Mr. GLICK. Yes, sir.

Senator STEVENSON. How long was it there?

Mr. GLICK. I don't know really how long it was there. About 1 month.

Senator STEVENSON. What was it there for?

Mr. GLICK. They were there to look into various projects that might be coming from Australia.

Senator STEVENSON. What was its input on this deal as of February 26?

Mr. GLICK. As of February 26, I don't think that that team had any input on this project.

Senator STEVENSON. Was that customary for the Bank? Would the Bank not consult its own team in the country?

Mr. GLICK. Yes; it depends——

Senator STEVENSON. That is customary?

Mr. GLICK. The team might be in a foreign country, but it might not be looking into the particular application that would be before the Board of Directors.

Senator STEVENSON. What was it looking into? Are you saying it was not looking into aircraft financing?

Mr. GLICK. It was not the only thing.

Senator STEVENSON. It was not. Why was it not then consulted, Mr. Moore?

Mr. MOORE. They returned to the country the day before the Board meeting. The case was worked up by the loan officer for India and the Philippines. They were present at both Board meetings when the case was discussed.

Senator STEVENSON. On the 26th?

Mr. MOORE. Yes, I believe so.

Senator STEVENSON. What was their recommendation on the 26th and what did they say with respect to the competition?

Mr. MOORE. Mr. Heidrich indicated and reported on his conversation with the financial people at Ansett Airlines that they were satisfied with the 8⅜ and 8½ interest rate on the credit.

Senator STEVENSON. That who was satisfied?

Mr. MOORE. The people in the financial offices of Ansett Airlines in Melbourne.

QUESTION OF FINANCING COMPETITION

Senator STEVENSON. I'm trying to find out what efforts were made by the Bank, as I believe is customary, to determine what the competition was. Did that team have nothing to suggest on that account?

Mr. MOORE. Not on the verification with Airbus. That's done in another section of the bank.

Senator STEVENSON. There's been some reference to Airbus agents in the United States who verified the 9.5 percent dollar financing I believe. Were Airbus representatives or representatives of foreign governments—British, French, German representatives contacted before the February 26 meeting by the Eximbank to determine what the terms of the financing were and for how many aircraft?

Mr. MOORE. It appears from the transcript that Mr. Duff had had some conversations before that meeting, but they were incomplete and they were completed during the course of that day and the next morning.

Senator STEVENSON. That was with U.S. representatives for Airbus. I was asking about agents for Airbus abroad and representatives of the governments involved; namely, France, Germany and the United Kingdom. Were they contacted?

Mr. MOORE. I do not believe they were contacted and had time to answer by the time——

Senator STEVENSON. Is that customary?

Mr. MOORE. It would only be customary if you were in these circumstances. We had reliable direct information.

Senator STEVENSON. Where was that from? Boeing?

Mr. MOORE. We had a copy of the Airbus offer to Ansett plus confirmation by representatives of Airbus.

Senator STEVENSON. Let me back up again. You had confirmation from Airbus as of the 26th of what?

Mr. MOORE. On some points, but pretty complete on all except I think the question of the expiration of the option for deliveries. I think we had confirmation on all other points.

Senator STEVENSON. How did you get that confirmation that you had on February 26th?

Mr. MOORE. Through the telephone discussions with representatives of Airbus Industries.

Senator STEVENSON. And what did it confirm financing for?

Mr. MOORE. It confirmed only two packages of financing. One was the basket we have been discussing and the other offer was 60 percent cash, 40 percent deutsche marks at 6.5 percent interest and apparently confirmed that there was no offer of overall price in dollars.

Senator STEVENSON. Was that what John Duff confirmed at the meeting?

Mr. MOORE. It was by the time we were through.

Senator STEVENSON. I'm talking about the 26th.

Mr. MOORE. Not on the 26th. On the 26th he had heard that there might be a 9.5 percent offer available in dollars.

Senator STEVENSON. Did you confirm on the 26th that Airbus was financing spare parts, spare engines and ground equipment?

Mr. MOORE. No; it indicated that they were not.

Senator STEVENSON. But your proposal, or this proposition that was considered on the 26th did?

Mr. MOORE. No; I believe not, Senator Stevenson. We had the proposal, but when you look at the amount of cover we actually offered, it was less than the cover offered by the Europeans. So there wasn't any question of our covering those.

Senator STEVENSON. Mr. Glick, did the staff calculations of the 85 percent include spare engines and spare parts and ground support equipment and flight crew training for the 767's and spare parts for the 727's?

Mr. GLICK. Senator, I can't answer that question. I'm sorry. One of the people who worked on this would have to answer.

Senator STEVENSON. Is there anyone here who could answer?

Mr. GLICK. Mr. Peacock is here.

Senator STEVENSON. Mr. Peacock, could you answer that?

Mr. PEACOCK. Yes, sir. It did include all that. The engineering portion of the memorandum is what I think you're reading from.

Mr. MOORE. Senator Stevenson, could I comment further? I know the request included that. When you look at the fact that the overall support by direct loan funds from Exim is somewhere around 63 percent in terms of what Airbus would be looking for and feel that we were doing more than they, we were not. I might also point out, Senator, that in our terminology Airbus supported over 100 percent of European content because they supported 85 percent of the entire cost of the plane without spares, but it included 23 percent manufactured in the United States. We would not cover any part of manufacture abroad and did not in that case. In fact, on what looks like 85 percent when we put it on a comparable basis, we were covering 76 percent on the 767's.

Senator STEVENSON. Well, my time has expired, if I may just wind up this line of questioning. I'm really very disturbed and disappointed because it appears here there are millions of dollars in financing terms more favorable than were offered by the competition and for the export of products, including spare parts and engines for which the competition had not even made an offer.

But let me conclude by getting back to the question about whether you made a recommendation. You denied it earlier. The other two Board members at the time felt that you were recommending this total package of $656 million. Let me quote from the transcript at that meeting. This is you:

> Now I agree that there is some jockeying going on here because they are putting it in a package, but I'm convinced that whether we like it or not it's an all or nothing situation. We cover this whole thing, 85 percent cover at 8 percent, or there's just no decision. Now we may decide not to do that because it's too painful, but I don't think we should fool ourselves that there's any way to jockey this package into less than presented to the Board.

And 2 days later it was approved by the Board greatly scaled down. You don't call that a recommendation?

Mr. MOORE. I call it an argument during the course of the meeting, Senator Stevenson, but Mr. de Saint Phalle was quite correct and persuaded me by the end of the meeting. I can quite understand how he and Mrs. Kahliff thought I was making a recommendation. I do not think I was. I think I was discussing it in terms of the Board grappling with a difficult case on which we hadn't had much time to get prepared.

Senator STEVENSON. You went on to say, "There will be a situation. It's going to be a highly controversial decision."

Mr. MOORE. It has been.

Senator STEVENSON. Thank you, Mr. Chairman.

The CHAIRMAN. I'd like to follow up and get into the same area, the competitive rate and so forth, that Senator Stevenson was just discussing. Is Mr. John Lange here?

Mr. LANGE. Yes, sir.

The CHAIRMAN. Let me read from a memo that you prepared, Mr. Lange, to Mr. Bergsten, and I want to make sure this still is or is not your conviction.

PROBLEMS WITH THE TRANSACTION

He said:

There are three problems with the transaction. First, the Bank is proposing a package deal of three different types of aircraft when only one, the 767, is truly competitive with the Airbus in this situation. The Bank is offering the two other types of aircraft, with soft terms to sweeten the pot. This approach fritters away Bank resources.

Now do you still feel that that's correct?

Mr. LANGE. Yes, sir.

The CHAIRMAN. Then the second one is this:

The Airbus offer is denominated into three currencies with differing interest rates for each. DM is 6.5 percent; the French is 8.75 and U.S. dollar is 9¼. Ansett and Boeing have asked the Bank to match the nominal blended rate of the Airbus offer that is about 7.99 without reference to the fact that U.S. Eximbank portion will be entirely in dollars. This is an interest rate illusion at its most galling. Clearly, the Eximbank rate should be around 9¼ percent to match what Airbus is charging for the dollar portion of its loan.

Is that correct?

Mr. LANGE. Yes, sir.

The CHAIRMAN. You still feel that's right?

Mr. LANGE. Yes, sir.

The CHAIRMAN. Finally, third, the Bank will be giving our hopes for a common line on aircraft a short shrift if they offer an 8-percent interest rate for the B–767. There may be a grandfather clause element in the Bank clause, but we should certainly establish some contact with the Germans and French to see if we can't avoid counterproductive bidding. You feel that's still sound?

Mr. LANGE. Yes, sir.

The CHAIRMAN. Let me ask you, Mr. Moore. Mr. Lange of the Treasury in a memorandum to Mr. Bergsten on this situation said that the Bank is "frittering away its resources and sweetening the pot by proposing a package deal of three different types of aircraft and only one, the B–767, is competitive with the Airbus."

What's your response to that?

Mr. MOORE. I think the statement is correct that the 767 directly competes with the Airbus. There's indirect competition which has

to be taken into consideration in the formation of the NAC policy on the 727's and 737's and all the planes.

The other part that's important, Senator, is that we have indeed made some progress in these competitions recently. For example, we have found if we offer a rate of around 9¼ percent that the Airbus offer frequently now does not go below that. The disappointment in this particular case was the fact that it dated back to the time of the offer to Trans Australia Airlines and was framed in that context and, therefore, was considerably more competitive from the European side than the offers we are usually seeing starting fresh in February.

The problem was the grandfather item that John Lange mentioned; that this went back to the first offer to TAA. I don't know the exact date, but I think it was last summer. It was accepted by TAA in October.

The CHAIRMAN. Along that line, I have a memorandum from the Congressional Research Service, Library of Congress. It says this, Mr. Moore, and I'd like your reaction:

> If the additional concessions and sweeteners to Ansett to the purchase of four Boeing 727's and nine 737's are considered to be a reduction in the interest rate on the five Boeing 767's, it implies the interest rate on the five Boeing 767's becomes 7¾ percent instead of 8 percent.

What's your reaction to that?

Mr. MOORE. It could well be true. I haven't done the math on it.

The CHAIRMAN. He has the math and detail and I'll make that available to you and you might want to respond to that for the record.

Now the second part of the statement by Mr. Lange is:

> The Airbus offer is denominated in three currencies with different interest rates for each,

And he says—

> the nominal blended rate was 7.99 percent without reference to the fact that Eximbank's proportion will be entirely in U.S. dollars. This is interest rate illusion at its most galling. Clearly the Eximbank rate should be around 9—[reading]—portion of its loan.

That statement by Mr. Lange would indicate that you were much, much lower than you would have to be to follow the policy which you and all of your Board members have agreed is the policy; in other words, to match the financing competition.

Mr. MOORE. On the entire package, the blended rate to Ansett Airlines is 9.3 percent, Senator, and it's quite consistent with what Treasury is saying, and it is galling that the Europeans insist on having one unitary interest rate as a minimum in the consensus when you've got varying values of currencies.

The CHAIRMAN. I'm talking about Exim matching.

Mr. MOORE. Correct.

The CHAIRMAN. When you go down to 8 percent, I don't understand how that can be the same as 9¼ percent.

Mr. MOORE. The entire package blended received by Ansett Airlines was at 9.3 percent if you assumed a rather low rate on private bank financing of 17 percent.

The CHAIRMAN. But do you follow a policy then of whatever the private financing may be you calculate your financing—how far would you go? Do you go to 6 percent, 4 percent, 2 percent?

Mr. MOORE. No. We have only gone as low as 5.5 percent when we're meeting mixed aid credits. The only thing that's relevant from the buyer's point of view is the blended cost of the entire offer. All of our competitors support the entire 85 percent of the direct loan. We only do a portion, but the relevant way to judge the competition is as seen by the buyer. As seen by the buyer, 85 percent support in this case was at 9.3 percent if you assume the private bank rate at 17. All of the Board memoranda to us give us the blended cost to the buyer with different assumptions based on different interest rates from 8 percent all the way up to 20 percent. We then look at it and try to determine the degree of competition.

The CHAIRMAN. Well, the tradition, as I understand, is for aircraft manufacturers—this is in Australia—is for aircraft manufacturers to make the same offer to TAA and Ansett and in the TAA case Airbus offered financing exclusively in U.S. dollars at 9.5 percent. Mr. Duff confirmed that 9.5 percent offer to Ansett by Airbus. Why do you insist on saying there was 9.5 percent offer and 9.5 percent was not the interest rate to be matched?

ALL-DOLLAR OFFER

Mr. MOORE. Because Mr. Duff's early information turned out not to be confirmed later. Apparently there was no offer in all dollars to Ansett.

Mr. STINGEL. Mr. Chairman, the original 10-year offer to Ansett was deutsche marks at 7 percent, 9 percent for French francs, and 9.5 percent for dollars. I think that's where we picked up the 9.5 percent for dollars. I don't think there was ever any all-dollar offer. There was always a basket of currencies or as Mr. Moore explained——

The CHAIRMAN. I'm told by the staff there was an all-dollar offer.

Mr. STINGEL. My own investigation has not confirmed that.

The CHAIRMAN. Where did you get your information?

Senator STEVENSON. It's reflected in the transcript in the February 26 meeting.

The CHAIRMAN. That's right. As Senator Stevenson says, it's reflected in the transcript of the February 26 meeting.

Mr. STINGEL. I was not at the February 26 meeting, but I have seen the offers and there was no all-dollar offer that I ever saw.

The CHAIRMAN. When did you see the offers?

Mr. STINGEL. I saw the offers subsequent to these meetings, but I saw the offer as presented in the basket of currencies that average 7.95 percent on February 28 and, again, the dollar figure was in there at 9 or 9¼ percent. There was never, to my knowledge, an all-dollar offer. I think the information that Mr. Duff was able to secure earlier was erroneous.

The CHAIRMAN. Well, we differ on that.

Mr. Moore, are you aware that the Murdoch-Abeles acquisition of Ansett is currently being challenged by the Australia High Court?

Mr. MOORE. No, sir; I was not.

The CHAIRMAN. And Mr. Murdoch has not been able to register his Ansett shares.

Mr. MOORE. I'm not aware of that.

The CHAIRMAN. Wouldn't that indicate the pitfalls of relying exclusively on Mr. Murdoch for basic information on Ansett?

Mr. MOORE. I cannot comment on a matter in Australia that I don't know about.

The CHAIRMAN. Were you aware that the Exim team was in Australia and met with Ansett officials on February 15, 4 days before you met with Mr. Murdoch on the 19th?

Mr. MOORE. I was not aware of that on the 19th. I knew they were in Australia. I learned about it subsequently at the Board meeting.

The CHAIRMAN. Mr. Moore, you were quoted in the newspapers as saying you expected to meet with Sir Reginald Ansett at the February 19 meeting with Ansett and Boeing at the Bank. You also said you didn't know before that meeting who Rupert Murdoch was or that he had luncheon plans with President Carter on the day he was to meet with you.

How could you make those statements when, in fact, you had received a memo from Jack Pierce of Boeing on February 12 in which Pierce told you, according to the memo we received, that Murdoch published the New York Post and was scheduled to dine with the President from 12:30 to 2 p.m.?

Mr. MOORE. I had forgotten about the briefing memo and when the secretary was filing it, it reminded me I had known about it. I did not remember it when I went into the meeting with Mr. Murdoch. I was coming from outside the Bank, running 10 minutes late and knew there was some paper on my desk that gave his name, but I didn't have time to get it, so I went into the meeting without it and I didn't remember.

The CHAIRMAN. That seems to me hard to accept in view of the fact, after all, I would think the situation changes quite a bit when you have a man who's a publisher of one of the big newspapers in New York and a man of considerable influence—that, for one thing, the ethical matter at that point should come to your attention. For another, obviously, a newspaper like the New York Post can have an effect on the prospects of the President of the United States whom you have just told Senator Heinz you, of course, warmly support.

Mr. MOORE. I warmly support the President; that is correct. I did not know anything about the New York Post policy or endorsement of the President until the New York Times reporter came around and suggested there was a connection and that was sometime considerably after the second Board meeting.

The CHAIRMAN. Why would you have to know anything about the New York Post policy? The fact that he's a publisher of the paper and this is 6 weeks before the New York Primary—I would think that there would be every reason for the President to want the support of every newspaper publisher.

Mr. MOORE. Sure. I certainly didn't make the connection, Senator.

The CHAIRMAN. My time is up. Senator Heinz.

Senator HEINZ. Mr. Chairman, just a followup on that. Do I understand you to say you didn't realize that Mr. Murdoch was a publisher of the Post?

Mr. MOORE. I found it out immediately when we started discussions because I asked after Sir Reginald Ansett who was a person I had seen when I was in Australia and he said, "He's fine. We need

to tell you what's happened," and then they described this takeover battle during 1979 which was eventually won by these two companies, and now subject to challenge. I didn't know it then.

Senator HEINZ. So you found out then and there?

Mr. MOORE. I knew at all relevant times that his interests controlled the New York Post and several other publications in this country.

Senator HEINZ. Yet you decided to go ahead with the meeting anyway?

Mr. MOORE. Yes, I did.

Senator HEINZ. In spite of the fact that there was someone at the meeting who had nothing to do, as I understand it, with airlines?

Mr. MOORE. Mr. Kummerfeld, to whom I think you're referring, is head of the companies in this country.

Senator HEINZ. My understanding is that he's president of News America Publishing, Inc. Now isn't it a little unusual to have a meeting to discuss an airline line of credit with somebody from a company called News America Publishing, Inc., sitting in on the meeting? That strikes me as a little uncommon.

Mr. MOORE. It didn't strike me at the time and only now have I even thought of that. I assumed, since he was the principal representative of Mr. Murdoch's companies in the United States, he was attending in that capacity along with Mr. Murdoch.

Senator HEINZ. Does Mr. Murdoch have some nonpublishing companies in the United States that you're aware of?

Mr. MOORE. Not that I'm aware of. I don't know.

Senator HEINZ. Then what difference does it make that he's head of the companies in the United States or not? If he's the head of his companies, he's the head of publishing companies, because as you just admitted, that's all he's got here. It strikes me as very odd that you would have that kind of a meeting.

Let me return to some other odd things. Now you indicated to me a moment ago that when you dined with Ambassador Alston that you did not discuss the Ansett Airlines interest in aircraft. Indeed, what you said is that you didn't know that Ansett Airlines was even interested in any aircraft—wasn't interested in Boeing aircraft. That's what the transcript will reveal I think if we read it back. Yet now that meal was on February 4. That's when it was, at the Metropolitan Club. It was the same day that Joe Califano was giving a speech, and yet on February 26 you say to the meeting of the Board of Directors and staff and I quote, "Boeing called me as soon as they had wind of it in January." So you did know of this in January, didn't you?

Mr. MOORE. I did know that there was a possibility, now apparently contrary to what Boeing had advised earlier, that they might consider an offer from Boeing.

Senator HEINZ. That's not what you said a few minutes ago. Why were you so anxious to make it appear that you didn't know anything about Boeing or Ansett when I was asking you about your meeting with Mr. Alston? Let the record show that you made a gesture of why.

Mr. MOORE. Yes; I apparently did know.

Senator HEINZ. Why didn't you speak? Did you discuss Boeing?

Mr. MOORE. We did not discuss Boeing.

Senator HEINZ. You did not?

Mr. MOORE. We did not.

Senator HEINZ. Let me try you one other time. At first you said you didn't discuss the New York primary and then you amended that to say, well, I don't think I discussed the New York primary. Why did you change your mind?

Mr. MOORE. It was a social evening, Senator. I really don't remember. I'm sure we discussed in general the President's prospects and that would have been natural. I just would doubt we discussed the particularity of any particular primary.

Senator HEINZ. In your opening statement you indicate that you didn't discuss the Eximbank Ansett loan with the President or anyone in the White House or the State Department or the Embassy in Canberra or any other Government agency. Did you discuss it with anybody who was active or associated with or directly or indirectly with the President's campaign committee?

Mr. MOORE. I did not.

Senator HEINZ. None of the political people outside the White House contacted you?

Mr. MOORE. No.

Senator HEINZ. You're very sure?

Mr. MOORE. Yes, sir.

CIRCUMSTANCES OF ANSETT LOAN

Senator HEINZ. That's what the record will show.

I would like to return to the circumstances of the loan and really take up somewhat where Senator Stevenson left off. How well do you know Jack Pierce, the treasurer of Boeing Aircraft?

Mr. MOORE. Very well.

Senator HEINZ. Over the past couple years Boeing has been your biggest customer, $3 million worth of credit authorized as $7.5 billion in export sales. How would you characterize the degree of access which Mr. Pierce has, say, in comparison with other exporters? That is to say, access to you?

Mr. MOORE. About the same. I am very open to any exporter in this country who's trying to make a sale.

Senator HEINZ. Is it not necessary to keep him at arm's length in order to avoid the conflict of interest engendered by being too close or friendly with one customer to the detriment of others?

Mr. MOORE. It's important to remain at arm's length and I do so.

Senator HEINZ. Well, judging from the success of Boeing over the past few years, Mr. Pierce would seem to be a superb bargainer who most likely knows every negotiating trick in the book.

My question is, given Mr. Pierce's reputation and given the fact that he was in the Ansett case combining with another businessman with a worldwide reputation for shrewdness, Rupert Murdoch, why did you take their characterization of the Airbus offer to Ansett as accurate and complete?

Mr. MOORE. I believe they would give correct information, but we also verified it, Senator.

Senator HEINZ. And you were warned by your own staff at the outset and your colleagues have admitted to the Banking Committee staff that the deadline ploy which was what occasioned the push, push, push that Senator Proxmire alluded to, is a well-known

negotiating strategy of exporters in dealing with the Bank. You have seen other exporters do that?

Mr. MOORE. Yes, sir.

Senator HEINZ. How come you fell for it this time?

Mr. MOORE. I don't think we fell for it. I think it was the fact.

Senator HEINZ. In spite of the 2-week delay that just materialized out of thin air?

Mr. MOORE. I would have been very surprised if they wouldn't grant an extension and I think they probably did grant an extension.

Senator HEINZ. Well, you said just a second ago that you were convinced there was a real deadline, and now you say you weren't surprised they extended the deadline.

Mr. MOORE. That's correct. We have to meet deadlines of that nature that are imposed or run the risk that the United States could lose the export.

Senator HEINZ. But with all due deference, what you just said, Mr. Moore, doesn't make any sense. You can't say there was a deadline but I wasn't surprised there wasn't. The fact is that the deadline disappeared as if on cue and somehow you believe that the deadline was real even though it turned out not to be.

Mr. MOORE. I did. If we had known it was not real on February 28 we probably would have deferred action, but on that day we thought it was real.

Senator HEINZ. One last question. You indicated a moment ago that you saw about the same amount or talked to Mr. Pierce about the same amount as anybody else. Mrs. Kahliff says that you hear from Jack Pierce every day. You hear from him—"We see Jack Pierce every day. Every day we hear from him." Is that a correct quote, Mrs. Kahliff?

Mrs. KAHLIFF. Yes, almost every day.

Senator HEINZ. Do you hear from anybody else that often?

Mr. MOORE. They don't come in that often with exports. We probably would if we had a customer who came as often as Boeing does.

Senator HEINZ. Given their volume of exports and utilization of Exim, it's not surprising that he's on your doorstep every day, but I think it strains my credibility for anybody to say that he's just an ordinary guy and we only see about as much of him as we see anybody else. He's here every day.

Mr. MOORE. I didn't say that, Senator. I said he has the same access any exporter has. Mr. Pierce is probably in the Bank more than anybody else, and I can assure you he's extremely shrewd in negotiating, and I assure you also that there's considerable resistance, particularly in the staff, because he might have some influence on the Board. I don't think he does and I think it's very much arm's length, but he's a very capable treasurer.

Mr. STINGEL. Senator Heinz, I would like to say that many of us see many U.S. exporters constantly about financing plans and they are really trying to win business and the better deal they can get out of Eximbank, the easier it is to sell their product. I think that's natural. I think the reason Boeing is successful is because they have good products to sell and they have been successful around

the world, and they do have an aggressive treasurer, there's no question about that.

Senator HEINZ. I'm not being critical of Pierce or Boeing and they should want to sell and try to get the best deal they can from you. It makes it easier. What I'm trying to establish, and I think we have established it, is how familiar the Bank has become with Mr. Pierce's negotiating tactics, and the answer is that you are very familiar with his tactics. You know he tries every trick in the book. He gives you the bum's rush. He gives you the fast shuffle. He gives you the low-interest-rate ploy, the rush, rush, rush, and it's not new, but it was on February 26.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevenson.

CONFIRMATION OF AIRBUS TERMS

Senator STEVENSON. Mr. Moore, were the terms of the Airbus offer confirmed by you as of February 26 by anybody other than representatives of Ansett, Boeing, and Mr. Duff?

Mr. MOORE. Mr. Duff was then our Deputy General Counsel and is now Vice President and our head negotiator in the consensus. I'm not sure I understood your including him in that statement.

Senator STEVENSON. I included representatives of Ansett, Boeing, and Mr. Duff. Did you receive any information from anybody else?

Mr. MOORE. Mr. Duff was acquiring information from representatives of Airbus.

Senator STEVENSON. I know. I asked you about you.

Mr. MOORE. Did I? I'm sorry.

Senator STEVENSON. You said you had confirmation of the Airbus deal.

Mr. MOORE. Now I understand, Senator. I did not personally have any except through Mr. Duff. That's right.

Senator STEVENSON. OK. Anybody after the 26th other than Mr. Duff?

Mr. MOORE. Mr. Stingel.

Senator STEVENSON. Mr. Stingel, when did you get your information and from whom?

Mr. STINGEL. I got my information after the fact just to verify it.

Senator STEVENSON. After the 26th?

Mr. STINGEL. Actually after the 28th on a recent visit to Airbus Industrie. That's why I say I'm familiar with the offer and that's why I again say there was never a dollar offer.

Senator STEVENSON. Now what did Airbus in Europe tell you at the time of that meeting? How many aircraft did they have a firm offer to finance on the 26th?

Mr. STINGEL. Four.

Senator STEVENSON. For how much in dollars roughly?

Mr. STINGEL. Approximately the $150 million. I have the figure but I don't have it with me.

Senator STEVENSON. And it was the mixed financing that we're familiar with?

Mr. STINGEL. That is correct.

Senator STEVENSON. And they confirmed to you there was no dollar offer of 9.5 percent or any other rate?

Mr. STINGEL. They confirmed there was no all-dollar offer. They confirmed a basket of currencies. They confirmed the deutsche mark 40-percent offer with the balance in cash.

Senator STEVENSON. Who was "they" at Airbus?

Mr. STINGEL. These are officials of Airbus.

Senator STEVENSON. I know, but can you give us their names or their positions?

Mr. STINGEL. I can't pronounce all their names, but the treasurer of Airbus and the treasurer of Acrospotiale, which is one of the parent companies in Airbus, 40 percent ownership in Airbus, and these were rather open meetings where we exchanged ideas on what we were doing on such things as spare parts, spare engines, and things of that kind, and I think this is the first time we have had such openness between us which I think is good for the future.

Senator STEVENSON. Do you remember the dates of those meetings?

Mr. STINGEL. They were 2 weeks ago—2½ weeks ago approximately, and this is a visit that I had scheduled in mid-January before I ever heard of the Ansett case. We were trying to find some way to reduce the amount of cover and to raise interest rates on our loans on aircraft to spread our funds, in other words, and one way possibly to do it was to meet with the competition and see if we could work out some arrangement with them.

Senator STEVENSON. Now the fact remains that the Bank had not taken as of the 26th its customary steps to determine what the competition was, and in this case the proposal was for financing of some $656 million for 25 aircraft and spare parts and so forth to match about $160 million for four aircraft and no spare parts with some uncertainty still about all of the terms, including whether there was an all-dollar offer made by Airbus.

Now I just want to say for the record that this in my experience, which goes back quite a few years now, is extraordinary. It's most unfortunate and I hope that nobody gets the impression that this is the way this Bank operates. It has operated on a most professional, businesslike basis as far as I, as one of its Senate overseers, can tell, and has for many years. This case is unlike anything I have experienced or heard about before, and I hope that the public is not only left with the correct impression but that the Bank will be even stronger and wiser for this regrettable experience.

Now the episode is made more regrettable in my way of thinking because of the cost of this proposal. That raises more questions. I don't recall ever such a deep subsidy for an exporter. To compute the subsidy you have to compute the cost of borrowing as well as the interest rate on the loan. The interest rate here was 8 percent. In March, the Bank was borrowing over $800 million, as I recall, at a rate of around 13 percent. That must be the highest cost of borrowing this Bank has ever experienced, isn't it?

Mr. MOORE. It is, Senator Stevenson. It was 13 percent. It was $800 million.

Senator STEVENSON. Has any other borrower in any other transaction ever enjoyed such a large subsidy as that spread between 8 and 13 percent, about 5 percent it represents?

Mr. MOORE. Many, Senator. For example, we did two power stations in South Korea at the end of last year at 8 percent interest and it was $1.1 billion.

Senator STEVENSON. But how much was the cost of borrowing to the Bank at that time?

Mr. MOORE. Well, our statute directs us to examine the cost of borrowing across our asset portfolio and that cost was and is around 7 percent.

Senator STEVENSON. The Bank has always bragged about making money. It's been pretty proud about its profits on these transactions. The spread on this one was 5 percent loss.

Mr. MOORE. Senator, we will fund this loan, if it's eventually taken, over the next 2 years and it's impossible to know now at exactly what cost. I'm glad to say if we were borrowing today we would be borrowing somewhere around 9.5 or 10 percent.

Senator STEVENSON. The rates have come down since the time you made the transaction.

Mr. MOORE. We had a prediction that it would be slightly higher. We thought it would be about 13.25 percent.

Senator STEVENSON. That makes it even worse.

Mr. MOORE. It is very tough to borrow money at 13 percent, I agree.

Senator STEVENSON. Do you in the normal course of business in Board meetings when considering such loan commitments as this consider the cost to the Treasury?

Mr. MOORE. Yes; we consider three different rates, Senator. Our statute requires us to look at the 7-percent rate now. We also consider the rate which is the average cost across our borrowed portfolio which is 8.7 percent at this point in time, and we also consider the marginal cost of borrowing which is 13 percent based on our experience during this quarter.

Senator STEVENSON. Was there discussion of the subsidy at the February 26 meeting?

Mr. MOORE. There was not. We discuss interest rates in general about every 3 months.

Senator STEVENSON. I suggest you discuss them on individual transactions too, at least where they have such large subsidies as this one did. We have an estimate of the cost done by CRS (Congressional Research Service). Maybe, Mr. Chairman, that ought to be entered in the record.

The CHAIRMAN. Without objection, it will be entered in the record.

[The information follows:]

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

May 6, 1980

TO : Senate Banking/Housing/Urban Affairs Committee
Attention: Bruce Freed

FROM : Dick K. Nanto
Analyst in International Trade and Finance
Economics Division

SUBJECT: Value of Exim Bank Concessions to Ansett

The followings is provided in response to your request of April 29, 1980 to provide assistance in computing the value of the Export-Import Bank's special package of concessions to Ansett Transport Industries Proprietary Limited (Ansett) for the purchase of airplanes from the Boeing Company.

The enclosed table shows the semi-annual payments with and without the special concessions package assuming a 13 percent market rate of interest, a 4.5-year repayment period for the loan guaranteed by the Exim Bank, and that all repayments begin at the same time. 1/

An alternative method of computation that will produce the same results is to determine the present value of the savings to Ansett resulting from the Exim Bank's lower interest rate on just the additional amount of the total cost directly financed by the Bank.

The table shows that the special package of concessions to Ansett is worth $910,673 for the four 727's and $2,398,821 for the nine 737's for a total of $3,309,494.

If you have additional questions, please feel free to contact me or George Holliday at 287-7300.

1/ Normally under Exim Bank funding, repayments begin six months after delivery of the products. The Exim Bank also will often agree to be repaid from the later installments. If the latter is the case, the present value of the concessions will be larger.

CRS-2

PAYMENT SCHEDULE AND VALUE OF SPECIAL CONCESSION PACKAGE FOR ANSETT LOANS FROM THE EXPORT-IMPORT BANK

I. For 4 Boeing 727's
Total Cost of U.S. Goods and Services: $69,100,000
To be paid as follows:

Number of Semi-Annual Payments	(A) Payments With Special Concession	(B) Payments Without Special Concessions	Difference (A-B)
Cash	$10,365,000.00	$10,365,000.00	$ 0
9	6,218,143.80	6,609,056.80	-390,913.00
11	2,584,637.00	2,196,941.40	387,695.60
		PRESENT VALUE OF DIFFERENCE:	$ -910,673.00

II. For 9 Boeing 737's
Total Cost of U.S. Goods and Services: $137,220,000
To be paid as follows:

Number of Semi-Annual Payments	(A) Payments With Special Concession	(B) Payments Without Special Concessions	Difference (A-B)
Cash	$20,583,000.00	$20,583,000.00	$ 0
9	12,309,169.80	12,803,844.20	-494,674.40
5	7,155,254.10	7,649,928.50	-494,674.40
6	4,110,603.60	3,082,952.70	1,027,650.90
		PRESENT VALUE OF DIFFERENCE:	-2,398,821.00
		TOTAL PRESENT VALUE OF DIFFERENCE:	$-3,309,494.00

Note: The present value calculations assume a discount rate of 13 percent.

mls

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

May 8, 1980

TO : Senate Banking/Housing/Urban Affairs Committee
Attention: Mr. Bruce Freed

FROM : Dick K. Nanto
Analyst in International Trade and Finance
Economics Division

SUBJECT : Implicit Rate of Interest on Exim Bank Loan to Ansett

The following is provided in response to your telephone request of May 8, 1980.

If the additional concessions (sweetener) to Ansett on the purchase of the four Boeing 727s and the nine Boeing 737s are considered to be a reduction in the interest rate on the five Boeing 767s, the implicit interest rate on the five Boeing 767s becomes 7.75 percent instead of 8.0 percent.

The calculations were done as follows. The 8.0 percent loan for $236,020,833 was amortized over 20 semi-annual payments. Each payment of $17,366,826 was reduced or increased by the difference in the payments on the other two loans due to the additional concessions as calculated in my letter to you dated May 6, 1980 (Subject: Value of Exim Bank Concessions to Ansett). The implicit rate of return was then computed using the method normally employed in determining the internal rate of return in investment analysis.

If you have further questions, feel free to contact me at 287-7749.

CRS-2

Technical Note

Calculation of Implicit Rate of Interest on Exim Bank Loan to Ansett

r = implicit rate of interest

Solve F(r) for r

$$F(r) = \sum_{i=1}^{9} 16{,}481{,}238.60 / (1+r/2)^{i} + \sum_{i=10}^{14} 17{,}259{,}847.20 / (1+r/2)^{i} + \sum_{i=15}^{20} 18{,}782{,}172.50 / (1+r/2)^{i} - 236{,}020{,}833 = 0$$

At r = .077543, F(r) = 924.0

At r = .077544, F(r) = 157.6

Senator STEVENSON. Thank you.

AIR INDUSTRY RECEIVES HALF OF BANKS RESOURCES

Now I guess my last question is why, as it turns out, with so little preparation which, if it had been done properly, would have disclosed that the competition was offering $150 million or $160 million for four aircraft, with money as expensive as it was and the cost of subsidy as deep as it was—why did this case even come before the Bank? You say that there had been no conversations to confirm the foreign competing offer. You have acknowledged that the air industry gets over 50 percent of the Bank's resources to support its exports. There are many other companies, other industries, that are pleading for Eximbank support. You're running out of money.

All that being the case, what is the explanation for this proposal to the board if it's not political? I mean, even with the benefit of hindsight you find it hard to suggest that Boeing would have lost this deal. How can this financing be justified, when so many other exporters who don't enjoy 50 percent of Exim's largesse are quite willing to obtain loans from Exim on terms that are more favorable to the taxpayer? Why was this put to the Board? There must be some explanation that has not come before the committee.

Mr. MOORE. Senator Stevenson, we had before the Board the copy of the final Airbus offer. We did have the information and it was confirmed.

Senator STEVENSON. That was $150 million or $160 million for four aircraft.

Mr. MOORE. That is correct.

Senator STEVENSON. You're proposing $656 million for 25 aircraft?

Mr. MOORE. No, we wound up proposing $200 million.

Senator STEVENSON. I'm talking about the 26th. That's when this came to the Board.

Mr. MOORE. It was a request for Board guidance, Senator Stevenson. Nobody suggested covering the whole thing.

Senator STEVENSON. Usually the staff makes a recommendation for the guidance. There was no recommendation in this case because it smelled. That's the reason.

Mr. MOORE. I don't believe that.

Senator STEVENSON. What was the reaction of the Treasury staff? Similar?

Mr. MOORE. That the rate was low, yes, sir; and it was.

Senator STEVENSON. And the preference for the aircraft industry was improper too.

Mr. MOORE. I don't believe that's correct, Senator, as we will be discussing tomorrow. The support given the aircraft sector is less than all other sectors in the U.S. industry if you look at the amount of cover because we do have one sector where there are some planes that don't have competition abroad and we can therefore give reduced cover, as we did in the 727 and 737 portions of this package.

Senator STEVENSON. Well, Mr. Chairman, I'm not going to prolong this. I'm very greatly disappointed and disturbed. Among other things, apparently there was no consideration given to the effect this transaction would have on the negotiations which start today in Paris for the purpose of reducing interest rate competition in export credits. Here we were escalating them.

Was there any consideration given to that?

Mr. MOORE. There certainly was and I don't regard——

Senator STEVENSON. At the Board meeting?

Mr. MOORE. We didn't discuss it at the Board meeting, but it was within that context. We never try to do anything more than match, and we tried to do that.

Senator STEVENSON. This was a lot more than matching.

Mr. MOORE. Not in the judgment of the Board of the Eximbank.

Senator STEVENSON. In the judgment of the two other members there on the 26th, it raised enough questions to get the whole thing postponed at which time it was scaled back almost 50 percent.

Mr. MOORE. It had been scaled back during the course of that meeting and that was the basis on which we all three agreed to refer the case to the NAC.

Senator STEVENSON. It sounds a little like the coroner's jury, Mr. Chairman, which pondered for days and days the cause of death and finally its verdict reported that the cause of death was an act of God under mysterious circumstances.

The CHAIRMAN. Mr. Moore, I share Senator Stevenson's concern from a little different angle. I have been a critic of the Eximbank as you know. I have not been an enthusiastic supporter, as Senator Stevenson and Senator Heinz, but I can see that the Bank has operated very efficiently and without political favoritism or pressure and it's been an institution of which you can justifiably be proud. But I do think in this case the evidence is pretty solid that there was push, push, push, as I say, hurry up. Other Board members were not as fully informed as they were under normal circum-

stances. The Treasury and the Exim staff were both critical of this matter.

The concessions were concessionary terms in interest rate and coverage was exceptional—very exceptional. All of these things were unique. It was also unique in that this was the only case I know of in which there appeared to be this kind of a Presidential interest and Presidential stake and a Presidential—I won't say payoff—but a Presidential reward that seemed to be there.

Mr. Moore, you and Ambassador Alston were partners in the same law firm in Atlanta?

Mr. MOORE. Yes, sir.

The CHAIRMAN. You were both active in the Carter campaign in 1976 and you both came in with the Carter administration. You're obviously old friends and used to working together.

Will you give us the details of your relationship with Mr. Alston?

Mr. MOORE. Yes, sir. I went to Atlanta in 1956 and became an associate in the law firm of which he was a principal partner and really trained through the years working with him. He's a superb lawyer and we have been close for the 20 years that I practiced law in his law firm. I subsequently was a partner in the firm.

I think very, very highly of Ambassador Alston.

DISCUSSIONS CONCERNING LOAN

The CHAIRMAN. Can you tell us any discussions you had with Mr. Alston concerning Mr. Murdoch, Ansett, the Ansett loan application?

Mr. MOORE. Yes. He called me on Monday morning, Australia time, just before the first Board meeting. It came in, of course, to Washington on Sunday evening and we spoke about the case. He had met with the Boeing sales representative, I believe, who was in Australia and was calling to emphasize the importance of the date of the option expiring and inquiring whether we would be able to meet the time schedule. I said I thought we would, that there were serious questions in the case concerning interest and I didn't believe we would be able to meet the request of Ansett Airlines all the way on interest, but that I would call him after the Board meetings were over on Thursday to let him know the outcome, and I did that.

The CHAIRMAN. Did you discuss the Carter reelection effort?

Mr. MOORE. No, sir.

The CHAIRMAN. Did you discuss any role Mr. Murdoch would play?

Mr. MOORE. No.

The CHAIRMAN. You had dinner, as was referred to before, at the Metropolitan Club on February 4 with Ambassador Alston, Richard Beatty, a former law partner, and your wives. Did you discuss with Mr. Alston the Presidential campaign at that time?

Mr. MOORE. As I indicated to Senator Heinz, I think we did. I do not specifically recall, Senator.

The CHAIRMAN. Did you discuss Mr. Murdoch?

Mr. MOORE. We did not discuss Mr. Murdoch.

The CHAIRMAN. Did you discuss Ansett at that point?

Mr. MOORE. No, sir.

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The CHAIRMAN. Have you had any discussion concerning Mr. Murdoch or the Exim Board to consider the Ansett loan request on February 28 with Mr. Strauss?

Mr. MOORE. No, sir.

The CHAIRMAN. None?

Mr. MOORE. None.

The CHAIRMAN. Mr. Strauss played no part in this at all as far as you know?

Mr. MOORE. Not as far as I know.

The CHAIRMAN. All right. With Tim Kraft?

Mr. MOORE. No, sir.

The CHAIRMAN. He set up the February 19 lunch, did he not?

Mr. MOORE. I don't know myself.

The CHAIRMAN. With Joel McCleary or Gerald Rafshoon?

Mr. MOORE. No, sir.

The CHAIRMAN. I understand they had dinner with Mr. Murdoch in June of 1979. Did you discuss this with President Carter?

Mr. MOORE. No, sir.

The CHAIRMAN. Or anybody else in the White House?

Mr. MOORE. No, sir. Excuse me. The White House counsel called me Thursday afternoon and sent an associate over to talk to us about this hearing.

The CHAIRMAN. Did you have any discussions with anybody concerning possible support of President Carter by the New York Post and the newspaper in San Antonio, Tex. owned by Mr. Murdoch before or after the Bank decided the Ansett loan request?

Mr. MOORE. I did not.

The CHAIRMAN. None?

Mr. MOORE. None.

The CHAIRMAN. Was there any implicit or explicit understanding with Mr. Murdoch about the Ansett loan application with Exim and the New York Post endorsement of President Carter?

Mr. MOORE. Not known to me, Senator.

The CHAIRMAN. What was not known to you?

Mr. MOORE. If it existed, it was not known to me. I don't know what Mr. Murdoch thought, but I know I had nothing to do with that.

The CHAIRMAN. Did you talk about that with Mr. Murdoch's representatives?

Mr. MOORE. No, sir.

The CHAIRMAN. Or anybody else?

Mr. MOORE. No, sir.

The CHAIRMAN. Mr. Moore, the Treasury Department memo on the Ansett loan charges that "the Bank will be giving our hopes for a common line on aircraft"—I read that, but I have a question—"financing short shrift if they offer an 8-percent interest for the B-767's." The 8-percent interest rate might make some sense if it was intended as a signal to the Europeans of U.S. toughness to end predatory export financing.

Now there's no indication in the transcripts of the February 26 and February 28 Board meetings or in any Bank documents on the loan that the Ansett loan interest rate was intended to spur the Europeans in negotiate common financing terms with the United States.

Did you realize the foreign policy implications of the 8-percent interest rate on the Ansett loan?

Mr. MOORE. Relative to the Airbus consortium you mean, Senator?

The CHAIRMAN. Well, yes. Of course, when you make an 8-percent interest loan of this kind, which as you conceded is the lowest you had made in this kind of financing, it obviously has foreign policy implications because other countries would be inclined to engage in the same kind of what they might regard as predatory financing.

Mr. MOORE. I do not believe this case involved that because from the analysis of the way we look at these credits, it was a 9.3 percent credit. I don't believe it would have that effect and that's the way it seemed to us at the time.

The CHAIRMAN. Do you consider financing terms in a vacuum without any reference to how other exporting countries will construe U.S. actions?

Mr. MOORE. Certainly, but we didn't discuss it in the meeting.

The CHAIRMAN. You say you do not consider them in a vacuum. You consider the effects this will have?

Mr. MOORE. Certainly, and I do not think that the offer made here had any effect at all in causing any exacerbation of the credit race, if that's what we have at this point, because I think it was totally consistent with the Airbus offer.

The CHAIRMAN. Does the Bank have the resources to continue to try to end this expensive competition in subsidized loans by bettering any other interest rate offered by other countries?

Mr. MOORE. Yes, we have the resources to do that. We don't have the resources presently under the continuing resolution to do it much longer this year because we can't authorize final credits.

The CHAIRMAN. Isn't it true that Eximbank made no effort in evaluating and deciding the Ansett loan request to look at the price Boeing was charging for its 767's, 737's and 727's to determine whether Boeing could make some price or other competitive adjustment that would give Ansett incentives to buy Boeing without requiring the Bank to increase its subsidies?

Mr. MOORE. I think that's substantially correct, as in all our cases, although we have our cases reviewed by the engineers to see as best they can see that the price is within a normal range.

The CHAIRMAN. But you made no effort to determine whether or not Boeing could make a concession?

Mr. MOORE. We did not in this case; that is correct.

The CHAIRMAN. Why not?

Mr. MOORE. It just had not been done. Since March 7, Senator, we have begun that kind of program and Boeing has participated in at least one package since that time.

The CHAIRMAN. Now in this deal Boeing was in a position to hike its price by $2 to $5 million because of the low-interest loan offered by the Bank. Did you look at Boeings books to see whether the 727's, 737's, or 767's could have been shaved to make the sale?

Mr. MOORE. No.

The CHAIRMAN. Your answer is, no, you did not?

Mr. MOORE. No. I don't believe they are in a position to raise their price, Senator, because I think they already had quoted it at the time we were considering the case.

LETTER OF INTEREST

The CHAIRMAN. After the Exim Board's February 28 meeting, a letter of interest was drafted to Ansett concerning the financing terms Exim would offer on the purchase of Boeing 767's beyond the initial five Ansett planned to purchase. The Board's decision at the February 28 meeting was to limit the 8-percent interest rate to the five Boeing 767s; right?

Mr. MOORE. Correct.

The CHAIRMAN. However, the committee has been told that a letter of interest was in fact drafted to tie the Exim financing on the additional Boeing 767's purchases to the financing offered by Airbus Industrie to TAA for additional Airbuses. Now that differed significantly from the March 17 letter of interest that was sent to Boeing and Ansett and that the Bank gave the committee.

The committee has learned that the original letter was not the Bank's usual letter of interest which only commits the Bank to give favorable consideration to financing additional sales.

Mr. Moore, why was a letter of interest prepared that differed from the Bank's usual commitment and differed from the Board's understanding?

Mr. MOORE. Senator, I'm really not in a position to respond to your question. I was out of the country at the time that letter was drafted.

The CHAIRMAN. Who instructed the letter to be drafted in your absence?

Mr. MOORE. The staff, I imagine. We discussed having a letter of interest outstanding at the Board meeting and in subsequent days there were discussions, including me and others, as to what we would say because we were very anxious not to say any more than Airbus was willing to say at the time, and I think we did not.

The CHAIRMAN. Isn't it unusual that a letter of interest is drafted that contradicts the Board's decision?

Mr. MOORE. I don't believe it did.

The CHAIRMAN. Why was the original letter changed after Mr. de Saint Phalle happened to see it and realized things were amiss?

Mr. MOORE. I don't have personal knowledge of those matters. Perhaps Mr. de Saint Phalle could comment on it.

The CHAIRMAN. Mr. de Saint Phalle?

Mr. DE SAINT PHALLE. When the Chairman was away, and the Vice Chairman also happened to be away, and we first had the press starting to ask questions, I thought it would be appropriate that one person be up to date on exactly what the status of the case was and I took it upon myself to do so with the clearance of the Vice Chairman. I asked to see all of the copies and went over them with Mr. Glick and with Mrs. Kahliff, and we noticed that at least it seemed to me that the proposed letter of interest went beyond what our normal letter of interest would be and I asked Mr. Glick if it was permissible to change it to our normal letter and he said, yes. I asked Mrs. Kahliff whether she was in accord

and we did make that change to the effect that we would simply consider the matter.

The CHAIRMAN. Why did it go beyond your usual position?

Mr. DE SAINT PHALLE. Well, it seemed to me to be a commitment to match not only Airbus' financing to Ansett for additional options, but also Airbus offers to TAA, and that seemed to represent a commitment rather than simply a statement that we would consider the matter if we were asked to.

FINANCING OF ADDITIONAL AIRCRAFT AT 8 PERCENT REFUSED

The CHAIRMAN. Well, I have one final question, Mr. Moore. The Exim Board refused to approve at its February 28 meeting a commitment by the Bank to finance additional Boeing aircraft purchased by Ansett at the 8-percent rate. Instead, it limited the preliminary commitment to five Boeing 767 aircraft. The Board also approved a letter of interest to Boeing and Ansett in which it said that the Bank was interested in financing the sale of seven additional Boeing 767's to Ansett and "would consider the financing offers which Airbus Industries make to Ansett or Trans Australian Airlines for Airbus aircraft" in setting its terms.

The committee has learned that Ansett was told orally at your instructions that the Bank recognized a moral commitment to match Airbus financing offers to TAA or Ansett on the sale of additional Airbuses in the financing it offered on additional Boeing 767's.

Now why did you decide, apparently on your initiative, to make a commitment on behalf of Exim which clearly went beyond the commitment agreed upon by the Board and included in Exim's March 17 letter of interest?

Mr. MOORE. I made no commitment beyond what was said in the letter of interest. I simply was seeking to say that Exim in terms of the degree of support did not want to exceed what Airbus was doing. If Airbus gave a written commitment now, we would do so. Airbus did not do so and we were able to do so in that form as described.

The CHAIRMAN. Why wasn't this moral commitment included in the March 17 letter of interest, because it hadn't been or wouldn't have been approved by the Board?

Mr. MOORE. There is no moral commitment other than to consider, as we say in the letter of interest, all the facts that are relevant at the time if there is an offer subsequently.

The CHAIRMAN. Why wasn't the matter discussed with other Directors of the Bank? Why weren't they asked to approve that action?

Mr. MOORE. They were. Mr. de Saint Phalle participated in drafting of the letter of interest.

The CHAIRMAN. Did you take part, Mr. de Saint Phalle?

Mr. DE SAINT PHALLE. No, sir. I saw the letter of interest when it was already prepared and it was at that time that I thought it went beyond what had been said at the February 28 Board meeting and that's when I talked to Mrs. Kahliff and Mr. Glick.

I don't know who drew up that letter, the draft of which we thought needed to be changed, and I don't know the circumstances behind it.

The CHAIRMAN. Why did you insist on tying the additional financing to the 767's to the Airbus offer?

Mr. MOORE. I'm not sure I understand your question. What is the tying to which you refer, Senator?

The CHAIRMAN. Well, you said you would make every effort to match but not better the Airbus offer.

Mr. MOORE. Yes. Why did we tie it to the Airbus competition?

The CHAIRMAN. Right.

Mr. MOORE. Because that is the competition.

The CHAIRMAN. Well, the point is, you're letting Airbus set the terms instead of determining them on your own.

Mr. MOORE. That has been a constant frustration to us, Senator, I agree, in this case and just about every other Airbus case.

The CHAIRMAN. Senator Heinz.

PRIVATE ASSURANCES

Senator HEINZ. As I understand the discussion you just had, Mr. Moore, with the Chairman, am I correct that you did instruct your assistant, Mr. Peacock, to provide private assurances to Rupert Murdoch that went beyond the Exim Board's official decision?

Mr. MOORE. I don't believe it went beyond, Senator Heinz. On the day following the second Board meeting I was in New Orleans and was reached by Mr. Pierce on the telephone and I think I talked to staff, but I'm not sure of that, and the main thing we were trying to do at that point was to determine the degree of support that Airbus was offering for the additional eight planes over the four that we knew they had a firm offer on.

My only instructions were that we try to stay exactly even with the Airbus offer and not do anything more and it looked at this point as if they were only going to stay with a letter of interest and I think they did, so that was all we did.

Senator HEINZ. But is it not true that Mr. Peacock did telephone Mr. Murdoch and execute your instructions, which as I understand it, was to say that the Board had a moral commitment on additional aircraft purchases to match Airbus?

Mr. MOORE. From what I have seen subsequently, it wasn't necessary for Mr. Peacock to call him again because he had already talked to Mr. Murdoch before the conversation I had with Mr. Houston.

Senator HEINZ. It may not have been necessary, but that wasn't my question. Didn't you ask him to do it?

Mr. MOORE. No, sir. I didn't talk to Mr. Peacock.

Senator HEINZ. So Mr. Peacock didn't call Mr. Murdoch?

Mr. MOORE. My information is that he did not call after my telephone call, that he had already told Mr. Murdoch that Exim would match Airbus but not exceed Airbus, so it wasn't necessary to call again, but——

Senator HEINZ. But didn't he do so when he did that at your instruction?

Mr. MOORE. At the instruction of the Board, yes; not mine.

Senator HEINZ. The Board said they didn't instruct that.

Mr. MOORE. The Board instructed a letter of interest which would tie into what Airbus would offer in the future.

Senator HEINZ. Yes, but what you have just said is that Mr. Peacock, acting on your instructions, telephoned to say that there was a moral commitment to match future Airbus offers and the Board says they didn't instruct any moral commitment to be made. Who's right?

Mr. MOORE. I did not understand Mr. Peacock made any telephone call based on my instructions or discussion with Mr. Houston later the same day.

Senator HEINZ. Is Mr. Peacock here?

Mr. PEACOCK. Yes, sir.

Senator HEINZ. You have heard the discussion. Were you or were you not asked to make such a phone call and what were you asked to do?

Mr. PEACOCK. I think, Senator Heinz, the context of this is that we were all spending a good deal of time debating exactly how many Airbuses were being financed and when I called Mr. Murdoch to describe the Eximbank offer we quickly got down to his main problem, which was that if he went Boeing and he considered this a watershed decision as to going Boeing or going Airbus, and bought first Boeing planes, what could he count upon when he bought the next ones; I described our letter of interest as of no help to him, that it was drafted by good lawyers not to have a commitment in it.

But we were—and this is the context that I'm trying to bring in—we were—or at least I was expecting at that time that he would then go back to Airbus and get an additional offer, and I was telling him that I thought the Board was receptive to staying even with Airbus as to genuine offers of financing.

Senator HEINZ. So you told him you thought the Board would be receptive to that. Was that something that you decided upon all by yourself? Was that your own personal opinion or was that Mr. Moore's opinion, or how did he communicate it to you?

Mr. PEACOCK. That was my understanding from Mr. Moore.

Senator HEINZ. At no time did Mr. Moore indicate to you that the Board felt that way?

Mr. PEACOCK. Mr. Moore was talking to me about it and what I should tell Mr. Murdoch.

Senator HEINZ. Well, then, Mr. Moore said that you could say what you said, didn't he?

Mr. PEACOCK. Yes, sir. That was my understanding.

Senator HEINZ. That was my question. So Mr. Moore did, in fact, instruct you to make those representations on behalf of the Board. The Board says they didn't instruct Mr. Moore to do that.

Now, Mr. Moore, you've got a problem.

Mr. MOORE. I'm sorry, I don't see it, Senator.

Senator HEINZ. If you don't see it, Mr. Moore, you shouldn't be Chairman of the Bank.

Mr. MOORE. Our entire effort was to avoid giving anything to Ansett that exceeded the nature of the offer from Airbus at that time. Our way to head that off was to say we were not going to do any more than Airbus would offer, but we wouldn't do less; and I think Mr. Peacock is talking about a meeting we had subsequent to the Board meeting on that Thursday. He was telling you about an event the following day. We did meet to summarize and to decide

what the Board had done at the meeting and it was following that discussion; that is correct.

Senator HEINZ. Mr. Chairman, I think the record is pretty clear and pretty disturbing. Thank you.

The CHAIRMAN. Thank you, Senator Heinz.

Mrs. KAHLIFF. May I make one statement that doesn't seem to have been asked?

First, in relation to aircraft, we do give the same terms to many, many manufacturing firms that are competitive. They may not be the same thing we give aircraft, but they are as competitive as their competition is but they don't win the cases as much as the aircraft industry does, which is disturbing to me as a manufacturer that manufactured goods. They do not convert their preliminary commitments to direct loans as much.

I don't want to leave the impression that all we are interested in at Exim is aircraft because we do give as competitive terms as we can for other sectors. They simply do not get the business.

Another thing I'd like to clarify is that we have on some occasions had a rush-up meeting. We had one one night at 5:30 in order to help a construction company in Iran. Of course, now we're glad we didn't get it, but we tried awfully hard. And once in a while we do have a meeting where it's very frustrating because the exporter sets the deadline—and this man was over in Iran and said the deadline will be midnight your time and I have to go with that package and I wonder if you could help me improve it, and we did.

So it isn't that we never did this before and it isn't that we favor aircraft. It's just that they are pretty good at winning the business.

The CHAIRMAN. Well, that last observation is certainly a very appropriate and correct one. It's one of the reasons why we want to get into this tomorrow and we will tomorrow.

I want to say, Mr. Moore, you're a very cool, calm, and collected witness. You're a very impressive witness, but I do think, as I pointed out and Senator Stevenson and Senator Heinz have, there does seem to be a serious problem here and this does raise very disturbing questions about the Bank.

Thank you very, very much for your testimony.

We have a statement from Senator Cranston, a member of the committee who is unable to attend the hearing because of a press of duties elsewhere.

The statement will go into the record at this point as though read.

[Statement follows:]

STATEMENT OF SENATOR ALAN CRANSTON

Senator CRANSTON. Mr. Chairman, while our current hearings on Export-Import Bank practices have focused largely on one specific funding decision, I wish to address for a moment this morning the general mission of the Bank.

I strongly support the objectives of the Eximbank. I believe the Bank's programs to promote aggressive American exports are absolutely essential to our efforts to reduce our trade deficit, combat, unemployment and strengthen the American dollar. By and large, I believe the Bank is successful in pursuing these goals.

I have been concerned in recent months, however, by the reluctance of Bank officials to address forthrightly their urgent need for more funding. I understand that the Bank has nearly exhausted its funds for fiscal year 1980, even though nearly 5 months remain in the fiscal year. We need a much greater commitment of funds to the Bank if we are to make more progress towards restoring our trade balance. To cut the Exim budget at this time, instead of providing for real increases, is only to shoot ourselves in the foot.

We also need to be more aggessive in meeting foreign competition. The British and the Japanese support 35 percent of their export volume with Government credits and loan guarantees. But the U.S. Government supports only 6 percent of our total exports. And these financing offers are all-too-often not competitive.

In the face of stiff international competition, I believe it is especially important for the United States to meet the challenges posed by foreign aircraft manufacturers. The international aerospace industry is currently enjoying surging demand for a new generation of aircraft. Those firms which now gain orders for new aircraft lines serve to benefit throughout the next two decades. Sales that American firms win in the months ahead—with the crucial help of Exim financing—will pay off for many, many years in the form of additional sales for parts, servicing, and replacement aircraft.

I support legislation to help meet foreign competition, such as the Competitive Export Financing Act, S. 2339. And I am supporting legislation to increase export opportunities, such as S. 2340, the Export Expansion Facility Amendments and the Export Trading Companies Act.

I have also pushed hard—and will continue to push hard—for additional Bank funding both in fiscal year 1980 and 1981. I also urge strongly that the Bank get moving on trade with the People's Republic of China. Here again in China, U.S. exporters are falling behind foreign competition in an important new market.

It is time—past time—for the Bank to get moving on China trade. And it is past time for the Bank to become a more effective advocate of increased direct loan authority within the councils of the executive branch.

The Bank has an important role to play in helping to finance American exports. I will continue to work in support of these programs. But I am hopeful that Bank management practices and funding priorities will also improve and thus improve the prospects for increased Bank funding.

Thank you, Mr. Chairman.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock tomorrow morning.

[Whereupon, at 12:55 p.m., the hearing was recessed, to be reconvened at 10 a.m., Tuesday, May 13, 1980.]

ANSETT LOAN AND EXPORT-IMPORT AIRCRAFT FINANCING POLICIES

TUESDAY, MAY 13, 1980

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Stevenson, Morgan, Riegle, Heinz, and Lugar.

The CHAIRMAN. The committee will come to order.

I take it that the oath-taking which was done yesterday will carry over until this session, so I don't think it's necessary to swear you again, but the understanding is that your testimony will be under oath as it was yesterday.

Senator RIEGLE. Mr. Chairman, before we start, unfortuately, I was unable to be here yesterday and I have a brief opening statement to make.

The CHAIRMAN. So do I. I can yield to you or you can yield to me.

Senator RIEGLE. I'll be happy either way.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. Yesterday the committee explored Eximbank's decision to give preliminary approval to a large and generous loan to Ansett Airlines. Today, we turn to Exim's aircraft financing policies.

This is a timely issue. During the first 7 months of fiscal 1980, the Bank has used almost one-half of its authorized lending limit to finance aircraft sales. In fiscal 1979, the Bank used almost 40 percent of its authorized lending limit for that purpose. This trend indicates that the Bank is becoming a credit agency for the U.S. aircraft industry.

Because of the Bank's belief that foreign governments are increasingly subsidizing export loans to win big orders, Exim is acting on the premise that it must respond in kind and aggressively use export financing to promote the sale of American goods overseas. Thus, the Bank has moved toward concessionary financing.

What concerns me is that Exim has failed to evaluate exporter pricing to assure that the U.S. exporter is doing all it can to make the sale before calling on Exim for assistance.

Only now, as Exim is bumping the lending ceiling with 5 months to go in the fiscal year, is it taking tentative steps to get exporters involved in providing financing.

It is ironic that the U.S. aircraft industry in general, and Boeing Aircraft in particular, has become a major beneficiary of Exim's generosity, for it is one of the few remaining sectors of the U.S. business that produces a quality product that is dominant in the international market. Through the end of April, Exim has authorized almost $1.3 billion in loans for aircraft sales for fiscal 1980 compared to $1.5 billion for all other sectors combined. In the last fiscal year, Exim authorized $1.4 billion in loans for aircraft and $2.3 billion for agricultural, communication, construction, electric power, manufacturing, and mining and refining sectors. Moreover, the Boeing Co., which is reporting record first quarter earnings for 1980, is the Bank's leading customer. Other aircraft manufacturers are large recipients of Eximbank credit.

In Exim's view, the aircraft industry needs this large share of support because of the buying spree in which the world's airlines are now engaged. Exim loans help U.S. aircraft manufacturers to get their fair share of the market.

Unfortunately, that argument ignores the important point that export financing is only one consideration when a foreign buyer decides whether to purchase a U.S.-made or a French- or British-made airplane. Equally important considerations are the technical excellence of the aircraft, its base price, its reliability and the type of followup service provided. The Ansett case examined yesterday indicates that Exim does not look at those factors when determining the degree of financing it has to provide to make a sale.

The effect on the Bank's financial position of Chairman Moore's policy of increased subsidy at a time of high interest rates is all too clear. The Bank's net earnings for fiscal 1980 are expected to drop by almost $51 million from fiscal 1979. The net earnings projection for fiscal 1980 is $108 million compared to $159 million for fiscal 1979. In addition, the negative spread between Exim's borrowings from the Treasury and the Federal Financing Bank and money Exim earns on the interest it charges has more than doubled over the past year and a half. By contrast, Boeing's profits last year were $139.8 million, up $31 million—much of that improvement courtesy of the U.S. taxpayer via the Eximbank.

The Bank needs to mend its ways and exercise fiscal and managerial restraint. One important way to do that is to recognize that subsidized loans represent only a limited aid to exports. Spending more money subsidizing exports is not going to sell goods that are inefficiently manufactured, uncompetitively priced or not of the highest quality. Furthermore, the Bank should reevaluate its sweetheart relationship with the aircraft industry. It is a waste of the taxpayers' money to subsidize companies such as Boeing that have strong earnings. The Ansett case should warn us of the wasteful consequences of overzealous export promotion.

I have a very disturbing letter from the former head of the Eximbank, a man who preceded you, Mr. Moore, Mr. Stephen DuBrul, Jr. It's a letter of such significance that I think I should read part of it into the record here. It was dated April 18, 1980. It said:

> The continuing deterioration in the financial condition and the conduct of the affairs of the Export-Import Bank of the United States should be a matter of great concern for all taxpayers.

As you know, in the name of "export promotion," Mr. John Moore has gone out of his way to be forthcoming with Eximbank credits at substantially below market rates. This is both morally and economically wrong and unsound.

From my reading of recent reports from the institution, their lending activity has been heavily skewed to aircraft. It is my impression that much of this activity has been conducted without carefully checking on the true competitive situation.

I have the distinct feeling, however, that now there is some legitimate reason for the French to complain that Eximbank's policies are predatory.

He said:

As you and I know, financing is only about 10 percent of the consideration in the aircraft fleet purchase. Boeing has been the successful recipient of the bulk of these aggressive Eximbank financings and, as you well know, it is achieving the highest profits in its history. Boeing always complained that Eximbank should do more in the way of subsidized financing—I dismissed this complaint. It would be more honest if they are in a competitive situation to have them reduce their price to meet foreign competition. You should have little sympathy for their circumstances.

In contrast to Boeing, McDonnell Douglas has tried to supplement financing for many years by way of a finance subsidiary. Boeing has not done the same, leaving such financing up to the Eximbank alone.

[Complete copy of the letter follows:]

STEPHEN M. DUBRUL, JR.
610 FIFTH AVENUE, SUITE 605
NEW YORK, NEW YORK 10020 (212) 586-0930

April 18, 1980

The Honorable William Proxmire
United States Senate
Washington, D.C. 20510

Dear Bill

The continuing deterioration in the financial condition and the conduct of the affiars of the Export-Import Bank of the United States should be a matter of great concern for all tax payers.

As you know, in the name of "export promotion", Mr. John Moore has gone out of his way to be forthcoming with Eximbank credits at substantially below market rates. This is both morally and economically wrong and unsound.

From my reading of recent reports from the institution, their lending activity has been heavily skewed to aircraft. It is my impression that much of this activity has been conducted without carefully checking on the true competitive situation - something that Eximbank took most seriously back in the 1976-77 period. During that period, it was the responsibility of the Policy Analysis staff to confirm with counterpart lending agencies the actual terms of official credit being offered. I think it would be constructive to have Mr. Moore document under oath that such procedures have been followed in each case of aircraft financing.

You may recall that back in the mid 70's we conducted a study of aircraft financing and concluded that the Airbus was an economically viable alternative to several medium-range aircraft offered by U.S. manufacturers. The French particularly commenced to engage in predatory financing practices which we met at the time. I have the distinct feeling, however, that now there is some legitimate reason for the French to complain that Eximbank's policies are predatory.

As you and I know, financing is only about 10% of the consideration in the aircraft fleet purchase. Boeing has been the successful recipient of the bulk of these aggressive Eximbank financings and, as you well know, it is achieving the highest profits in its history. Boeing always complained that Eximbank should do more in the way of subsidized financing - I dismissed this complaint. It would be more honest if they are in a competitive situation to have them reduce their price to meet foreign competition. You should have little sympathy for their circumstances.

In contrast to Boeing, McDonnell Douglas has tried to supplement financing for many years by way of a finance subsidiary. Boeing has not done the same, leaving such financing up to the Eximbank alone.

I wish you all measure of success in these up coming hearings which, in my opinion, are long overdue.

Best regards,

Stephen M. DuBrul, Jr.

The CHAIRMAN. Senator Stevenson.

Senator STEVENSON. Mr. Chairman, you have ably raised the issues that concern me this morning and I won't enlarge on them.

With your permission, I would like to read a statement on behalf of Senator Cranston who could not be here this morning:

Mr. Chairman, while our current hearings on Eximbank practices have focused largely on one specific funding issue, I wish to address for a moment this morning the general mission of the Bank.

I strongly support the objectives of the Eximbank. I believe the Bank's programs to promote aggressively American exports are absolutely essential to our efforts to reduce our trade deficit and unemployment and strengthen the American dollar. By and large, I believe the Bank is successful in pursuing these goals.

I have been concerned in recent months, however, by the reluctance of Bank officials to address forthrightly their urgent need for more funding. I understand that the Bank has nearly exhausted its funds for fiscal 1980 even though nearly five months remain in the fiscal year. We need a much greater commitment of funds to the Bank if we are to make more progress in restoring our trade balance. To cut the Exim budget at this time instead of providing increases is only to shoot ourselves in the foot. We also need to be more aggressive in meeting foreign competition. The British and Japanese support 35 percent of their export volume through government credits and loan guarantees, but the U.S. Government supports only 6 percent of our total exports. And these financing offers are all too often not competitive.

In the face of stiff international competition, I believe it's especially important for the U.S. to meet the challenge imposed by foreign aircraft manufacturers. The international aerospace industry is currently enjoying surging demand for a new generation of aircraft. Those firms which now gain orders for new aircraft lines serve to benefit throughout the next two decades. Sales to American firms in the months ahead with the crucial help of Exim financing will pay off for many, many years in the form of additional sales and parts servicing and replacement aircraft.

I support legislation to help meet foreign competition such as the Competitive Export Financing Act, S. 2339; and I supported legislation to increase export opportunities such as S. 2340, the Export Expansion Facility Amendments; and the Export Trading Companies Act. I have also pushed hard and will continue to push hard for additional Bank funding both in fiscal 1980 and fiscal 1981.

I also urge strongly that the Bank move with Treasury to help the People's Republic of China in competition in an important new market. It is past time for the Bank to get moving on China trade. It is past time for the Bank to become a more effective advocate of increased direct loan authority within the councils of the executive branch. The Bank has an important role to play in helping to finance American exports.

I will continue to work in support of these programs, but I'm hopeful that the Bank management practices and funding priorities will also improve and thus improve prospects for increased Bank funding."

The CHAIRMAN. Senator Riegle.

OPENING STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. Thank you, Mr. Chairman.

As I said earlier, unfortunately, I was not able to be here yesterday so my statement today, while it's relatively brief, is really an opening statement designed to address the whole spread of items both yesterday and today.

I am particularly interested in ascertaining the facts surrounding the loan made by the Eximbank to Ansett Airlines which is, of course, a company controlled by Mr. Murdoch, the publisher of the New York Post newspaper.

To my mind, there are two fundamental issues involved in this loan. First, whether the financing package offered Mr. Murdoch's company by the Eximbank should have required higher interest rates and, second, that Mr. Murdoch, as publisher of the New York Post, was deliberately given preferential treatment by the Government for political purposes.

I gather the first issue was discussed at considerable length at yesterday's hearing.

With regard to the second, I'm not aware of any hard evidence that has yet been uncovered that proves conclusively that the decision by the Bank to lend Ansett Airlines $200 million at a weighted average interest rate of 8.1 percent was necessarily politically motivated. Nonetheless, I'm troubled by the facts. In reviewing them, on the morning of February 19 Mr. Murdoch met privately with the Chairman of the Eximbank to submit a loan request on behalf of his company. Later the same day, Mr. Murdoch lunched privately at the White House with President Carter. Three days later, on February 22, the New York Post, Mr. Murdoch's paper, endorsed President Carter in the March New York primary. Nine days later, the Eximbank approved Mr. Murdoch's loan.

Questions that immediately come to any person's mind include: was the loan application properly reviewed? Did it go through ordinary channels? Was the interest rate the best from the point of view of the Government that could have been achieved under the circumstances? Could the loan have covered a smaller fraction of the purchase price and still have been competitive? What makes a businessman-publisher endorse a President while seeking a loan from the Government?

The mere fact that these questions would naturally arise in a person's mind in connection with this loan is ample reason to hold these hearings.

Mr. Chairman, I believe that governmental institutions such as the Eximbank should be sheltered and protected from even a semblance of political issues or abuse.

Finally, I believe when journalism and government get too close, both suffer and, in turn, democracy suffers. In this case, I believe Mr. Murdoch and Mr. Moore, President of the Eximbank, have not only raised fundamental questions regarding procedures of the Eximbank, but that Mr. Murdoch has also failed the printed press as we know it in this country. I think the credibility of political coverage in his newspaper, the New York Post, is undermined by the pattern of events that we see here.

I have a series of questions that are quite pointed that I'd like to get at when my turn comes later.

The CHAIRMAN. Thank you, Senator Riegle.

Mr. Moore, or any of you witnesses at the table, do you have any statement that you would like to make this morning before we begin?

Mr. MOORE. Yes, Mr. Chairman, I have a brief statement.

The CHAIRMAN. Very good.

STATEMENT OF JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK, ACCOMPANIED BY H. K. ALLEN, FIRST VICE PRESIDENT AND VICE CHAIRMAN; MARGARET W. KAHLIFF, DIRECTOR; DONALD E. STINGEL, DIRECTOR; THIBAUT DE SAINT PHALLE, DIRECTOR; WARREN GLICK, GENERAL COUNSEL; AND JAMES CRUSE

Mr. MOORE. Mr. Chairman and members of the committee, I'm glad to be here today to discuss Eximbank's export financing policies in general and to focus on the aircraft sector in particular. The broad policies and specific programs of Eximbank have historically been a reflection of the overall economic and financial environment within which the Bank operates. As that environment changes, so do Eximbank's policies and programs.

In the interest of time I will not dwell on the history included in my full statement which I ask to be included in the record.

The CHAIRMAN. Without objection, so ordered.

Mr. MOORE. Let me begin by briefly describing the current situation confronting the aerospace industry.

It is now on the brink of a second jet age, a period that is expected to result in a massive demand for a new generation of aircraft which will carry the industry into the next century.

There are two main reasons for this demand. First, stricter noise and pollution control regulations which will take effect at major airports by the mid-1980's will compel airlines either to retire 10-year-old airplanes in their fleets or retrofit their engines. In some cases, the older airplanes such as the DC-8's and Boeing 707's are simply wearing out anyway.

Second, with the tremendous increase in fuel cost prices doubled in 1979 alone—airlines must look for aircraft that will be more fuel efficient. At the same time, the Airbus has become a formidable competitor in both narrow- and wide-bodied medium-range aircraft.

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Airbus won over 55 percent of all medium-range orders in 1979 and as of March 1980 it had won sales of 497 aircraft—93 already delivered, firm orders for 257 more, and options for another 147.

In April 1979, we adopted a policy that geared our support to the degree of competition faced by a particular type of aircraft. Short-range and long-range aircraft were targeted for little Exim support, while a broadly defined medium-range category received significant credit support, an average of 65 percent.

As the 1980's begin, we foresee a continuing need for an aggressive U.S. export effort. At the same time, the U.S. Government will have to exercise budgetary constraints to maintain the fight against inflation.

We have held extensive discussions with exporters in general and with the aircraft industry in particular regarding Eximbank's export policies. At the present time we intend to keep available an adequate level of support to the broad spectrum of exporters while preserving the ability to provide highly competitive financing in appropriate sectors.

Thus, for most export transactions, we are providing an Eximbank loan of up to 65 percent at 8¾ percent interest. Where the competitive situation permits, we will provide a smaller percentage of loan. Coverage beyond 65 percent will depend upon the extent of foreign officially supported competition and the exporter's willingness to participate in 5 to 10 percent of the financing at an interest rate no greater than Eximbank's.

LOAN PROGRAMS FOR THE AIRCRAFT SECTOR

With regard to the aircraft sector, we would like to maintain a moderate level of support for all aircraft transactions, but provide greater support for aircraft which fall into a highly competitive category.

Thus, for narrow-bodied aircraft, short and medium-range, and long-range wide-bodied aircraft, we are considering programs ranging from making available only financial guarantees of 30 to 65 percent of U.S. costs to providing up to 30 percent direct loan support plus up to 35 percent financial guarantees as needed.

In contrast, for medium-range wide-bodied aircraft and new generation aircraft, we plan to provide direct loan support of up to 65 percent of U.S. costs at an interest rate of 9¼ percent.

Eximbank will also be prepared to increase its loan by 5 to 10 percent to match private financing provided at a rate equal to or less than Eximbank's interest rate.

Furthermore, as is true for all our programs, the actual extent of support offered by Eximbank will be determined on a case-by-case basis.

The policies which I have just presented are, I believe, appropriate to today's needs. We will be refining and evaluating them in order to remain sensitive to the constantly changing realities and demands of export financing.

Thank you, Mr. Chairman. I'm prepared and, of course, the members of the Board are prepared to answer any questions you or the other members have.

[Complete statement follows:]

Statement of the Honorable John L. Moore, Jr.
President and Chairman
Export-Import Bank of the United States
Before the
Committee on Banking, Housing and Urban Affairs
United States Senate

May 13, 1980

Mr. Chairman, I am glad to be here today to discuss Eximbank's export financing policies in general and to focus on the aircraft sector in particular. The broad policies and specific programs of Eximbank have historically been a reflection of the overall economic and financial environment within which the Bank operates. As that environment changes, so do Eximbank's policies and programs. While the connection between changes in the environment and changes in Eximbank's policies can be seen in all facets of the Bank's direct loan program, it is perhaps most apparent in the aircraft sector. I would like to summarize the evolution of Eximbank's direct loan policies with particular reference to this sector during the period from 1976 to 1980.

1976

After the 1974-76 period of rapid economic and financial change, the Bank undertook a wide-ranging review in mid-1976 of all its policies in an attempt to re-establish the connection between the international economic environment and Eximbank's program objectives at that time.

The U.S. economy was successfully emerging from a recession and had posted an $11 billion trade surplus for

1975. There was less pressure to support exports, and Eximbank's policies were geared toward providing credit at market rates, except in highly unusual competitive circumstances where other major trading nations were vigorously subsidizing exports. This policy allowed the demand for U.S. exports to be determined in the market with Eximbank assuring an adequate supply of funds to correct the undue risk and term constraints under which the commercial banking sector operated.

The aircraft policy established in May 1976 followed these market assumptions closely. The aircraft sector was divided into four categories based upon two somewhat imperfect market standards--degree of competition and ability to use private funding. Application of the first standard resulted in two categories of aircraft. One category included short- and medium-range commercial jets for which meaningful foreign competition was known to exist. The other category included long-range jets, for which there was judged to be essentially no competition.

The second standard categorized foreign purchasers of U.S. aircraft according to their access to private capital markets. Airlines with ready access to private capital markets would receive less support than airlines with limited access to private capital markets.

Under these guidelines, the "best" financial package was available to airlines purchasing short- or medium-range jets and having limited access to private capital. The

standard package for such airlines was 15 percent cash, 42.5 percent Eximbank credit and 42.5 percent private financing. In contrast, airlines purchasing the same planes, yet deemed to have ample access to private capital, received less support. For either type of airline, Eximbank financial guarantees on the privately-financed portion were available. Finally, airlines purchasing long-range jets received only an Eximbank financial guarantee, except in the rare instance of head-to-head route and sales competition with Airbus. Thus, the intent of Eximbank's aircraft policy was to provide funds in cases where there was proven competition or where commercial lenders saw risks and were unwilling to make sufficient private funding available.

1977

By mid-1977, the world economic atmosphere had shifted dramatically, requiring a reevaluation of Eximbank's programs. As a result of many external factors, including strong export promotion activities, France, Germany, and Japan successfully eroded the U.S. world market share in several important export sectors. These countries enjoyed trade surpluses while the United States registered a record trade deficit for 1977. The climate created by these developments led Eximbank to shift to a more aggressive financing posture.

The initial policy changes in 1977 took place in two main areas. First, interest rates were reduced from a range of 8 to 9 percent to a range of 7.75 to 8.75 percent and

the financed portion of each transaction was increased from 45 percent to about 60 percent (and 85 percent in exceptional cases) for aircraft and other capital goods. This policy was intended to meet more directly the financial terms offered by Eximbank's foreign counterparts. Second, Eximbank renewed and expanded its push for the adoption of the International Arrangement on Officially Supported Export Credits. By agreeing on specific minimum interest rates as well as maximum repayment terms, the Arrangement was intended to reduce the importance of export credits in international marketing. Thus, Eximbank continued to recognize the market distortions created by foreign export credits and sought to meet competition, while at the same time we strove to reduce concessionary financing.

The general increase in Eximbank's sensitivity to meeting foreign competition had a direct impact upon aircraft financing. In early 1978, Eximbank enlarged the category of aircraft which were considered to face foreign competition, increased the share of credit potentially available and reduced the importance of ease of access to capital markets.

1978-79

While pressing for international agreements to limit concessionary financing, Eximbank continued to meet competition in the aircraft sector throughout 1978. However, by

late 1978, little headway had been made in reaching international agreement. With the support of the National Advisory Council on International Monetary and Financial Policies, Eximbank responded to the unwillingness of U.S. trading partners to limit concessionary financing by becoming more aggressive in providing financial packages. Lines of credit, mixed credits, and local cost financing were employed. Eximbank's financial packages increasingly included 85 percent credit at rates of 7.5 to 8.0 percent.

In conformity with overall Bank policy, aircraft policy was also adjusted to match Airbus competition more aggressively and effectively. Of particular importance in late 1978 and early 1979 was the realization that the world's airlines were beginning massive fleet procurements in order to take advantage of a new class of high-technology aircraft having less noise, less pollution and greater fuel efficiency than the previous generation of aircraft. Competition in these early years of fleet procurement was expected to be intense since initial orders for newly comprised fleets of aircraft would ensure follow-on business for the next 15 to 20 years.

At the same time, the Airbus had become a formidable competitor in both narrow- and wide-bodied, medium-range aircraft. Airbus won over 55 percent of all medium-range orders in 1979, and as of March 1980, it had won sales of 497 aircraft -- 93 already delivered, firm orders for 257 and options for 147 more.

Other factors considered by Eximbank included the availability of U.K.-built Rolls Royce engines for a variety of aircraft, the subsidized official financing used to promote both the Airbus and Rolls Royce and the budget constraints facing Eximbank.

The adjustments formally adopted in April 1979 were intended to structure a different policy for several kinds of aircraft based on general characteristics of competitiveness. Hence, very short-range and very long-range aircraft were targeted for little Eximbank support, while a very broadly defined medium-range category received significant credit support -- an average of 65 percent.

1980 and the Future

As the 1980's begin, we foresee a continuing need for aggressive U.S. export effort. At the same time, the U.S. Government will have to exercise budgetary constraints to maintain the fight against inflation. Moreover, as I mentioned before, at the beginning of the decade certain industries involving strong international competition (e.g., aircraft and telecommunications) will be seeking to obtain "start-up" orders which will lead to billions of dollars of exports over the course of the next 10 to 20 years.

The role that Eximbank will play is continuing to evolve, and our policies are developing. We have held extensive discussions with exporters in general and with the aircraft industry in particular. At the present time, we intend to keep available

an adequate level of support to the broad spectrum of exporters while preserving the ability to provide highly competitive financing in appropriate sectors. Thus, for most export transactions, we are providing an Eximbank loan of up to 65 percent at 8.75 percent. Where the competitive situation permits, we will provide a smaller percentage of the loan. Coverage beyond 65 percent will depend upon the extent of foreign officially supported competition and the exporter's willingness to participate in 5 to 10 percent of the financing at an interest rate no greater than Eximbank's.

With regard to the aircraft sector, we would like to maintain a moderate level of support for all aircraft transactions, but provide greater support for aircraft which fall into a "highly competitive" category. Thus, for narrow-bodied aircraft (short- and medium-range) and long-range wide-bodied aircraft we are considering programs ranging from making available only financial guarantees of 30 to 65 percent of U.S. costs to providing 30 percent direct loan support plus up to 30 percent financial guarantees if needed. In contrast, for medium-range, wide-bodied aircraft and new generation aircraft we plan to provide direct loan support of up to 65 percent of U.S. costs at an interest rate of 9.25 percent. Eximbank will also be prepared to increase its loan by 5 to 10 percent to match private financing provided at a rate equal to or less than Eximbank's interest rate. Furthermore, as is true for all our programs, the actual extent of support offered by Eximbank will be determined on a case-by-case basis.

Over the years Eximbank's policies have evolved in response to the changing conditions of the world economic and financial environment. In applying those policies to aircraft exports, the Bank has also sought to take into account the unique characteristics of that industry. The policies which I have just presented are, I believe, appropriate to today's needs. We will be refining and evaluating them in order to remain sensitive to the constantly changing realities and demands of export financing. Eximbank is determined to meet competition wherever it is offered and at the same time, we will continue to pursue through discussions and negotiations ways of reducing competition in all sectors among the export credit instrumentalities throughout the world.

Thank you, Mr. Chairman. I am prepared to answer any questions you or the members of the Committee may have.

The CHAIRMAN. Any other statements from members of the Board?

Mr. MOORE. No, sir.

The CHAIRMAN. Fine. All right. Mr. Moore, as I indicated in my opening statement, the proportion of export-import authorized lending which financed aircraft sales was almost one-half in the first 7 months of this fiscal year and was nearly as high in fiscal 1979. This is true although aircraft sales represent less than 5 percent of our exports. So you're putting half of your resources to work on only 5 percent of the exports, meaning that they are getting 10 times as high a proportion of the assistance as should be their share on a pro rata basis, and you seem to be neglecting agriculture, communications, construction, electric power, manufacturing, mining, refining and so forth.

What's the explanation for that?

Mr. MOORE. Mr. Chairman, I think the percentages in the last 2 years relate more to the bunching of fleet decisions than anything else. Normally, over the years, we have run more like 15 to 25 percent in aircraft because orders are placed from time to time by the 100 and some plus airlines abroad.

As I indicated in the opening statement, during 1979 and 1980 most of the airlines abroad had to make major fleet decisions that relate to all of the orders they will be placing for delivery in the next 5 to 7 years. So we are really seeing a one-time, perhaps once in 20 year, bunching up of aircraft orders.

We expect that after this year and almost certainly by 1982 the degree of new orders will be back more to what we would consider normal in the past years.

The CHAIRMAN. Yesterday we were told that Mr. Pierce of Boeing spent a great deal of time at the Board which, of course, is his duty as an official of Boeing and his right as an American citizen. He's obviously a very able man. I don't mean to criticize him at all. But I get the impression that one of the reasons why you have this heavy financing is that there was a great deal more

of a salesmanship job on the part of Boeing. They were there and they presented their case extremely well. They were aggressive. They asked for assistance and they, as compared with other exporters, were far more forceful, and that for that reason you did what many administrators do, I presume, which is go along with the people who made the best case and were there with the request.

EXCELLENT SALES EFFORT

Mr. MOORE. Mr. Chairman, there's no denying the excellent sales effort of the aerospace industry, including Boeing, but I have to say that the exporting community in this country made a tremendous effort in the last 2 years and results in exports of manufactured capital goods——

The CHAIRMAN. I don't mean they didn't make an effort in other areas, but they didn't make an effort to persuade the Eximbank to finance them as apparently as successfully as the aircraft industry did.

Mr. MOORE. I would disagree with the point you have made, Mr. Chairman. We have not supported the aerospace industry to the degree we have others because the competitive situation is different. The percentage of cover in aircraft has been about 45 percent so far this year of export value, whereas in power cases it's run 76 percent in the preliminary commitments offered this year and 84.9 percent in the credits actually authorized.

In the other sectors——

The CHAIRMAN. You're talking about—when you give those percentages, 84 percent of what?

Mr. MOORE. Eighty-four percent of export value. The normal practice of export credit agencies—in fact, the uniform practice of all others—is to give direct loan support of 85 percent for any export.

The CHAIRMAN. But the percentages I was talking about were the percentages of the total amount of exports compared with the part that was financed by Exim. And there's no other industry—or is there—that has anything like that proportion—in other words, 50 percent?

Mr. MOORE. If you consider capital goods exports from this country, 25 percent are aircraft. The major use of our programs is in the manufactured capital goods area which includes a lot of the sectors you mentioned like agriculture and construction equipment. That particular sector was a star performer in 1979.

Our business has been up in all sectors and I would simply say that—I don't want to mention any particular names of companies—but there are at least 100 in this country who do as fine a job as the aerospace industry.

The CHAIRMAN. But if you have limited resources and you're giving 50 percent of your resources to one industry, that means the others don't get it.

Mr. MOORE. Mr. Chairman, we have been parceling out as best we can up to 85 percent in the other sectors that are very competitive.

The CHAIRMAN. May I ask Mrs. Kahliff to comment. Is this your impression, Mrs. Kahliff?

Mrs. KAHLIFF. Yes, it is.

The CHAIRMAN. That aircraft gets the appropriate amount, that we are not neglecting other sectors?

Mrs. KAHLIFF. No. As I said yesterday, it's very disappointing to me that we give so many preliminary commitments to manufacturers who later come back and cancel their preliminary commitments and do not turn them into loans. The percentage of those preliminary commitments that we convert to loans is very low compared to what we convert in aircraft.

It isn't that we don't give the support. It's that the manufactured goods people just do not get as much business, particularly the power sector. We have had an awful time with that until this year. Suddenly we have had four power sector loans and we didn't have any for so long and we worked so hard in that sector.

I also would like to say something about pricing. Mr. Stingel has gone to manufacturers and said, "We have done all we can do. What about your capacity to get your offer more competitive?" So we have also done this before. We have worked very hard on manufactured goods, but they just don't get the business.

The CHAIRMAN. Well, let me ask you this, Mr. Moore. Even though the world's airlines are engaged in large aircraft purchases, that shouldn't require the Bank to devote as much of its credit to aircraft through wide coverage of loans and low interest rates. It seems to me that that shouldn't necessarily be the principal basis on which aircraft are sold overseas. The Bank can finance aircraft sales at a much lower cost by charging more realistic rates at lower coverage, can't they?

Mr. MOORE. Mr. Chairman, I think there's no disagreement between this Board and what your desires are. If we could divide the discussion just a moment between rich countries and developing countries, I would like to speak first to rich countries—that is, those who have average GNP of more than about $3,000 a year—the developed countries of Europe, Japan, Canada, and the United States.

The European community in the Treaty of Rome adopted a rule that's supposed to apply within the community that there will be no concessional interest rates on export credits between the members of the community. We would dearly love to join that arrangement and, of course, offered to do so, and I think the rest of the world would. The only problem is that there's one exception to that and that was aircraft. So to match the continuing competition in aircraft, we have had to do aircraft financing in the rich countries where, by and large, borrowing is done in the private markets and not through export credit agencies.

In a perfect world, none of us would do anything other than support by guarantees or insurance that part of credits that are necessary where the private market wouldn't cover them. We hope very much to prevail upon our trading partners around the world to extend what is already agreed to within the community to all sectors and to all rich countries in the world.

As to developing countries, while the United States does not share this position, there is a position held by a number of countries that they cannot in their legislatures get sufficient bilateral aid programs adopted and that they want, therefore, to extend favorable and somewhat concessional credits to developing coun-

tries. The U.S. position is to support strongly doing this on a multilateral basis rather than through export credits.

Just to make a final point, Mr. Chairman, we have admittedly for 3 years sought in every case to match but not go below the competition of other export credit agencies. It was the only way we felt we could get to the negotiating table on these rather complex issues.

We have gotten to the negotiating table and it's going on today in Paris. We are not terribly hopeful that right now we will succeed in all the positions the United States holds, but I do not believe we would be at the negotiating table in the serious discussions going on now if we had not followed a matching policy under the directive of Congress in the last year and a half.

MATCHING POLICY

The CHAIRMAN. Of course, the matching policy is at issue here. Yesterday we challenged whether or not you didn't do far more than match in the Ansett case and you, of course, said that you were matching, but there seemed to be very powerful evidence that you were doing more than that, and we have the statement that I read from Mr. DuBrul, your predecessor as head of the Eximbank, who indicated that Eximbank policies are predatory. And, of course, he's a man of great expertise. He headed the Bank for 2 years, 1975 and 1976, and his opinion is that you have gone farther than that. You're not simply matching; you're doing more than that.

Mr. MOORE. He was using in his letter, as he did in his administration, the idea that you look at the private market interest rates and you price according to them. He believes, as I just stated the U.S. position is in the ideal world, that export credits should not have any interest rate lower than private bank rates. His view is entirely respectable. It is shared by all of us, and it's an objective we would dearly like to see brought about. The way to get there, however, is not to make uncompetitive offers because nobody pays any attention to your position.

The CHAIRMAN. Let me ask you, do you look at the technical excellence of the aircraft, its base price, reliability, service record of the manufacturer?

Mr. MOORE. Yes, sir; and I think the U.S. aircraft are all very good on those. We have never, in our Board's judgment, sought to offset any technical——

The CHAIRMAN. They are very good. My point, however, is you have to look at that in comparison. It seems to me if you're looking at a situation to determine whether or not you need to provide a lower financing cost, if the American aircraft company has a technically superior product or if their reliability is better or if their base price is better of if their service record is better, then it seems to me they can sell without necessarily having support.

Mr. MOORE. Mr. Chairman, the export performance in this country is absolutely remarkable. Everywhere I travel I run into small- and medium-sized businesses and I ask them, "Have they ever heard of the Eximbank?" And they say they haven't, and I say, "How do you sell your technology abroad?" And they will say, "Perhaps 60 percent of our goods go abroad." I'll say, "Well, do you

use letters of credit?" They say, "No. We get 25 percent paid in cash at the signing of the contract and stay 25 percent ahead."

The technology in this country is superior and the Eximbank is not involved with the exports paid in cash terms.

Another important ingredient is that $36 billion last year of agricultural exports of commodities were handled entirely in the private sector. Only $2 billion had any Government support. These agricultural commodities go forward from the private sector in the United States largely on cash and can be sold even to the poorest countries who will pay for them even if they're in trouble.

So the export picture in this country is really a remarkable one.

The CHAIRMAN. Well, the legislative mandate that you have as head of the Eximbank includes a requirement that small business and agricultural exports be created. Why doesn't the Bank do more in those areas?

Mr. MOORE. We have done quite a lot, Mr. Chairman. I would say that with the small business groups we have held over 50 seminars around the country and have interested a lot of them in exporting and exporting for the first time. We have special policies of insurance. Most of their exports are for short-term sales; we have special services for them; and we have some 200 companies who have come in for this special small business insurance policy and had favorable rates and coverage for them.

We have identified a need in the small business area because of conversations around the country and have taken it to the Small Business Administration which has started a program now of guaranteeing loans to cover the buildup of inventory against sales abroad, one of the greatest needs we heard. We are tied into that because we can offer the insurance the minute the shipment occurs abroad, but we are not involved in the domestic financing of the inventory itself. The SBA is.

The CHAIRMAN. My time is up, but my question included agriculture.

Mr. MOORE. Yes, sir. Agricultural commodities have used somewhere between $300 and $500 million of our insurance programs each year. We designed a special program for preapproval of bank credits abroad so banks here can move very rapidly to confirm sales to particular banks abroad. Again, as I emphasized earlier, most agricultural commodities are sold for cash and the private sector simply does not need Government support, but where we are needed we are, of course, available. And in the very important agricultural equipment field we are extremely active through our medium-term programs. Those programs were all up in the last year as were the exports of those items.

The Chairman. My time is up. If Senator Stevenson will permit me, Mr. Stingel wanted to comment.

Mr. STINGEL. I wanted to make a brief statement, Mr. Chairman, getting back to the aircraft situation at the Bank.

In my opinion, we are matching export competition and we are not being predatory. The Airbus is a fine aircraft. It's fuel efficient. It has a low cost per seat mile and has a low noise level and is well thought of by the airlines around the world.

Airbus sold its first plane in 1976. It sold 132 planes last year, in 1979. So far, their total sales and options have exceeded Boeing's

sales and options of their new family of aircraft, the 767's and the 757's, which are the only new family of aircraft we really have coming out in this country.

The Airbus and the European consortium that composes Airbus are successful. They're confident. They are no longer willing to make so many concessions, and I think we are going to be able to cut back somewhat on our financing of aircraft in the future. It's a mature organization with a well-designed product and I want to be sure that got into the record because we are not competing with some of the other types of aircraft that we used to compete with like the Trident and the Comet, the Mercure, the Concorde, or the Viscount. Those have all fallen by the wayside and they were not successful programs. They all lost money for their builders.

But this program, in my opinion, is going to be successful and I think it will make money for Airbus Industries and the consortium owners in the not too distant future.

The CHAIRMAN. I apologize to my colleagues for running over my time. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

The quality of the Airbus is not at issue, but its characteristics don't alter the fact that the Eximbank has singled out for a disproportionately large amount of its available support an industry that remains probably the most competitive industry of the United States. You have only mentioned one aircraft, the Airbus. It's significant because it's broken a virtual monopoly by the American manufacturers of large, long-haul aircraft.

Boeing remains one of the strongest financially of all American industries. There are many other industries less competitive but with fine products, many other companies that are not in as strong a financial position as Boeing that are in great need of the Eximbank's support.

So I have two questions. One goes back to Mr. Moore's suggestion that the explanation for this disproportionately large share of financing for the aircraft industry—by that, I mean large among aircraft manufacturers—is owing to new orders. He called it a big bunching. That implies that whenever there is a bunching of new orders for aircraft that all other American industries have to go to the back of the bus, take the back seat.

Why should that be, bearing in mind that Boeing is a very strong, a very competitive industry, and like McDonnell Douglas, much weaker, it could be financing its own airplanes.

Mr. STINGEL. Last year the U.S. commercial jet industry sold 44 percent of its planes overseas. The aerospace industry employed 1.1 million people, according to the Aerospace Industries Association. What we are trying to do is make certain that the U.S. aircraft industry continues to have a chance to compete with the European consortium which is a government-backed consortium, strongly supporting the Airbus.

I think if we didn't provide adequate financing more and more airlines would turn to the Airbus rather than buy Boeing, McDonnell Douglas, or Lockheed. Once an airline converts to another type of plane it usually takes many years to bring them back to the kind of plane the United States sells. And where we once controlled 95 percent of the commercial jet industry, we now are

somewhere around 68 to 70 percent and Airbus is making inroads even on that figure. So it's not——

Senator STEVENSON. You're not answering my question. Every single industry faces severe and mounting competition from abroad. You have singled out the most competitive of American industries to support and maybe you're coming to it——

Mr. STINGEL. I was going to come to it.

Senator STEVENSON. Within that industry you have singled out the most prosperous and competitive of all the American manufacturers; namely, Boeing.

Mr. STINGEL. Senator, I have given the reason why we support the aircraft industry.

SUPPORT OF AIRCRAFT INDUSTRY CREATES SHORTAGE OF LOANS

Senator STEVENSON. That is not the reason. You support it at the expense of other industries.

Mr. STINGEL. I don't think that's true. Mrs. Kahliff has stated that we have strongly supported other industries. Unfortunately, the other industries, such as the electric generator industry, things of this type, are not always as competitive.

Senator STEVENSON. Industry after industry comes before this committee and pleads for additional authority so it can get financing for its exports from the Eximbank.

Mr. STINGEL. And we have tried to fulfill those requests.

Senator STEVENSON. The Export Council, among other agencies, recognizes the inadequate authority available to this agency for the support of American exports.

Mr. STINGEL. As Mr. Moore has explained——

Senator STEVENSON. You're saying it's available. It would be wasted if it didn't go to Boeing. Is that what you're saying?

Mr. STINGEL. As Mr. Moore said, we have given more cover to loans to other than the aircraft industry than we have to the aircraft industry itself. For example, when there is a power job around the world requiring electrical generators or turbines, we go far up in cover toward the 85-percent figure, as compared to aircraft overall of——

Senator STEVENSON. You like the big ticket items because they're easy, like nuclear powerplants and aircraft. That's been another complaint. You don't make an effort to reach the small items for the small companies.

Mrs. Kahliff, I wanted to get back to that.

Mrs. KAHLIFF. I would like to talk about small business.

Senator STEVENSON. Did you mean to say there's not adequate business for the Eximbank? If we weren't making all those loans to Boeing, there would be nobody else getting loans from Eximbank for exports?

Mrs. KAHLIFF. No, I didn't. I hope I made it clear but I guess I didn't. It isn't that we don't make an effort to support other industries. I defer to Mr. Cruse, but I believe that the percentage of preliminary commitments that we made on a competitive basis to industries other than aircraft has a very low turnover into loans. Because of that we went to the exporters and asked them if it financing was the problem. Jim, what is that figure?

Mr. CRUSE. I believe Mrs. Kahliff is asking what is the percentage of nonaircraft conversion credits as opposed to aircraft, and in the power sector particularly it's roughly only 1¼. Although we offer much more support than in the aircraft sector, the United States wins far fewer cases. Therefore, the percentage of nonaircraft in our total authorization is less, in spite of the fact we have tried harder. Aircraft is high as a percentage not because we don't offer it to others, but because they are more successful with our offers. It is not an intentional bias on our part for aircraft.

Mr. MOORE. Senator Stevenson, there's one other thing that should be said. We have not denied support for any sector that normally would have terms in excess of 5 years. What you hear in Congress—it was in the General Accounting Office's report on competitiveness—is that we alone in the world do not use low interest rate loans in anything other than long-term credits. On the medium-term transactions which include many of the high-volume items that are exported from the United States, we do not, except in one very limited program—a discount program—have any fixed rate of funding available. We only offer guarantees or insurance.

We analyzed that market and I think conservatively stated it's about $13 billion a year. Should we start a program such as those in Europe where we automatically discount or lend money to those transactions, we would have to have $13 billion more of authority.

So we have not changed our policy on that except on a case-by-case basis. Where we see a smaller case that needs 5-year support and it is going to be lost, in our judgment, we will support it. We have done about $500 million of those this year.

But we do not, in our present budget circumstances, have the capability of opening up an on-demand program in medium-term transactions at 7½ or 7¼ percent fixed rate of interest that is the practice of the other countries of the world.

Senator STEVENSON. Were you going to add something, Mr. de Saint Phalle?

Mr. DE SAINT PHALLE. I'd like to make one additional comment, Senator. Some of us on the Board—and I in particular—would like to see us do very much more than we have been able to do in the power sector, for example, because if we can help in the power sector, we get a double remedy. We're helping another country, and we're reducing pressure on us.

I think the reason why that hasn't worked out is not because of the lack of financing support, because every time an exporter comes to us for support in this area we have tried to put together a package which is fully competitive.

AMERICAN INDUSTRY NOT COMPETITIVE

I think that the reason, unfortunately, that we're not getting more power cases is that in this area American industry is not as competitive as it should be. We've even gone in certain cases to the company and said, "Can't you do better on your price?"

But as far as we're concerned, in terms of the financing support, I think we have done whatever it really should take.

Senator STEVENSON. And there are export policies with respect to nuclear powerplants that also enter in the picture. But you only

mentioned one sector, the power sector. The implication on the record at the moment is if we weren't making all these loans to Boeing, there'd be no other companies to support; is that a fair implication?

Mr. DE SAINT PHALLE. No, sir, I don't think that's a fair implication. Construction is another area. Certainly telecommunications would be one where we have made a tremendous effort in at least one case that I can think of off hand. We even did a mixed credit, or the equivalent of a mixed credit, in order to get the job for the American company.

But here again, what has happened in the global marketplace—and it is a problem which goes beyond the responsibility of the Bank, it's really a problem for the United States—is that our industry just simply isn't as competitive as it once was.

Senator STEVENSON. I'm afraid you're right. That's a basic issue that we're dealing with on another committee.

Mrs. KAHLIFF. Senator, I would like to say something about small business.

Mr. Moore always says I'm a liaison to the small business community because I ran two small businesses and I'm one of the founders of the largest small business organization in the country, which is called COSI of Cleveland. We have 3,000 members; we started with 50. So we really have a big meet.

I have been involved in trying to help small business from Eximbank now for 3½ years. I've participated in at least 30 small business conferences all over the country. We put in a hotline. We've advertised that widely, all over the country.

If small business persons or even large business persons call on the hotline, we practically lead them by the hand, find out what it is they want to know, what it is we can do for them. Maybe they don't need financing; they just need to know about exporting. We take them to the Commerce Department. We take them to SBA. We take them to OPIC.

We have had, I believe, about 10,000 calls on the hotline. And it has been in effect a little over 1 year. This is one of the things we have done.

We did start the small business export policy in conjunction with FCIA. We have at this point more than 100 of those policies in effect. Now, they cannot use this policy if they had done business before with Eximbank or if they had exported more than $350,000 a year. So these are small exporters.

But when I go out—and I'm always available for questions after my usually noon speech at a seminar—I have many small companies come and say, "We are afraid of exporting." It's the unknown. It's going to take a long time to really get these people into exporting. But I don't really think it's financing as much as it is know-how and getting them started.

Senator STEVENSON. I agree with you completely. You should have stuck around yesterday after the end of the hearing, because I needed your help at one point. [Laughter.]

Mrs. KAHLIFF. I would have been glad to give it to you.

Senator STEVENSON. In case you don't know, the committee did yesterday report legislation which, if approved, will facilitate cre-

ation of the trading companies that can market everywhere in the world, every day, on behalf on the small exporter.

Mrs. KAHLIFF. This is what I recommend. When they say, "How can we start? We feel so small," I recommend that they go to some big manufacturer's rep who does exporting. And I would like to see your bill passed. [Laughter.]

Senator STEVENSON. Thank you.

Mrs. KAHLIFF. I'm very interested in all those small business people.

We are doing something else at Eximbank. We're going to conduct our first trade mission with just small businessmen, and it will be next fall. We're really looking forward to that, to saying, "We're going to do this one. And it's up to you to carry on from there." But they've never had one.

We've done all kinds of things for small business.

Mr. MOORE. I will just add to that, something else we have gone to was a trade mission to West Africa. Last fall we combined half representatives of small businesses and minority businesses and half, shall we say, large businesses, because we had possible orders for both outstanding in those countries. And the synergism between those two groups on that trip was very important; it leads us to think we in Government can learn something from the way business works across this country.

It's a shame that small business don't realize how much they do manufacture for export, because they sell through several tiers of orders up to the major company.

If you have a hydroelectric project abroad, for example, one of the big Fortune 500 companies is named for $1 billion, but it may have $200 million of that itself, $800 million is subcontracted right into the high technology, small businesses around this country in every State.

We do have some trading companies already here. They're just called the Fortune 500.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

In my first 10-minute segment, I want to try to cover several things. Given the nature of the way we question, we'll have a chance, I think, to cover a lot of ground here.

First, I would like to establish one thing for the record. I've been reviewing yesterday's record, and I don't see it there. Mr. Moore, how many other loans were there pending before you at the time you reviewed the Ansett case? How many loan requests, people who wanted money, who had valid projects, were turned down?

I assume there were some, or were you able to finance all comers?

Mr. MOORE. At what point in time?

Senator RIEGLE. At the time that this Ansett loan was approved.

LOANS AVAILABLE FOR VALID PROJECTS

Mr. MOORE. We've never turned anybody down because of another pending credit. We may have declined to support credits if the buyer abroad was not creditworthy.

Senator RIEGLE. In other words, anybody that's come in with an acceptable package has been financed? You haven't turned anybody away for lack of money?

Mr. MOORE. We have offered preliminary commitments. Of course, we can't finance them unless the sale is actually made abroad.

Senator RIEGLE. There isn't anybody out there who can say that they might have gotten the money that you've made available, in this case to Ansett, that they might have gotten it if you had not done the Ansett deal?

Mr. MOORE. Not in transactions that would normally have financing in the world brackets beyond 5 years. There are a vast number of people from whom you will hear in Congress—and probably rightly so, from their point of view—who are selling on terms of 5 years or less, normal world practice, where we have no programs to offer, more than private Bank rates.

Senator RIEGLE. Is that the same thing as saying that if you had not approved the Ansett deal, the money just would have sat there?

Mr. MOORE. Yes, sir.

Senator RIEGLE. Does everybody on the Board agree with that? Are there any dissenters from that view?

I find that amazing.

Mr. STINGEL. We have outstanding at the present time about $14 billion in preliminary commitments. And we hope the Congress gives us enough money to honor all of them if we can win the orders abroad.

Senator RIEGLE. Now, help me to understand. Are there $14 billion worth of tentative commitments dependent on whether or not you have adequate funding? All of those were alternative choices or uses for the money committed to Ansett were they not?

Mr. STINGEL. The first thing is that the seller has to be able to get an order. And he has to get the ultimate customer to come into the Bank and conclude a loan agreement. Our batting average for the last 2 years has been about 40 percent of the dollar value of those preliminary commitments convert to credit applications

Senator RIEGLE. Let me ask you your opinion. If the Ansett loan had not been made, would that amount of money have been available for use, in your judgment, by some other borrower, some other company who would have arranged a different deal?

Mr. STINGEL. Keep in mind, Senator, that Ansett is still a preliminary commitment. It has not yet been converted.

Senator RIEGLE. I understand.

But if that preliminary commitment is converted?

Mr. STINGEL. If it is converted, we definitely are going to have to have more than $3.75 billion. We're working under a continuing resolution so far in 1980. So at some point in time we are going to get into a credit crunch if the Congress doesn't give us additional funds.

Senator RIEGLE. Yes.

I'm still not getting a direct answer to my question. At the time that this tentative commitment was made to set aside this money for the Ansett deal——

Mr. STINGEL. No one was denied credit at that point in time.

Senator RIEGLE. What would have happened to that money? You would not have made any other affirmative decisions?

Mr. STINGEL. The money was available for any other customer who actually gave an order to a U.S. exporter who had a preliminary commitment from the Bank.

Senator RIEGLE. Once you make an affirmative decision in a case, aren't those dollars then earmarked, in effect?

Mr. STINGEL. It becomes a moral commitment of the bank to eventually fund.

Senator RIEGLE. Is that money still free, then? Can somebody else walk in that afternoon and say, "By the way, we've got a deal, and we'd like the money," and you would then take it away from Ansett?

Mr. STINGEL. But in the normal course of events, some of these transactions take many months, and we issue preliminary commitments with the understanding that the final deal has to be made between the exporter and the buyer.

Senator RIEGLE. So your testimony—and if there's a dissenter at the table, then the dissenter should speak—the testimony of the entire Board is that the use of this money in the Ansett case did not deny one penny to anybody else that was waiting in line for financing, appropriately could have had financing, but was denied financing because the money went to Ansett?

Mr. STINGEL. I agree with that.

The CHAIRMAN. Would the Senator yield?

It sounds like a devastating argument that we don't have to appropriate as much as we have or authorize as much as we have for the Export-Import Bank. If what you say is correct, I think we've been suckers. I think we've been giving it too much money. You don't need it.

Senator RIEGLE. I think that is a proper inference.

In other words, what you're saying is, that you don't have people waiting in line for the money. I think either the Eximbank program hasn't worked very well or maybe something's wrong in this testimony.

Mr. MOORE. Senator Riegle, it's been our prediction for some several months now that the preliminary commitments converted during this current fiscal year will need $7 billion of direct loan funds from Eximbank. This testimony has been given before Senator Stevenson's subcommittee some 2 months ago.

We've had all sorts of figures talked about this year.

Senator RIEGLE. What if you don't get as much as you would like? Somebody's going to be left out at the end, are they not?

Mr. MOORE. No.

Well, that's possible if it's so small. So far we have divided these airline cases——

Senator RIEGLE. I'm talking about everybody. I'm not just talking about the airlines. I'm talking about all companies.

Mr. MOORE. I'm trying to answer your question about the budget. If we have to live with $4.1 billion this year, or whatever the figure winds up, we have analyzed and worked with the airlines before and realized that these are purchases over a 7-year period normally and they're coming at one time.

We're the only export credit agency in the world that operates under an annual budget. The airlines have a decade cycle, so we have worked with them. And we have final authorizations of credit, which does earmark our money in subsequent years when they're beginning to manufacture the planes for delivery, so that we are coping to some degree with what looks like an impossible situation otherwise.

Senator RIEGLE. I guess I'm still not understanding you. Are you saying to me that anybody who's come in with an acceptable package can have confidence today, based on what you said, that you're going to be able to finance their package?

Mr. MOORE. If Congress finalizes the budget for us during the current fiscal year.

Senator RIEGLE. Suppose the budget falls short and you have to cut back. Is it possible that Ansett might be one of the ones cut back?

Mr. MOORE. Well, we don't know, because we don't know if and when they will convert their preliminary commitment to a direct credit.

If they come in after our funds run out, if we stay at $3¾ billion, say, at the end of June, then they would either have to go elsewhere or wait till the next fiscal year.

Senator RIEGLE. If you find yourself in a situation where you don't have enough money to go around, how do you approach the situation?

Let's say all this is nice, neat, and perfect, where everything is resolved, you're going to have to pick and choose. Does that never happen? I mean, you've never had that situation?

Mr. MOORE. The Bank has apparently never had in its history a year in which it didn't have a budget approved.

Senator RIEGLE. I'm not talking about a budget approved. It seems to me we're both using the English language; we ought to be able to communicate with one another. Unfortunately, we're not.

Mr. Moore, was there ever a situation where the money that you had available was insufficient to meet the demand for that money?

Are you telling me, no, there's never been a case where you've had to back somebody out of a commitment because you didn't have enough money to go around?

Mr. MOORE. I think there were prior years in the Bank's history when it did not have enough right at the end of the year, so it did delay some and concluded it shortly after the beginning of the next fiscal year.

Senator RIEGLE. Well, I'm going to move to another area. And then I'm going to come to the interest rate issue, because I think that's the heart of the matter. We must determine whether or not we have a deal here that would not be an appropriate judgment call.

POLITICAL RELATIONSHIP

Before we do, Mr. Moore, I want to pin down a couple of things with respect to your background, because I think they're important. The issue has been raised as to whether there are political considerations involved in this whole thing. We haven't settled that yet.

I think it's important that we have on the record what your own personal relationship was, before assuming this job, with President Carter. What was the nature of your relationship to President Carter, before you became the head of the Eximbank?

Mr. MOORE. I supported Mr. Carter the first time he ran for Governor of Georgia, and the second time. During his first year in office, as Governor, I was asked to head a public commission to make recommendations to the State government on a new mental health program. I headed that for 6 months and made a report to him.

Subsequently, I supported him when he ran for President of the United States.

Senator RIEGLE. What was your role in 1976 in the campaign? Did you have a role?

Mr. MOORE. My wife and I, and a couple of our children, went for a week to New Hampshire and made calls before the primary.

Then beginning in July, I think, I worked for the transition group on the question of financial conflicts of interest in developing a program for the new administration on that issue.

I assisted the White House Counsel's Office as a volunteer for about a month after the inauguration of the President, and came to the Eximbank.

Senator RIEGLE. Am I to understand, then, that your role in the 1976 campaign was limited to a week of campaigning in New Hampshire? Did you have any other role? Did you take part in any other way? Did you raise money?

Mr. MOORE. I gave $1,000, and I think I made some calls to raise funds, too, Senator. I think I was successful in one or two instances.

Senator RIEGLE. But you had no other assigned responsibility?

Mr. MOORE. No.

Senator RIEGLE. Let me move now to the question of the decision that was made in this case. I want to go right down the list of Board members, both those who are present when this was first discussed and those that were not.

Mr. Chairman, I'd like to put this question, if I can—I know my time is up—and then I'll yield.

You've all had a chance now to review this thing carefully, certainly after the fact. It's getting well ventilated and will continue to be.

Of course, everybody here is under oath. I want to go back—I want you to use the value of today's knowledge, and I want you to make the best professional judgment that each of you can make.

Look at this situation from start to finish; the procedure, the circumstances, the interest rate, business judgments involved here and so forth. I would like your individual answers to two questions.

INTEREST RATE QUESTIONED

First, looking backward and assessing this from today's vantage point and with full knowledge, do you feel that the interest rate was as high as it should have been? In other words, do you have any qualms about where the interest rate was pegged, taking into account things like currency differentials, the ambiguity of the Airbus situation, and so forth? That's question No. 1.

Question No. 2, are you completely satisfied—and I stress the word "completely"—are you completely satisfied with the procedure that was followed in this case in terms of its handling from beginning to end?

I want to go right down the list, and I want to ask for your best professional judgment. I hope you'll be absolutely frank.

The CHAIRMAN. Let's start with Mr. Moore.

Mr. MOORE. On the first point, Senator, with all the judgments, it is my view that the interest rate was as high as it could have been in the circumstances.

Now, I will have to say, as I said yesterday, that there is no way on Earth to know for sure. You think it through and you give it the best judgment you can. My judgment remains the same today as it was in February.

On the second point, I am satisfied with the procedure we followed in the circumstances we found ourselves in. But as other members, I am sure, will mention, we were under tremendous time pressures; and so, had we had 2 or 3 weeks within which to operate, I would have been more satisfied. But we have, in every instance that was not absolutely absurd, accommodated exporters in this country when they had deadlines, and we did so in this case.

Senator RIEGLE. Maybe we can just go right to the table.

Mr. DE SAINT PHALLE. Senator, on the first point, I would be inclined, if I were voting today, to think that we could raise the interest rate somewhat. It would be in the area of 8½, maybe 8¾. The reason that it is delicate to have done that and the reason why I voted as I did was that there seemed to me to be other factors.

If you want, I will agree that we met the question of competition. But, as I said yesterday, there are two factors there. One is not what our perception of the difference between the market rate and the dollar rate is; it is the customer's perception. That's No. 1.

And we have run across repeated instances when the customer has chosen a D-mark transaction or a yen transaction rather than a dollar transaction, where interest rate should have played a part but didn't.

The other factor is that there seemed to be two very good reasons to take the Airbus in this case. One was that the delivery dates were earlier for the Airbus. The second was that this had been the pattern within these two airlines. I would not have said, "All right, we can raise this to 9 or 9¼ percent or whatever," because I would have taken into account these other factors.

This is a very subjective judgment, but I think you asked it in that sense.

Senator RIEGLE. Are you completely satisfied with the procedures that were used in this case?

Mr. DE SAINT PHALLE. I don't think any of us is satisfied, Senator. It's very rare that we get into this kind of a situation. It happens a lot when there are bids that are outstanding and we must make a decision more hurriedly than we would want to. I think this was an unusual case in that sense. And given what we know now, we might, I think, have recommended that we take the time, because it appears that it was possible to get an extension, and I would certainly take that into account.

Mrs. KAHLIFF. I don't think any of us is very happy about the first meeting, including Mr. Moore. But I think we proved that we weren't happy when we did not approve it until we had a lot more information.

However, I am often—not often, but now and then—unhappy about a case that I feel I don't have enough time on. And I have complained about it. We have decided that maybe we'll change some of our procedures and consider our big loans on Tuesday so we have the whole weekend to go over them. As it is right now, we usually don't have but a couple of days, and it's very difficult. If you happen to have something to do on Wednesday, you'd be out of luck if you wanted to spend the time that I think we should spend studying the portfolio.

However, it wasn't that unusual. We have done this several times. As I said, we don't like it; I complain. But when an exporter says, "I have to do this, and the bid date is such and such," you just feel like you shouldn't let him down by not making some kind of a decision.

The second thing is, on the interest rate——

Senator RIEGLE. By the way, were you aware that the applicant in this case was going to be meeting with the President?

Mrs. KAHLIFF. Oh, I knew nothing about any of that.

Senator RIEGLE. Did any of the Board members, other than Mr. Moore?

Mrs. KAHLIFF. We read it in the New York Times, just as you did. That's the first time we knew anything about it. I knew nothing about any of this, and I did not know about the case until I got my loan portfolio. But that's not unusual either.

So far as the interest rate is concerned, I was very concerned about that, and I can tell you what changed my mind more than anything else. I went to the vice president of the Asia Division and said, "I want you to tell me one good reason that we should really give this package." And he said, "Because we may lose out. If we lose this and they do go with the Airbus, then we have no representation in Australia."

PARANOID ABOUT LOSING EXPORTS

I couldn't stand that. I am very paranoid about losing exports, and particularly I am paranoid about the Airbus because I was one who said, "Oh, they'll never make it. We don't have to worry about them. They're not going to do it." Well, they have done it, and I really hate to lose a case.

Senator RIEGLE. What if it meant going down to 7 percent or 6 percent?

Mrs. KAHLIFF. I wouldn't have done that because I can't.

Senator RIEGLE. Are you satisfied now that the 8.1 was really the appropriate interest rate?

Mrs. KAHLIFF. If that was competitive with the Airbus, which they said it was——

Senator RIEGLE. I know. But I am asking you, from today's point of view, whether you really got taken on that. Is that still your opinion, or does it appear now that it should have been higher?

Mrs. KAHLIFF. I don't think we got taken. I don't think they had offered that high a rate. It never has been confirmed to us. We've done everything we can to find out.

Senator RIEGLE. From today's point of view, you're quite satisfied?

Mrs. KAHLIFF. Yes, I am, I think I am satisfied. I would have liked to have done a higher interest rate. I really would have. We all did. Of course, there were only three of us.

Senator RIEGLE. Let's finish down the line.

Mr. ALLEN. Senator Riegle, I have traveled very little for the Export-Import Bank outside of the country. But somehow fortune dealt me the hand at the time that I was out of the country when this case was being considered.

In my opinion, the interest rate that the Bank did get on this credit was done in order to present, with the purchase of these aircraft, a rate that was competitive with that presented by Airbus. Commercial rates in the United States, as you know, at this time are very high. And the Export-Import Bank was not financing 85 percent of this purchase, but a smaller amount, so it required funds from commercial banks and other lenders to be involved in the case.

So, what the directors were attempting to do, in my opinion, at that time was to present a rate to the purchaser which, when considered with the commercial loan aspect of this case, would be a competitive rate to that presented by Airbus. And it was necessary at the time to come up with a rate that was low enough to give a competitive figure with the 85 percent financing by Airbus.

The second point: I wish that it was always possible for the Board to have all the time that is necessary to look carefully at all the cases, to make the best decision based on all the information that we can possibly get. There are instances when exporters or purchasers come to the Bank and state that they have a particular time pressure under which they're operating, and they ask that the Bank give consideration to exceed the time frame which is generally used. Operating under that kind of a time frame, a decision must be made as to what can be done in a particular case. It was impossible, I presume, at that time to know that an extension was going to be given by the competitive aircraft company in terms of when the bid was in or when their offer of sale of the aircraft would expire.

So, it was a matter of doing what was necessary to compete with the offer of Ansett aircraft at that time.

Mr. STINGEL. I was not present at the February 26 meeting, but did a lot of homework on the case when the case was presented when I was present on February 28 for a final preliminary commitment.

I support the decision today, as I did then. This is based on hindsight as well as foresight. I have done further investigative work on the case, and in my opinion, there was never an all-dollar offer at 9½ percent. The 9½ percent was part of the original 10-year financing offer to Ansett, the same as the TAA offer.

Mr. Murdoch and Ansett convinced Airbus that they had a better figure. The original 10-year offer was at 8.3 percent. Their final offer was at 7.95 percent. A combination of three currencies:

deutsche mark; French franc and dollars with dollars in the minority.

Mr. Murdoch and Ansett evidently convinced Airbus—and we must believe this, too—that there was no difference between the deutsche mark and the dollar as far as Ansett was concerned. Our 8.1 percent figure, which was a dollar offer on the 767's, was only on the 767's in the final offer of February 28. The 727's and the 737's were added to span the time difference between delivery of the Airbus and the delivery of 767s, which was much later, somewhere between 13 and 18 months.

I believe now, as I believed then, that the Board did make the right decision to offer the 8.1 percent on the five competitive planes, which would be competitive with the seating of the four Airbus planes.

As far as the way the case was handled, when I received the case prior to the February 28 meeting, I had the advantage of knowing what had gone on at the February 26 meeting. I am not sure what action I would have taken on February 26, but I think it was presented at that time to the board on the basis that this was for discussion and for a judgmental decision which was to send it to the NAC for consultation on February 28. I think the case was handled correctly and fully. I think it did get a full hearing, and I think the decision was correct.

The CHAIRMAN. Mr. Moore, McDonnell-Douglas has used a finance subsidiary, non-Federal money, private money over the years to supplement financing of aircraft sold. Boeing hasn't done that. Has the Bank asked Boeing to privately supplement financing of aircraft it sells overseas? And if not, why not?

Mr. MOORE. Yes, we have, Senator. We have done so. When the budget process over here made it apparent on March 5, I think, of this year that we would probably go through the year with the 1979 figure of $3¾ billion, we immediately began a process of consulting with exporters and banks in this country about what we should do, how we can participate, not only this year when it's perfectly clear that in the circumstances we will not have a full budget, but in subsequent years as well. I alluded to this in the opening statement.

We have decided on a test basis to discuss with exporters the proposal that in the maximum competitive case we won't go beyond 65 percent cover, except to match up to another 10 percent what the exporters themselves will do. That applies, of course, in the most competitive areas of aircraft.

The CHAIRMAN. As far as Boeing is concerned, does Boeing have a finance subsidiary, or do they use systematic financing to supplement the Export-Import Bank financing?

Mr. MOORE. I don't know whether they have a financing subsidiary. It's my impression that they do not.

The CHAIRMAN. They've not done what McDonnell-Douglas has done then. As Senator Stevenson pointed out, McDonnell-Douglas is not quite as strong a company as Boeing, yet they've been able to do this, and they've done it and they've taken some of the burden off of the Federal Government and the taxpayer.

Mr. MOORE. And Boeing has now done so in one case; it appears to have won the case where it will participate in a portion of the financing at a fixed rate of interest of 8¾ percent

The CHAIRMAN. Why wouldn't it be a good idea for the Export-Import Bank to push this very hard?

Mr. MOORE. I think it is, Mr. Chairman. The timing is very important, because, if you will recall, in the 3 years prior to this administration the other approach was taken and the exporting community, aside from aircraft, simply moved abroad and sourced their offers for exports from other countries.

If we take too drastic a step and they did that process again, it would be very bad at this point in time. So far they appear not to have done so. In many different sectors now and in about six different cases and on an experimental basis, the offers have gone forward with participation from the exporter, or, in some cases, if they have a financing subsidiary, through that financing subsidiary. Or they can go to their banks, of course, and make arrangements to have the bank extend the fixed-rate loan, provided they make a discounted payment in advance. That's very expensive. I don't know of anybody who is likely to do that.

USE OF FINANCIAL GUARANTEES

The CHAIRMAN. Another action that the Export-Import Bank could do that would help finance exports would be to use financial guarantees more widely. Why hasn't Exim at least studied how much money it might save by using financial guarantees as compared to direct loans?

Mr. MOORE. Well, we have, Mr. Chairman, and we have used up our entire financial guarantee authority for this year. We're seeking to get a further allocation from the Office of Management and Budget. It's been a problem because the private rates are so high that people won't take the financial guarantee rates.

The CHAIRMAN. The private rate fluctuates a great deal, as you know. There has been a tremendous drop in private interest rates in the last 6 weeks.

Mr. MOORE. But our financial guarantee is used on a fixed-rate nonprepayable basis, which makes it very unattractive for someone to take it at, say, 15 percent plus fees and be stuck with that for 10 years. So there was less usage in the last few months.

The CHAIRMAN. It would seem to me a study by your agency, in which you gave us the options on how we could make this more available, would be quite useful.

Mr. MOORE. If we could get agreements abroad, Mr. Chairman, I think that we wouldn't use direct loan funds at all; we would simply use the financial guarantee package. I would agree with that. And we will use it again a great deal when the private market rates in the United States go back down to these levels that we have under the unitary rate consensus.

The CHAIRMAN. Eximbank adopted financing guidelines at the end of March to reduce the extent of coverage on direct loans and increase the minimum interest rate for medium-range widebodied aircraft. It's my understanding that direct loan assistance is going to be 65 percent coverage at a 9¼-percent interest rate. According to Aviation Week, an Exim official said, and I quote:

This rate is chosen because it is competitive with the U.S. dollar rate currently being offered in support of Airbus, the industry aircraft with which these aircraft generally compete.

Now, that policy is in conflict with the approach you took in late February in arguing for the 8 percent which you had on Ansett. Could you explain that contradiction?

Mr. MOORE. I don't believe there is a contradiction. We have discovered recently, as I said yesterday, that if we are the first party offering, if only engines on aircraft are in competition and engines are only made in the United States and England, if we stay 50 basis points above the 10-year bond rate of the U.S. Government, which was 10.2 percent—the rate was 10.2 percent in January—and if we offer a package that is 10.7 percent, then the support of the Rolls-Royce engine stays at 10.7 percent. We have begun to discover that if we take a higher approach, somewhere around the range of 10 percent blended costs to the buying airline, overall, then Airbus usually does not go below it.

These are new developments over the last 2 or 3 months. We are encouraged by them. They did not pertain in the Ansett case because it really came about from an offer to TAA of about a year ago when this discovery had not been made. So we had a much lower rate offered by the Airbus than we are seeing at present.

EXIM NOT MATCHING AIRBUS FINANCING

The CHAIRMAN. The figures I have indicate that Exim is not simply matching Airbus financing, but you're beating it; you're offering them more favorable terms. Let me give you the statistics, and I would like to have your comment.

The average weighted figures for Exim financing—this is what's given to the committee—of a Boeing 767 in 1979 was as follows: 69.9 percent of the credit share; that was the Export-Import Bank; and 8.69 percent for the interest rate per annum. The average weighted figures for Airbus Industrie financing of the A-300 and A-310 Airbus in 1979, competitive aircraft, were as follows: 64 percent—that's less than the 69.9 percent—69.9 percent of the credit share; and 9.03 percent per annum for the interest rate, which is above the 8.69 interest rate for the 767's.

Both sets of figures are comparable because they're based on U.S. dollar financing.

Now, could you explain why the Exim interest rate on the widebodied Boeing 767 is a third of a point below the Airbus Industrie financing on the widebodied A-300 and provides a 5-percent greater credit share? Isn't that a violation of the policy that you and your board unanimously, and your colleagues unanimously, espoused in meeting but not bettering the terms of foreign financing?

Mr. MOORE. I don't understand the basis for the figures, Mr. Chairman. I would image the Airbus is taking advantage of the fact that the engine is financed separately and not reported in the financing offer on the plane. Normally, they support 85 percent of the plane without the engines and leave either Rolls or the American companies to finance the engine itself.

If that is indeed the case, then I think the conclusion drawn is erroneous.

The CHAIRMAN. These are the figures that were given to the Bank, I understand, by Airbus. Maybe they gave you the wrong figures.

Mr. MOORE. Perhaps Mr. Cruse has a comment.

The CHAIRMAN. Mr. Cruse?

Mr. CRUSE. Those figures that Airbus provided us were based on what we believe is somewhat apples and oranges calculations. We're going through them again to check them out, but what it appears to us is that they pick the best comparison they could have of our rates in cover and their rates in cover to show the picture as they wanted it to. I believe that when we get through analyzing those figures the picture will come out much different.

But there were too many cases for us to check when they gave them to us.

The CHAIRMAN. When you get through analyzing those figures, I hope you'll crank in the fact that Exim loan covers 15 percent more than Airbus, with a coverage of spare parts, engines, ground equipment, and training. That covers a wider range than Airbus, which would make the terms even more favorable.

Mr. CRUSE. It could. But the other side of the coin is that the cases they took were not similar cases. They took an offer for an aircraft in perhaps only the same country.

The CHAIRMAN. How long does it take to analyze that? Why can't an agency with the competence that you have do that in a matter of a day or two?

Why should you have to fool around with this thing for weeks?

Mr. CRUSE. We had to go back and find the cases that we offered credit on that competed with the cases of the Airbus. The Airbus didn't list those cases. They listed cases in which we made an offer to an airline similar to, but not the same as, they made. And we had to go back and find those cases.

The CHAIRMAN. Incidentally, it's interesting that the figure that Mr. St. Phalle gave us earlier, that he says would be between 8½ percent and 8.75 percent on the Ansett loan, as I calculate that, 8¾ percent, with the difference to Boeing of $5 million, discounted, $7.44 million over 10 years—if you discount at the present value of 10 percent, that is $5 million, and $4.96 million at 8½ percent—which, discounted, would be around $4 million. So that's quite a difference, in the judgment which you have, which I think is very close to my own.

Mr. STINGEL. Mr. Chairman, could I make a comment on these figures—the 64-percent cover and the 69-percent cover? Airbus has given staff, I am sure, only the cover given on the air frame. On almost all of the cases, the engines on those planes are GE Snecma engines, and the Snecma engine is 27 percent made in France. The French Government supports the financing of their portion of the engine, separate from the Airbus financing of the air frame itself.

The engines comprise about 20 percent of the total cost of the Airbus, so there is a differential there that I'm sure would bring this out. But then again, you do have the argument that we did finance spare parts and spare engines, so perhaps there is still some disparity, but we'd like to have a chance to go back and look these figures over, because we do have a bit of information.

The CHAIRMAN. I hope you will, and you'll come back, and maybe you could tell the committee what your conclusions are on that.

Mr. STINGEL. I think we should.

The CHAIRMAN. I think you are more than simply meeting the Airbus competition on the basis of the figures that were supplied to staff by the Export-Import Bank itself.

Mr. MOORE. Mr. Chairman, one other point should be mentioned. I don't know whether it will continue, but in the last month or two, particularly since England joined the consortium, we've had much better sources of information about what the offers actually are.

Up to about 6 or 8 months ago the OECD inquiries were almost useless in these cases, because—and I think correctly, under their systems—none of the official export credit agencies knew what the offer was until the business was won. The Airbus consortium itself just went and made the offers.

So we have been working in a period when we tried to match unknown things. It is no doubt possible that we have exceeded an offer from time to time. At the present, it looks like we have better cooperation in answering our inquiries, and I hope that will continue.

The CHAIRMAN. I would hope. It would be of great interest to every company involved, it seems to me, to end predatory financing and to try to work out, as soon as you can, the kind of common agreement that the financing would be, as much as possible, not subsidized, and based on—as close as you can to the market rate.

Mr. MOORE. We totally agree with you, Mr. Chairman. I cannot give a very optimistic answer this year, but I think we're making progress, and what we're reporting today—if it doesn't change—indicates that there's less degree of concessionary interest rates in airplane offers now than in other sectors. So that's some progress. That allows us to select a rate of 9¼, where as we have had to select an 8¾ rate in all other sectors.

The CHAIRMAN. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman. Mr. Stingel, what was the figure you gave us for preliminary commitments now outstanding?

Mr. STINGEL. Approximately $14 billion of U.S. content.

Senator STEVENSON. How much additional direct loan authority does the bank have for fiscal 1980?

Mr. STINGEL. At the present time, very little. You have those figures.

Mr. CRUSE. At the present time, we have roughly $360 million.

Senator STEVENSON. $360 million?

Mr. MOORE. Under the continuing resolution.

Senator STEVENSON. Under the continuing resolution, $360 million in fiscal 1980, against $14 billion in preliminary commitments. Now, based on your experience, the bank's experience, how much of the $14 billion can be reasonably expected to materialize in the form of direct loans?

Mr. STINGEL. Our batting average for the past 2 years—and we've given this information to your staff a number of times—has been about 40 percent of dollar value has been converted. Since this $14 billion is U.S. export value potential and we've given about 60 percent cover, on the average, to that, you have to multiply the

figure by 60, and then 40. So you get approximately $5.4 billion of actual loan authority, if they were all converted, based on our past batting average.

Senator STEVENSON. OK. How much additional authority are you seeking from the Congress?

Mr. MOORE. There are two different figures before the Congress at this time. One is $5 billion; the other if $4.1 billion.

Senator STEVENSON. Well, one is $4.1 billion, you say?

Mr. MOORE. $4.1 billion is, I believe, the Senate Budget Committee position at this point, and $5 billion was in the House Budget Committee figures in the revised Budget Resolution.

Senator STEVENSON. So if that were split evenly, it would be around $4.5 billion, against $5.4 billion that you would expect to materialize on the basis of historical experience, from the $14 billion that you already have?

Mr. MOORE. Not in this year, Senator.

Senator STEVENSON. Oh, I know. This is what you already have. It doesn't all materialize in this year, but that $14 billion is not a static figure, either.

Mr. MOORE. That is right.

Senator STEVENSON. That's going to grow. All I am trying to do is to put to rest this argument about whether, if this loan to Boeing hadn't gone through, you wouldn't have had any customers. I think the answer is pretty obvious, that you've got customers lined up a mile long, and there would have been plenty, more than enough, to take this money.

WHY CAN'T BOEING FINANCE ITS OWN EXPORTS?

Now, Mr. Stingel, we never finished our colloquy. I asked you, as did the chairman, I think, Mr. Moore: Why does Boeing, the most prosperous and competitive company, need any financing at all from Eximbank? If the Eximbank didn't do it, would it go out of business? Would it give up exporting? Or would it do financing like McDonnell Douglas does—a smaller company?

Mr. STINGEL. Senator, I think the answer is pretty much the same like I gave before: Boeing wouldn't go out of business, but 44 percent of the sales of U.S. jets are overseas in 1979.

The Airbus, which has gone from one plane in 1976 to 132 planes last year.

Once an airline converts——

Senator STEVENSON. You didn't answer my question. My question is: Why can't Boeing finance its own exports the way McDonnell Douglas does?

Mr. STINGEL. We're talking about a massive amount of funds that would be required for this. Boeing has to also finance internally, in the United States, in many cases, for the U.S. airlines, who could be prey to Airbus—and one already has been, Eastern Airlines.

So Boeing, I think, would prefer to save its funds— which, I guess, are around $2 billion—to use in financing funds to airlines in the United States, and turn to the Eximbank to get financing help to sell overseas, in competition with the Airbus. The Airbus has a natural advantage overseas, because many of the countries buying the Airbus are part of the consortium that owns Airbus.

So it's a competitive situation. It's kind of a catch-22 situation. But we have to support any industry in the United States that really wants to be competitive, that has a strong foreign competitor, as the Boeing people do.

Senator STEVENSON. Well, I don't doubt that it needs some support. I do question whether it needs this much support, at the expense—as those figures prove—of other exporters that are in businesses that are far more competitive and which, themselves, are in far weaker financial positions.

Mr. STINGEL. As Mr. Moore explained to Chairman Proxmire, we are trying to cut that. If we can get some kind of an agreement, we'd be glad to cut back on the amount of cover we give. Perhaps some day we'll see a point when we can give as little as 30 to 50 percent cover, at interest rates of 10 percent.

Senator STEVENSON. Everybody may have to cut back, without the agreement. Now, this is laundry day for the Eximbank. I don't think there's been one since it was formed. There's one garment that hasn't gone in the washer yet. I think we'd be derelict if we didn't put it in.

Mr. Moore, your travel—you've been at the Bank about 3 years. Based on the figures from the Bank of the roughly 3 years there—you've spent about 360 days on the road; in fact, the figures that we have indicate the cost of this travel for the entire period—this is slightly in excess of $62,000. That includes some travel in the United States, but most of it is for travel abroad.

Of the figures mentioned, all of the customers, including at least one, Boeing, who seems more than willing to come to you right here in Washington—why is so much travel at the expense of day-to-day business in the Bank necessary?

Mr. MOORE. Mr. Chairman, when I came to the Bank, I discovered two things: one was that the exporting community or the banking community in the United States had decided that the Export-Import Bank was not going to give competitive support. I was advised to get around to talk to those people, and I did so in the United States in about a 2-year program.

Second, the Bank had not been represented abroad through its chairman for a year-and-a-half, and there was the impression abroad that the Bank would not give competitive offers. The administration decided, with oversight hearings here on the Hill, that we were going to give competitive support to exports.

I thought it necessary, also, to get out to the principal existing markets and the ones that might be potential markets in the future. So I undertook an extensive degree of travel for those 2 years.

In addition, last year there were three extra trips that I did not plan. I went as part of the delegation to the funeral of President Boumedienne of Algeria, since one of the main contacts of the U.S. Government with Algeria is Eximbank. I went with Ambassador Strauss to Israel and Egypt for a week on a trade mission. Finally, in the fall, last September, we had a trade mission to Africa led by Ambassador Andrew Young.

So the travel was, indeed, very extensive in calendar year 1979. This year, I have limited the travel to one set of meetings; that is, the meetings every 3 months of the Berne Union, of which I am

the first American president. And I have tried to pick up one or two adjoining countries in each of those trips.

Senator STEVENSON. You're cutting back?

Mr. MOORE. Yes; this year has been much less.

Senator STEVENSON. You've shown the flag, and I am delighted to hear that. Maybe it was necessary—but it's also at the expense of day-to-day responsibilities for this Bank right here in Washington. You do have to travel. Maybe a little bit more of it could be coach.

Mr. MOORE. I guess so.

Senator STEVENSON. Thank you.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Gentlemen, and madame, could you tell me what would have been the consequences of not, for example, having provided any Exim financing on the 727's and 737's which were part of the Ansett deal? It is argued by some that those aircraft are not—don't have any real international competition.

In view of the fact that the Bank isn't going to have enough money to give letters of commitment to all those people who will probably be coming in for them, exclusive in particular of aircraft manufacturers, what is the priority? What would have happened if you hadn't given that financing? Why doesn't that just, as somebody has said, fritter away the resources of the Bank?

Mr. MOORE. We thought, at the time, and still think, that it entered into the decision of the airline to buy. Their alternative was to buy all Airbus. They didn't at the same time need 727's and 737's on the program that they have apparently undertaken.

Our standard policy is to recognize that competition, to the extent it exists for the 727, is less direct than it is for the new generation planes, and that the 737 is even less. So the standard policy the bank adopted, after consultation with the NAC a year ago, was to offer a 30-percent direct loan cover plus 30-percent financial guarantees on 737's and DC–9's, and 42½-percent direct loan support on 727's and light planes of other aircraft manufacturers.

ADDITIONAL GUARANTEE COVERAGE

In this particular case, in that one part of the package that was designed to be most competitive, we offered additional coverage of 40 percent, instead of 30, on the 737's, and 50 percent, instead of 42½, on the 727's. Our belief was——

Senator HEINZ. Why do you need to offer even a 30-percent guarantee?

Mr. MOORE. It's something we're discussing now, Senator, with the aerospace industry, because of our present circumstances. And as I reported earlier today, we are presently looking at—on all of the planes that are indirectly competitive—something between no direct loan support and financial guarantee support up to 30 percent, and possible additional guarantee support.

We're trying to study all the budget implications of that idea. The principal question, I think, is one of giving some support to valued customers who have dealt with the Bank a long time, while recognizing that the Airbus is not as directly competitive with them.

Senator HEINZ. Of course, you didn't initially offer 42 percent on the narrow bodies, did you? You didn't initially suggest to the Board that you would offer 42 percent direct financing of the narrow bodied jets did you?

Mr. MOORE. We started a discussion at that first meeting based on 85 percent cover for the whole fleet.

Senator HEINZ. That's right, 85 percent on narrow bodies, in spite of the fact that your guideline is 40 percent direct financing.

Mr. MOORE. That's correct. That was the extreme case.

Senator HEINZ. It certainly is.

Mr. MOORE. We didn't do it.

Senator HEINZ. No. But I was kind of surprised that it was even seriously considered. It was seriously considered, I gather; was it not?

Mr. MOORE. That was the impression of Mrs. Kahliff and Mr. de Saint Phalle. I myself was thinking of the whole package, looking at the way to put it together correctly.

Senator HEINZ. Let me ask Mr. de Saint Phalle and Mrs. Kahliff how—you apparently feel that it was a serious proposition and a serious consideration of 85 percent direct financing on the narrow bodied jets; is that correct?

Mr. DE SAINT PHALLE. Yes, sir, it is.

Senator HEINZ. How do you account for the fact—given the Bank's policy on narrow bodies is 30 percent, why would anybody on the Board ever consider, let alone seriously, that kind of financing, the 85 percent?

Mr. DE SAINT PHALLE. I didn't consider it, Senator.

Senator HEINZ. I know you didn't. But everybody here is a member of the Board. As far as I know, they're hard-working members of the Board, they're well-informed members of the Board. Everybody is well aware that 30 percent direct financing is the guideline.

But how do you account for the fact that your fellow Board members would have entertained such a suggestion even for a second? Why wasn't it laughed down right then and there? Why just you and Mrs. Kahliff?

Mr. DE SAINT PHALLE. Senator, it's sometimes very difficult in these cases for me in my own thinking to find what I consider to be the right answer. I think that's probably why Congress in its wisdom decided to have five directors. We are all individuals. We have different experiences, different backgrounds. We have to exercise our judgment, and it will vary.

Senator HEINZ. That's nice and that's, we like to think, occasionally true. But that doesn't explain the 300 percent divergence or 200 percent divergence from a 30 percent guideline.

Mrs. KAHLIFF. You must remember that was presented to us. We did not accept it.

Senator HEINZ. I understand that and I compliment you on not accepting it. It just strikes me as extraordinary that this Board would actually receive from any source that kind of presentation, with the guideline being well-known.

Mrs. KAHLIFF. I think Mr. Moore thought the deal would not go through if we didn't do the whole package.

Senator HEINZ. Yes.

Mrs. KAHLIFF. But we didn't think that. We thought maybe we ought to look a little further, and we did.

Senator HEINZ. Mr. Chairman, did anybody cover the multi-loan currency comparison issue earlier?

Senator RIEGLE. Not in any detail.

The CHAIRMAN. We did that yesterday, of course, at some length. We haven't done it today. [Laughter.]

Senator HEINZ. This is the standpoint, Mr. Chairman, of Bank policy.

The CHAIRMAN. No; we have not done that from the standpoint of Bank policy.

Senator HEINZ. Well, if I have time to get this out. I'm a little concerned, again, about the concentration on aircraft and some of the implications of it. I know that other members here have gone into that. But as I understand it, there is no American plane that is directly competitive with the 767 except the 767. Is that right?

Mr. MOORE. I think directly in terms of the configuration of seats and size, I think that's correct.

Senator HEINZ. Indeed, is not Boeing the only American company that is offering a so-called new generation of aircraft for passengers?

Mr. MOORE. McDonnell Douglas has a new stretch version of the DC-9 called the DC-9-80, which is in active competition with the Airbus at this point. It is a narrow body, but it seats about 150, compared to 200, 250, I think, in the Airbus. It appears to be right in competition and doing quite well.

Senator HEINZ. Well, it sounds like while there is some ability to substitute between 150-passenger jets and 250-passenger jets and narrow and wide bodies, that it's certainly not perfect competition by any means. And there are some very big differences and constraints that would operate in specified instances, where somebody who wanted a wide body wouldn't consider a narrow and vice versa.

Mr. MOORE. Right.

Senator HEINZ. That brings up the question—and tell me if it's been covered—as to the extent to which the Bank has any policy or practice of looking at the books of companies to determine whether U.S. companies have priced their goods competitively, particularly when they enjoy what for all practical purposes is a monopoly position in the United States?

Mr. MOORE. It's not a question of looking at the books, but discussing with them the nature of the offer and whether it is a truly competitive offer, whether it's too high a margin of profit in that particular offer. Mr. Stingel has done a lot of that and I might just ask him to make some statement on that.

Mr. STINGEL. Senator Heinz, what we've tried to do——

COMPETITIVE ADVANTAGE THROUGH FINANCING TERMS

Senator HEINZ. Before you get into that, let me just sharpen the question slightly. What I'm concerned about is that you have on the one hand Boeing and you have on the other Airbus. And that is nominally direct competition. But in fact, it is possible for Boeing to bid a higher price and make a higher profit because they have a competitive advantage, maybe, namely, you, where you can,

through the financing terms that you provide, be a powerful selling tool.

If you can get low-interest, long-term money, the price becomes a lot less relevant, particularly when the interest rate is 7.99 or 8 percent and the inflation that you're experiencing is at 12 or 15. That's a pretty darn good deal. It means you make 3 or 4 or 5 or 6 percent every year off of you.

Mr. STINGEL. You have sharpened the question. What we do is keep a pretty good file on the sales of different types of aircraft. We look at the date that they're going to be delivered and we try to figure out how much escalation for inflation and so forth would be encountered, what the seat configuration is, and what extra equipment such as radio equipment and so on goes into a plane. And we've pretty well satisfied ourselves that we are getting the correct information. We're not getting inflated figures to offset lower financing by Eximbank and lower interest rates or things like that.

If you get away from aircraft for a minute, we've actually gotten to certain companies in the United States where we thought they were bidding too high and couldn't win job after job. We've actually looked at their figures and seen a breakdown of how they priced their product, and then given a financing offer that was perhaps better, for example, where they have cut their price substantially to win a case, in South America or somewhere else, against strong competition.

Senator HEINZ. Were those, generally speaking, instances where there was only one American company bidding?

Mr. STINGEL. Where there was usually one American company, yes. And I think in aircraft we have a pretty good file on what a 727, a 737, a 767, and so on, really should cost with basic equipment. If it's delivered this year or delivered next year or delivered the year after and so on, we have to take that into account.

I don't think we've had the wool pulled over our eyes on that, and that we have been used, in effect, as a shill for getting a better price for Boeing, McDonnell-Douglas, or Lockheed.

Mrs. KAHLIFF. Senator Heinz, may I tell you something interesting? I heard Senator Proxmire one time question Mr. DuBrul—before this Board came on board—about how carefully we studied the invoices of the aircraft to know that. So I took it upon myself—and I'm sure Mr. Stingel did a much better job—to look into this. I went down to the engineering department after every sale and said, "when do we get the bill of sale and what is the difference? If there's a $2 million difference, what is it? I'd like to see what it is."

I did that for a long time. They finally convinced me that if they weren't satisfied with it, that they would come and tell me. I really hounded them. I didn't know what I was talking about, except that I knew a bill of sale when I saw it and I knew that I could compare prices.

And I never found a case where I felt that it had been padded. Because you can compare what they're selling one plane for, one set of spares and one set of engines, and we did that.

Senator HEINZ. Thank you.

My time has expired.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

NO PRESSURES FROM OUTSIDE

Mr. Moore, yesterday in your opening statement you said, and I quote you: "No pressures of any kind have been brought to bear upon the Bank, to me, by the press or any person in the White House, the Embassy in Canberra, or any other Government agency."

In the testimony yesterday Senator Heinz referred to that. There was a further colloquy with you, although I don't know that it's as complete as it should be for the record. I want to put some direct questions to you, so that there will never be any doubt about this.

Did you ever discuss this matter, Murdoch or the Ansett proposition, with the President prior to February 28?

Mr. MOORE. I did not.

Senator RIEGLE. No discussions at all?

Mr. MOORE. No.

Senator RIEGLE. With anybody on the White House staff?

Mr. MOORE. No.

Senator RIEGLE. No discussions at all on either subject?

Mr. MOORE. No.

Senator RIEGLE. Anybody else that would be connected to the campaign staff or in any way connected to the administration?

Mr. MOORE. No one.

Senator RIEGLE. Did you receive or send any written communication of any sort to any of those persons or areas that I've just mentioned?

Mr. MOORE. I did not. As to the Ansett case, you mean?

Senator RIEGLE. Or Mr. Murdoch.

Mr. MOORE. I did not personally send any written communication to Mr. Murdoch. The Bank, of course, sent him the preliminary commitment.

Senator RIEGLE. I mean, did you receive any or send any to any of the persons I mentioned before, anybody on the White House staff, the campaign staff, or did you receive from them any communication that made any reference to Mr. Murdoch or this particular transaction?

Mr. MOORE. I did not receive any, no, and I did not send any.

Senator RIEGLE. Are you aware of any floating around?

Mr. MOORE. I'm not aware of any.

Senator RIEGLE. You're not aware of any.

Since this is all prior to February 28, since February 28 have you had any occasion to discuss this with the White House?

Mr. MOORE. I have not.

Senator RIEGLE. Anybody on the White House staff?

Mr. MOORE. As I testified yesterday, the Counsel to the President called me Thursday and sent one of the Associate Counsels to see us Friday morning to discuss this hearing.

Senator RIEGLE. That's the only conversation that you had up until today with anybody on the White House staff on either Mr. Murdoch or the general subject matter we're discussing here today?

Mr. MOORE. That's correct.

Senator RIEGLE. Have you had any opportunities since February 28 to discuss this with any of the witnesses we're going to see this afternoon, Mr. Strauss, Mr. Kraft, or the others?

The CHAIRMAN. They are Strauss, Kraft, McCleary, Alston, Murdoch, and Kummerfeld.

Mr. MOORE. I had discussions one time on the first day it came in with Mr. Murdoch and Mr. Kummerfeld. I had two telephone discussions about the matter with Ambassador Alston, one on Monday morning in Australia, one before the first Board meeting and the second Thursday afternoon after the Board meeting, our time. That would have been Friday morning his time.

Senator RIEGLE. I take it from the directness of your answer that you're not saying that you don't recall such meetings; or discussions or memorandums. You're saying that there were none.

Mr. MOORE. Yes, sir.

Senator RIEGLE. I think it's important that that be on the record and I appreciate your response.

Let me ask you this. With respect to this transaction, did you ever request that Mr. Murdoch attempt to get an extension from Airbus so that it would allow you more time to try to consider this matter?

Mr. MOORE. I did not.

Senator RIEGLE. Did the thought cross your mind?

Mr. MOORE. I guess it didn't, Senator. We're used to working against deadlines and I didn't think that either of the other parties—that is, the Airbus consortium or the airline—would necessarily let me know if they were making that attempt.

Senator RIEGLE. I assume you've been involved in a number of these cases. Have there been any other times when you've asked somebody for time or when you've asked them to give you a chance to make a further evaluation?

Mr. MOORE. Yes, many times we have, Senator, in different circumstances. I'm not sure that we would have ever have thought it possible if we were dealing in competition with Airbus Industrie.

Senator RIEGLE. It did not occur to you to do that in this case?

Mr. MOORE. It did not.

INFORMATION ON THE AIRBUS OFFER

Senator RIEGLE. With respect to the exact details of the Airbus bid, how did you get that information? Obviously, this is the whole poker game. Who did you rely on for information on the Airbus offer?

Mr. MOORE. The first information was handed to us in writing in the form of a letter from Boeing describing the fleet decision being considered by Ansett as to the Boeing offer. Attached to it was a written copy of the final offer from Airbus Industrie on the financing for Airbus.

Senator RIEGLE. Where did Boeing get that?

Mr. MOORE. From Ansett, I guess. Ansett was with Boeing when they delivered that.

Senator RIEGLE. I am wondering if everybody here was relying on Ansett's stating the facts. Obviously, they're a party at interest. If they could, in effect, convince you that they had a better deal somewhere else, they could probably beat you down. Don't you have some obligation, having a direct financial stake in this, to look beyond that as a source of primary information?

Mr. MOORE. Yes. We confirmed with the Airbus Industrie the correctness of the offer that had been given us.

Senator RIEGLE. Explain that to me. When and how was that done?

Mr. MOORE. It was done in the workup of the case, and then certain questions arose during the first Board meeting that called for additional contact. It was handled through Mr. Duff, who at that time——

Senator RIEGLE. This before the 28th and after the 26th?

Mr. MOORE. Right, Senator.

There were a couple of questions specifically on how many planes were covered and how much they were covered, particularly in relation to spare parts and extras of that nature.

Senator RIEGLE. What would have happened on the 26th if the Board had accepted the suggestion it appears you made, that this thing be approved? I assume then that would not have been done?

Mr. MOORE. I don't believe there was any possibility on the 26th that anybody would approve an 85-percent package on the whole fleet. I started the meeting in an unusual circumstance in that the loan officer presenting the case was not the loan officer for Australia—that loan officer was out of the country. It, therefore, fell to me to describe the background of the meeting I had with Mr. Murdoch, and it looked as though I was an advocate. Indeed, Mr. de Saint Phalle and Mrs. Kahliff have testified that they thought I was pushing an 85-percent package.

The case was put to the Board on a request for guidance, which is the normal way to handle a complicated and difficult case involving competition. Mr. de Saint Phalle started the meeting by focusing on how many planes should be covered. By the time that 1-hour meeting was over, the three of us were in agreement to refer it to the NAC on the basis that it was originally sent over to the NAC.

Senator RIEGLE. Let me put a different question to you, because you're the Chairman here. You're responsible not only for your own reputation, but certainly the reputation of the Board and the institution and, for that matter, the President himself.

You have indicated that you were not aware, as this was all going on, that Mr. Murdoch was running the New York Post, nor were you aware that there was a question of a possible endorsement, nor that he would make one shortly after this transaction, one favorable to the President. None of this was known to you at the time?

Mr. MOORE. I knew that companies in which he had an interest owned the New York Post. I did not know their position politically or anything about that until the New York Times had an article on it some time later.

Senator RIEGLE. Looking backward—and it's always easier to look backward than it is to look ahead—but looking backward, let's take the fact that Mr. Murdoch came in and sought this loan and was meeting the same day with the President, and the fact that the loan was approved, and that shortly thereafter Mr. Murdock, through his newspaper in New York, endorses the President in a key spot with the primary upcoming and—let's say these are all entirely coincidental.

Doesn't the pattern of events reflect badly on everybody? Doesn't it reflect badly on the Bank? Perhaps in this particular situation there was no way to see this coming. That's your testimony to us.

But it seems to me that the timing of events here is troubling to a lot of people.

It seems to me that in terms of everybody's reputation it would be better to find out some way to safeguard against any coincidence of events like this occurring within such a short period of time. Maybe that means that Mr. Murdoch should have been more forthcoming himself in tuning you in as to other things that were going on simultaneously that could, after the fact, give this affair a bad appearance.

Looking back on it now, aren't you troubled about this to some extent? If so, how might we devise procedures or an approach that could prevent even a happenstance of this sort from taking place in such a way that raises questions that are very difficult to answer, and in a manner that destroys confidence in everyone involved.

Mr. MOORE. Well, I am glad I didn't know at the time, because it would have been difficult to give an impartial look at the case, which I think the Board did. With hindsight, I guess we should have known or been smart enough to figure out that some newspaper might do some endorsement at that point in time.

The only answer I think I should give, Senator, is that we should examine the framework in which the Eximbank operates. I think once I explain this it will be seen that if anybody was foolish enough to think they could use Exim's programs politically, he would walk right into a trap. The Eximbank is governed by a Board of five Directors, no more than three of whom are to be of the same party. Since we are not a regulatory agency, I assume the Congress set that up mainly to be sure that the Bank was not subject to political influences in extending loans.

Second, there are seven different agencies, of which Exim is one, who are voting members of the National Advisory Council on International Financial and Monetary Policies, chaired by the Secretary of the Treasury. All of our cases over $30 million are reviewed by staff and then by the political level of each of those seven NAC members.

Probably, I should have mentioned first that we have at Exim an extremely and, I think, an unusually fine long-time professional staff. Walter Sauer remains with us, and he started at the Bank within a couple of months after it was started in 1934.

Senator RIEGLE. Let me just interrupt you here. I am happy to have you read this into the record. I think it's important, and you're certainly free to do so.

My concern, however, is in a different area. My concern is with the procedures that apparently don't exist, and didn't exist in this case, to avoid this kind of circumstance, situation, from arising. I am wondering if, in the future, there might not be some way to insulate the process from this kind of situation.

You knew, for example, that Mr. Murdoch was going to be meeting with the President the very day that the Board was taking this up. As I understand it, you had a memo to that effect, and so, presumably, there was some awareness that that was taking place. It seems to me that, in order to protect the President, that, as an

appointee of the President, it would be better in that situation for you to steer clear of any practical financial decision involving several millions of dollars. Ideally, in no way could any inference be drawn, nobody could make something of a pattern of events that would cast a shadow over this whole transaction.

Obviously, there was not a procedure in this case sufficient to prevent that from happening. Might it not be wise to devise one for the future, not just for this President, but for any President.

Mr. MOORE. I think that's a very constructive suggestion, Senator. It occurs to me that I could very easily set up a mechanism with the White House appointment officers so that they will know what my appointments are. I think they will be the ones that will be easy to monitor. There is no way, since we are not coordinated, to know otherwise. That would seem to be a sensible thing to do.

Senator RIEGLE. I am not sure what the best procedure might be but I think a good agency—and I think the Eximbank is an important agency for our Government—ought not to be caught up in a situation where influence peddling or special arrangements, might even appear to have transpired.

It's possible, I think, for agencies to be used even without their knowledge. I mean, I don't know what Mr. Murdoch said to President Carter that day. I would like to know. We'll have him this afternoon. But, that will be one person's recollection of the conversation. The pattern here is troubling, and I want to protect this institution.

I want to protect the institution of the Presidency as well. We've been down this road before, where we've had patterns of circumstances. We had it in the milk case. We had it in other things. I think this type of chain of events was part of what destroyed a lot of public confidence in our institutions of Government. Everybody's been working to try and build that back.

I think you are going to have to devise a new procedure that will prevent the exact set of circumstances that occurred here from happening again. I leave it to you, as the Board, to figure out how best to do that.

I thank the chairman for his patience.

The CHAIRMAN. I just have one final question. And I want to thank the Board for your willingness to be here and be as responsive as you've been. I think you've been very responsive indeed. You've been here for more than 4 hours, yesterday and today together. I think you've been very helpful to the committee.

LENDING ACTIVITY CONDUCTED WITHOUT TRUE COMPETITION

My question, Mr. Moore, is a response to a single paragraph Mr. DuBrul writes. He says:

> My reading of recent reports in the institution is that lending activity has been heavily skewed to aircraft. It's my impression that much of this activity has been conducted without carefully checking on the true competitive situation, something that Eximbank took most seriously back in the 1976-77 period. During that period it was the responsibility of the policy analysis staff to confirm with counterpart lending agencies the actual terms of official credit being offered.

I think it would be constructive if Mr. Moore could document, under oath, if such procedures have been followed in each case of aircraft financing.

Now, let me ask you, have such procedures been followed in each case of aircraft financing? Were they followed in the Ansett case, for example?

Mr. MOORE. The OECD exchange takes more time than we had. We had complete and verified information from the Airbus consortium as to the offer they made in the Ansett case. In every case where we can, Senator, we use the OECD Telex exchange on aircraft cases. As I indicated earlier, that has been less than successful until the British entered the consortium. I don't mean to imply any criticism of the other members of the consortium, but the British, because they were new to it, offered the chance to comment on the financing proposal first. They are very open and very forthcoming with us.

The CHAIRMAN. How frequently have you had the policy analysis staff confer with your counterpart agencies?

Mr. MOORE. It is part of all of our procedures. I could not tell you now what was done on every case.

The CHAIRMAN. Can you tell us of any exceptions? The Ansett case is one. What others?

Mr. MOORE. I don't really regard the Ansett case as one.

The CHAIRMAN. It was an exception inasmuch as you just told me you didn't have time to do it.

Mr. MOORE. As to using the OECD telex exchange, I am sure that those were initiated, and we may initially have had answers in the Ansett case. I don't think they would have been in by the time of our Board meetings.

The CHAIRMAN. Let me ask, were they initiated, and did you have a response, Mr. Cruse?

Mr. CRUSE. I would have to check.

The CHAIRMAN. You don't know that they were initiated in this case?

Mr. MOORE. We had another avenue through Mr. Duff.

The CHAIRMAN. This is very important. I would think, in this case, Mr. Cruse would have that information. Is this another exception in this extraordinary case?

Mr. PEACOCK. Mr. Chairman, I am Dave Peacock, the loan officer.

The answer is that we never instituted an OECD exchange. I would like to say, though, that we had what I consider to be harder information about the competition in this case than in any other case I have had. I have never had a hard copy of an actual Airbus offer, which we had in this case.

In addition to that hard copy offer, we had the opportunity through Mr. Duff to check with an Airbus consultant. They confirmed the correctness of that offer, in addition to which they told us about the 9½ percent dollar offer which has been questioned.

The CHAIRMAN. Then you knew about the dollar offer, Mr. Moore?

Mr. MOORE. We knew that there was 20 percent in dollars offered in the basket of currencies.

The CHAIRMAN. You knew that was an exclusive dollar offer, too; right?

Mr. MOORE. No, there was not.

The CHAIRMAN. Mr. Peacock, what happened there? This was such a well-documented case. Why wasn't the chairman of the Board informed about the dollar offer?

Mr. PEACOCK. The transcript shows that Mr. Duff and I reported to the Board that there was a 9½ percent dollar offer. We know that we had such a report. The source of the report was Mr. Duff, who asked an Airbus consultant, who said there was a 9½ percent dollar offer.

The CHAIRMAN. What went wrong in the communications? After all, the man who should have it is the chairman of the Board. He should have been, along with the other members, the first to know about that; right?

Mr. PEACOCK. It was presented in both Board meetings, sir.

Mr. MOORE. We did know that there was an allegation and that there was an entire package in dollars at 9½ percent, but it was not true. Mr. Stingel has testified as to what the probable derivation of it was, that the schedule first offered to Ansett Airlines had a proposal that the dollar proportion of 20 percent be at 9½. They were traded down to 9¼.

The CHAIRMAN. Mr. Peacock, did you believe the dollar offer to be true?

Mr. PEACOCK. It was the best information we had at the time. I do not know—either there was or there wasn't—and I don't know the answer. But I do know that we informed the Board of what we had been told.

The CHAIRMAN. How accurate was this Airbus source? Do you know whether it's true or not in this case?

Mr. PEACOCK. I cannot answer. I just don't know. But it is better than we usually have.

The CHAIRMAN. I am a little shaken. You say that this is the best-documented case you have, the hardest information you had, and you don't know whether it was true or not.

Mr. MOORE. Well, the documented information did not contain the dollar offer. It was alleged that there was some oral offer at 9½ percent in all dollars. That turned out, apparently, not to be the case.

Mr. STINGEL. And I have since verified that with Airbus. There was not an all-dollar offer. The dollar offer came about at 9½ percent as a part of the original offer in the basket of currencies on a 10-year basis, where the dollars were at 9½ percent. That's the only dollar offer that was made as far as the original offer goes. The later dollar offer was reduced to 9¼ percent, again as a basket of currencies.

The CHAIRMAN. The majority of my basic question, Mr. Moore, you indicate that now, with the British on board, confirming by the policy analysis staff and your counterpart lending agencies, it would be more valuable than ever. Is that correct?

Mr. MOORE. In the case of aircraft, it appears that communication directly with Airbus Industries rather than the export credit agencies will be a better vehicle. Mr. Stingel has had some preliminary conversations along this line.

The CHAIRMAN. Let's get away from that for a minute. I realize that that's important. But, in general.

Mr. MOORE. In general, we do follow the OECD exchange on cases.

The CHAIRMAN. You do that?

Mr. MOORE. Yes, sir. And the method of communication, the degree of communication, the truthfulness of it is all better than it was when Mr. DuBrul was at the Bank.

The CHAIRMAN. What are the exceptions? When do you not follow those? Is it a matter of whether or not you have time?

CONFIRMATION TIME

Mr. MOORE. Sometimes it can be a question of time. That does come up from time to time. But we try, whenever possible and wherever possible and everytime there is time, to confirm.

The CHAIRMAN. Would you indicate that the portion of time when you can make this kind of confirmation, would it be 75 percent of the time, 90 percent of the time, 50 percent of the time?

Mr. MOORE. I think, in sectors other than aircraft it would be somewhere in that range. It's a very high percentage.

The CHAIRMAN. What range? I gave you a pretty wide range. Would you say 90 percent?

Mr. MOORE. It would be impossible for me to answer.

The CHAIRMAN. Will you determine what has been the experience, and let us know?

Mr. MOORE. We will try, Mr. Chairman. You realize, of course, that we are dealing with literally thousands of cases. It would take a little time.

The CHAIRMAN. You say the 9½ percent offer was never made. Is that correct?

Mr. MOORE. That is our understanding.

The CHAIRMAN. But if that 9½ percent offer were in fact made, as indicated in the transcript—Mr. Duff made that allegation—that would flatly undercut the rationale for the 8-percent interest rate.

Mr. MOORE. Unless one believed that the basket of currencies was more attractive to the airline. Since we really didn't have the comparison, I really can't comment on that. If we were bidding against a 9½ percent dollar offer——

The CHAIRMAN. We're informed that the basket of currencies was 9¼ percent in the U.S. dollars.

Mr. MOORE. Twenty percent of it was. The blended amount of it was 7.95 percent.

The CHAIRMAN. Well, we went over that yesterday. We won't spin it out again.

Senator Riegle.

Senator RIEGLE. Just one or two other things here, Mr. Chairman.

In your agenda, in the notes from the transcript of your Board meeting of February 26, 1980, there is a quote from you. I would share this quote here. It's part of a long statement by you, Mr. Moore, as you were discussing this matter on page 9. This comes out of a very long paragrah.

I quote you: "Now, I agree that there is some jockeying going on here because they are putting it in a package"— referring here to the Ansett package—"But I am convinced that whether we like it

or not it's an all-or-nothing situation. We covered this whole thing. 85 percent cover at 8-percent. Or there is just no decision."

That seems to me to be the bottom line of what you said here. I am going to repeat it again: You say, "We covered this whole thing"—meaning the whole package that's before you, which was the package on the 26th—"85 percent cover at 8-percent. Or there is just no decision."

You go on to say, "Now, we may decide not do to that because it's too painful, but I don't think we should fool ourselves that there is any way to jockey this package or do less than present it to the Board. There will be a decision that's going to be a highly controversial decision."

I wasn't in the room, but I know you are a modulated speaker, not an arm-waver—at least you haven't been here. Reading the English language here, this sounds to me like a very strong, assertive statement. You're pushing things forward, and there is not much equivocation about what you're saying here. I gathered from your later testimony that perhaps you weren't sure in your own mind and that you were trying to push things forward. This sounds to me as if you were.

Do you recall saying this? Doesn't this sound like you reached a judgment?

Mr. MOORE. This is a correct transcript, Senator, and I was pushing hard for the competitive position. Of course, I realized that it was a very extreme position in terms of our budget constraints to try to look at a package as large as $400 or $800 million with 85 percent cover. I think that by the time this came out Mr. de Saint Phalle had made the other statement very strongly. We all came to the same conclusion by the end of the meeting.

I am not an arm-waver, but I do speak with conviction, and I am sure that I had a strong effect upon Mrs. Kahliff and Mr. de Saint Phalle. Their recollection was so strong of it that they feel now I was pushing that as an advocate's position. I was pushing for that no matter what.

That was not the issue. I did feel that we wanted to be certain that the first possible sale of the 767 outside of North America and Europe would occur. That was the position we wanted to take. They counseled less, and it appears, though we don't know it for certain, that the American export will go forward in Australia, which was the last opportunity for American planes to have a chance in the two domestic airlines in Australia, except for additional narrow-bodies that the others may order in the future.

Senator RIEGLE. Well, you've been patient witnesses, and you've been here a long time. I have some other questions that I would like to have you respond to. They are more technical in nature. If you could respond to them, that will be all for me.

Mr. MOORE. We will be glad to.

The CHAIRMAN. Thank you very, very much. We are delighted to have you.

The committee will reconvene at 2:30 this afternoon to hear from Messrs. Strauss, Kraft, McClearly, Ambassador Alston, and Messrs. Murdoch, and Kummerfeld.

[Whereupon, at 12:30 p.m., the hearing was recessed, to reconvene at 2:30 p.m., this same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Our witness—we have a series of witnesses this afternoon. Our first witness is Mr. Robert Strauss, who is head of the Carter Reelection Committee.

Mr. Strauss, we're honored to have you with us. I think you deserve an explanation as to why you're here. In the first place, as I said yesterday and as I repeat now, there's no documented evidence to tie you in any way to this case. We have no indication that you had anything to do with it.

But there are a series of coincidences here that I think we need to secure answers on.

First, will you rise and raise your right hand.

[Witness sworn.]

STATEMENT OF ROBERT STRAUSS

The CHAIRMAN. Let me just read a short paragraph from my opening statement to indicate what the circumstances are. Because of the haste with which the request was approved—and this is a request by the Export-Import Bank for a decision on a loan to Ansett, which was largely owned, 47 percent owned by Mr. Murdoch—because of the haste with which the request was approved and the loan was apparently on preferential terms, several newspapers have suggested that Exim's consideration and decision may have been politically motivated.

They said, a series of coincidences—a luncheon that Rupert Murdoch, the managing director of Ansett, had with President Carter on the day on which Mr. Murdoch met with Chairman Moore to request the loan, the endorsement of President Carter's reelection 3 days later by the New York Post, which Mr. Murdoch owns, and the Bank's subsequent decision on the loan 6 days after the newspaper's editorial.

Now, because, Mr. Strauss, you're the head of the election committee, we all know you're a very high powered person, you believe in operating with people at the top——

Mr. STRAUSS. Could we let the record just stop there? I'll excuse myself. [Laughter.]

The CHAIRMAN. Well, you are. That's all you do.

Mr. Murdoch is also high powered and believes in operating at the top. You did know the person, the person who was so very closely associated with you, Mr. Strauss, I understand, known as Mr. Murdoch's lawyer, Howard Squadron; is that so?

Mr. STRAUSS. No, sir. I know him and I've been with him on 8 or 10 occasions.

The CHAIRMAN. That is what I asked, did you know him?

Mr. STRAUSS. Yes, sir. I'm not closely associated with him.

The CHAIRMAN. He did join you to a trip to the Middle East on one of your diplomatic missions?

Mr. STRAUSS. Not to my recollection. He may have. I may be mistaken about that. I made a number of trips.

Let me tell you, I know Mr. Howard Squadron as head of a major American-Jewish organization. I met him in connection with my Mideast duties. I have spent several hours talking to him. I don't

think I've ever had a conversation with him that related to anything except Mideast political affairs and substantive affairs.

The CHAIRMAN. And you didn't have any conversations with him, or did you have any conversations with him, that dealt with Mr. Murdoch?

Mr. STRAUSS. I did not.

The CHAIRMAN. That dealt with this loan to Ansett?

Mr. STRAUSS. I did not.

The CHAIRMAN. Do you know Mr. Rupert Murdoch?

Mr. STRAUSS. I met Mr. Rupert Murdoch on one occasion. I think it was the fall of last year. I went into the 21 Restaurant in New York with my wife. While we were sitting at the table, I noticed Mr. Murdoch sitting with a friend of mine. I didn't know Mr. Murdoch then. I knew the friend of mine, Mr. Charles Allen of Allen & Co.

I went over to see Mr. Allen and he introduced me to two gentlemen, one of whom later proved to be Mr. Murdoch. I sat at the table about 5 minutes. I recall I had a drink while I was sitting there, which took 5 or 10 minutes. During that time I met Mr. Murdoch, and a friend of his who was also with Mr. Allen. And I think we talked a few minutes about Texas. He owned a newspaper in Texas. For a time I spoke to Mr. Allen and then I excused myself.

NEWSPAPER ENDORSES PRESIDENT CARTER

That's the only time I have ever been with Mr. Murdoch personally. I have a second recollection of talking with Mr. Murdoch. I called Mr. Murdoch some time after his newspaper endorsed President Carter to thank him. He was out of town. I called on another occasion to thank him again, and he was out of town at that time. I left word and asked that he call upon his return.

Some week or 10 days later he called and apologized for the delay in returning the call, and said it was not his custom, but that he had been out of the country. I think at that time I expressed my appreciation. Then we talked about New York politics. I said to him, anything he could do to help the President, we would really appreciate.

The CHAIRMAN. What was the date of that conversation?

Mr. STRAUSS. I don't know. My judgment is that it was in February, Senator. I have been trying to recall that. Obviously, it was some time after the endorsement. I'd say 3 weeks after the endorsement. I did go to Mr. Murdoch's paper in January. I spent a day in New York in January on political business and I did several things. I met with a number of political leaders, I met with a number of labor leaders. I had lunch with Mr. Michael O'Neill, editor of the Daily News, and I met with the editorial board of the New York Post.

The CHAIRMAN. So that you did meet with the editorial board of the New York Post before the February 22 endorsement?

Mr. STRAUSS. Yes. It was in January and Mr. Murdoch was not present there. I am absolutely certain of that. I met with both newspapers. I met with only the editor of one paper, the board of the other. And at that time, of course, also, there was no such discussion.

The CHAIRMAN. Did you discuss with anybody on the board of the New York Post the Ansett situation, the loan or anything of that kind?

Mr. STRAUSS. I did not.

Let me go further, Senator, and say this. I don't believe Mr. Murdoch would know me from a row of coal cars if he saw me on the street, nor would I know him. I'm sure he's a very distinguished man.

The CHAIRMAN. From a load of coal cars, I think he'd know you.

Mr. STRAUSS. I don't know him and he doesn't know me. I've never had any discussions with him about anything other than what I've just related. Those are the only two discussions I've ever had with him: one over a drink, about rather inane subjects; the other to express appreciation.

I did not know a loan was pending. I have not discussed that loan with anybody. I haven't seen nor talked to John Moore, who heads the Eximbank, in the past 12 months. I may be mistaken, I may have seen him somewhere. I didn't know there was a loan pending.

I didn't even know that Mr. Murdoch had a luncheon invitation or would be the guest of the President. That's not unusual. I suspect that the President has had 20 such publishers in, although I'm just guessing—it may be 12, it may be 26—over the past 6 months. I'm not familiar with those he did have or didn't have as guests.

So I really didn't have any knowledge about this. I'm glad to be here and shed that ray of light on it, as uninteresting as it is. [Laughter.]

The CHAIRMAN. It's quite interesting. Could you tell us whether or not that lunch with President Carter was with Mr. Murdoch alone or was it with other publishers?

Mr. STRAUSS. I have no idea. The only thing I know about that is that I think it was alone. Why I think so is just because I heard they had lunch. No one told me that several other people were there.

I also checked last week as best I could on the luncheon. My secretary told me that she was advised that there had been three or four efforts, or two or three efforts aborted for them to have lunch. It started long before I even got over to the President's reelection committee to serve as chairman. So apparently it was a luncheon engagement made some time last fall, September or October. I think they told me October.

But it was canceled at Mr. Murdoch's request once or twice, or at the President's request. They never got together. It started before my arrival there. It took place while I was there, without my knowledge, a little bit later.

And I have never had a conversation with Mr. Murdoch even with respect to his endorsement, except to thank him for that endorsement when it had taken place.

SEEKING EDITORIAL ENDORSEMENTS

The CHAIRMAN. Did you or didn't you have a policy of seeking editorial endorsements for the President? Have you called other publishers?

Mr. STRAUSS. Yes, sir.

The CHAIRMAN. You did not call the Post, however, except that you talked to the editorial board? You didn't talk to the owner, Mr. Murdoch?

Mr. STRAUSS. That's correct. I think he was out of the country.

The CHAIRMAN. Didn't you know Mr. Murdoch was the kind of man who would seem to control the things that he owned and had an interest in following the policy of his newspaper?

Mr. STRAUSS. Senator, if I had thought about it, I certainly would have known that.

Let me say this. I also know 50 other publishers around the country who control the destiny of their papers, and I haven't talked to any of them either. As a matter of fact, the ones I've talked to are rather few. I could reel them off if you want.

The CHAIRMAN. As I understand, you did say that you did call the publishers of newspapers and editors on occasion, and urge them to support the President?

Mr. STRAUSS. Well, I'm trying to think. I don't know of publishers I have spoken with, although I have had meetings with the editorial board and editorial group at the Los Angeles Times. The publisher was not there and I have not talked to him, although he's a friend of mine, Tom Johnson.

I have been before the editorial board not only there, but in Tennessee, for The Tennessean and The Banner. I don't know whether the publishers were in those rooms or not. I guess the publishers were in those rooms. One of them was John Siegenthaler, who supports Senator Kennedy. The other one was John Jay Hooker, who supports the President.

The CHAIRMAN. You're such a savvy, intelligent, and effective man that I think you're the kind of fellow who would probably find out who would make the decision. You'd want to talk to him and he'd be the fellow you concentrated on.

Mr. STRAUSS. I think I'm smart enough to do that. To tell you the truth, Senator, though, I haven't the way I should. I haven't talked to the publisher of the Los Angeles Times. I haven't talked to the publisher of the Washington Post. I haven't talked to the publishers of even the Dallas papers, where I have some local connections. So I really haven't talked to any publishers.

The CHAIRMAN. How about your relationship with the aides of Mr. Murdoch, other than Howard Squadron, whom I asked about? How about Donald Kummerfeld?

Mr. STRAUSS. I don't know him.

The CHAIRMAN. You don't know Donald Kummerfeld?

Mr. STRAUSS. I don't believe I ever met him.

The CHAIRMAN. Howard Rubinstein?

Mr. STRAUSS. I don't know him. I've discussed him.

The CHAIRMAN. Did you discuss Mr. Murdoch's interest in the Australian airline with Mr. Rubinstein?

Mr. STRAUSS. No, I have not on any occasion with anybody, including Mr. Rubinstein. I don't guess I've talked to Mr. Rubinstein 10 minutes in our lives, not on any business matter.

The CHAIRMAN. Let me ask you if you discussed the Eximbank loan application with any of the following:

First, with the President of the United States, President Carter?

Mr. STRAUSS. No.

The CHAIRMAN. With anybody on the White House staff?

Mr. STRAUSS. No.

The CHAIRMAN. With Chairman Moore of the Eximbank?

Mr. STRAUSS. No.

The CHAIRMAN. With any other officials or staff members of Eximbank?

Mr. STRAUSS. No.

The CHAIRMAN. With anybody associated with the Carter reelection campaign, including Tim Kraft, Joel McCleary, Gerald Rafshoon, or any other people on the Carter Reelection Committee?

Mr. STRAUSS. No.

The CHAIRMAN. Any of Mr. Murdoch's associates, other than the ones I've mentioned, whom you've said you've had no discussions with?

Mr. STRAUSS. No.

The CHAIRMAN. Anybody else that I have not mentioned?

Mr. STRAUSS. No. And I'd like to make one final statement. I have not discussed that loan with anybody. [Laughter.]

The CHAIRMAN. Mr. Strauss, could you please tell the committee all that you know about how and why Mr. Murdoch's lunch with President Carter was arranged?

Mr. STRAUSS. Since this inquiry has come up, I have inquired into that. It's sort of a loosely fit bit of information that's not strictly factual, as far as I know. But I've been advised by people in my office, whom I asked in part.

They advised me that an initial luncheon was set up last October, I think it was. I'm pretty sure the date October is right. And that at one of the two principals' request it was canceled. It was reset in November, and at one of the two principals' request it was canceled. It was reset on this date in February and kept.

I must say to you in all sincerity, Senator, that I knew neither of the first, second, nor the third engagement. I heard of the third engagement some time shortly after it took place, when I was told by our people that we were getting the endorsement of the New York Post.

The CHAIRMAN. Do you know that it had been scheduled to coincide with Mr. Murdoch's meeting with Eximbank?

Mr. STRAUSS. I did not. I didn't know of the luncheon or of the loan application or the meeting at the Eximbank. Even though it may sound like I wasn't following what was going on, it was just something that I wouldn't have known anything about, had no reason to, and didn't. And I have learned that since.

The CHAIRMAN. What value would the New York Post's endorsement before voting day in the New York Presidential primary have for the reelection effort?

Mr. STRAUSS. I think it would be of real value.

The CHAIRMAN. What steps did the Carter campaign take to get that endorsement?

Mr. STRAUSS. The only thing I did was to go and meet with Ed Ter Hoist about an hour and a half. As it turned out, the meeting wasn't necessarily good. I thought part of it was off the record, they didn't, and I really got into a little bit of a squabble with

them over whether they reported something that was off the record or whether they leaked it or not.

I think it probably proved to be negative time spent, instead of positive, because they raised hell with me for making a comment that was later printed in the New York Times. I thought the information we discussed was off the record. It wasn't any big deal. They may have been right, I might have been right. I don't know.

The CHAIRMAN. You're in charge of the reelection effort. What other effort was made by others to secure that?

Mr. STRAUSS. Joel McCleary on our staff spent some time with Mr. Murdoch, I believe. I haven't talked with Mr. McCleary about it, and I know he's going to be a witness here today. He's in this room at the moment. I have not discussed this with him intentionally or with anyone else. I have not discussed it with Mr. Kraft or Mr. McCleary. They can each speak for themselves.

The CHAIRMAN. Do you know of any other person who tried to secure that endorsement?

Mr. STRAUSS. No, sir, I don't.

Let me say this, Senator. If someone had called me and said, would you please call Rupert Murdoch and go see him again and get his endorsement, I would have gone. No one suggested it and I didn't do it. Just as I said I haven't gone to most other newspapers in America for endorsements that would have been important.

The CHAIRMAN. Do you know whether Mr. McCleary's approach to the Post included any understanding regarding Ansett's loan application with Eximbank?

Mr. STRAUSS. I don't know anything about it. I'd rather let him speak for himself, Senator. So far as I know, I have intentionally avoided discussing this matter with anyone. I didn't even inquire to the White House with respect to the date of the luncheon.

The CHAIRMAN. All right.

So Senator Heinz? My time's up.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Strauss, did you see Philip Alston, our ambassador to Australia, during his visit here in late January and early February?

Mr. STRAUSS. If he was here I probably saw him, Senator.

Senator HEINZ. Is he an old associate of yours?

Mr. STRAUSS. Not an old associate, but he's a good friend. He always comes by and pays respects. I saw him yesterday, as a matter of fact. Strangely, we didn't discuss this matter here today.

Senator HEINZ. You have said that you haven't discussed this with anybody at any time. Is that correct?

Mr. STRAUSS. No, that's not correct. I said I haven't discussed it with Mr. McCleary, Mr. Kraft, and I was trying not to discuss it with anybody other than my making some general inquiries so I'd be able to testify with some semblance of sanity up here.

Senator HEINZ. I meant prior to the endorsement of the New York Post.

Mr. STRAUSS. Never.

MEMORY FAILURES

Senator HEINZ. Nobody mentioned it to you?

Mr. STRAUSS. Never.

Senator HEINZ. You've been very clear on that point. On the other hand, Mr. Moore, who was before us, said that he didn't know anything about the Boeing deal, the Ansett deal, before he had dinner with Mr. Alston on February 4, and then it was very inconveniently found that he had said in testimony or in one of the meetings that he had at the Bank that indeed he had been called personally by the people at Boeing ahead of time, before that meeting, in January, so that he knew.

We had this problem with people having a lot of memory failures, Mr. Strauss.

Mr. STRAUSS. Let me make it very plain to you, Senator. I don't have any memory problems concerning what I've just testified about. Mr. Moore's testimony will have to stand on its bottom. Mr. Alston's testimony will have to stand on its own bottom. And anybody else's testimony is going to have to stand on its own bottom.

I took an oath here to say what I knew. I have no problem recollecting. When I do, I state that problem.

Senator HEINZ. I'm delighted to hear that.

Mr. STRAUSS. I have not discussed this loan with anybody. I did not, prior to the time it was made. I have never discussed it with Mr. Alston. I could have seen Mr. Alston on any one or more occasions. He's a friend of mine—a friendship in which I take great pride. And I saw him latest yesterday.

Senator HEINZ. Mr. Strauss——

Mr. STRAUSS. Let me just finish, Senator, if I may.

I saw him yesterday and I did discuss it with him then.

Senator HEINZ. Are you finished?

Mr. STRAUSS. Yes, sir.

Senator HEINZ. Let me just say, your testimony, taken at face value, is a big improvement on the testimony we had earlier today and yesterday in terms of memory failure in particular.

Who, if anybody, at the Carter Reelection Committee would have been concerned about the New York Post and its endorsement? Do you have anybody who is supposed to care about getting endorsements for the President?

Mr. STRAUSS. I would think there are a number of us that should. Sloppy as that operation is, anybody could have been involved in it, Senator. [Laughter.]

Senator HEINZ. That's how the Nixon White House was set up on Watergate, that's true.

Mr. STRAUSS. You said that, Senator, I didn't. I'm going to testify about what I know. What I said was true also. Joel McCleary is the young man who is responsible for New York for our campaign. He handles it well. It would have probably been his prime responsibility to suggest things that should be done in New York, suggest things that maybe he thought I should do. I would try to fulfill them, and suggest things to the White House that the President might do to help his political business or others. So it would have been his prime responsibility.

Our campaign manager is Tim Kraft. He would have less to do with that. He'd be more swamped with the field operation. But he too might have that. And others could very well take it upon themselves to do so.

Let me also say, it should be my prime responsibility to see that we touch all the bases, if you will, and we do a good job in terms of a political operation. But it's not very efficient. As you know, political operations normally are not.

Senator HEINZ. We'll leave that one lying there, too.

Mr. STRAUSS. Compared to what I've seen of a lot of other political operations, though, ours is very good.

Senator HEINZ. Mr. Strauss, you have an excellent reputation as a negotiator. You achieved the negotiations on the multilateral trade agreement with flying colors. You have a great reputation for getting things done; hence, our interest in you. But don't take it personally.

Mr. STRAUSS. I don't take it personally at all, Senator. I also have a good reputation for truth and veracity and I want to protect that. I treasure it.

Senator HEINZ. Thank you.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

Mr. Strauss' testimony has been clear and unequivocal, in his inimitable way. And I don't know of any reason whatsoever to doubt the truth of what he says; therefore, Mr. Chairman, I don't have any questions.

Senator HEINZ. Thank you, Senator.

The CHAIRMAN. Senator Lugar?

Senator LUGAR. No questions.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. I think all my questions have been answered.

The CHAIRMAN. Senator Morgan?

Senator MORGAN. No questions.

The CHAIRMAN. Mr. Strauss, thank you very much for your testimony. It seems to be universally agreed it was explicit, clear, and there's no question that you have the confidence of this committee as well as a lot of other people.

Mr. STRAUSS. Thank you very much. I appreciate the nice things you've said, Senator, and everybody else. Glad to have been here.

The CHAIRMAN. Thank you. Now I'm going to ask Mr. Tim Kraft and Joel McCleary to come before the committee, together, if they would.

Gentlemen, would you rise and raise your right hand?

[Witnesses sworn.]

TESTIMONY OF TIM KRAFT AND JOEL McCLEARY, ACCOMPANIED BY ANTHONY ESSAYE

The CHAIRMAN. Mr. McCleary, have you known Rupert Murdoch?

Mr. MCCLEARY. Yes, sir.

The CHAIRMAN. How long have you known him?

Mr. MCCLEARY. I've only met Mr. Rupert Murdoch twice. I met him once at a dinner at Arthur Krim's house and shook his hand. The second time I met him was in the summer of 1979. The third time I met him was today.

The CHAIRMAN. Will you identify the gentleman on your left?

Mr. ESSAYE. I can identify myself, Mr. Chairman. My name is Anthony Essaye. I'm acting as counsel to Mr. McCleary and Mr. Kraft.

I'm a neighbor of yours at Highland Place.

The CHAIRMAN. Very good. I thought there was something special about you. [Laughter.]

Mr. McCleary, will you tell the committee about your relationship with Mr. Murdoch?

Mr. MCCLEARY. As I say, I've only met Mr. Murdoch three times. The first time I met him, we were just at a dinner together. We shook hands and said, hello. The second time when I met him was at a dinner at his house. We simply talked about the policies of the administration. There was no discussion of any Government business whatsoever.

The third time is here today. That has been the extent of my communications directly with Mr. Murdoch.

The CHAIRMAN. Now until today, did you discuss this matter of the Ansett loan by the Export-Import Bank with Mr. Murdoch?

Mr. MCCLEARY. Absolutely not. I never even heard of the loan until it appeared in the newspapers.

The CHAIRMAN. Did you discuss the endorsement of President Carter by the New York Post?

Mr. MCCLEARY. Repeat the question?

The CHAIRMAN. Did you discuss with Mr. Murdoch the endorsement of the New York Post of President Carter?

Mr. MCCLEARY. I did not discuss it directly with Mr. Murdoch.

The CHAIRMAN. Not directly. With whom did you discuss it?

Mr. MCCLEARY. I know several people who work with Mr. Murdoch. One is Mr. Howard Rubinstein, who is a public relations man in New York, who is very involved politically whom I deal with on a variety of issues. He is the main person I discussed the endorsement with.

The CHAIRMAN. Did you discuss with Mr. Rubinstein or anybody else on the Post or anybody else, or in relationship of any kind with Mr. Murdoch the Ansett loan and the Export-Import Bank's role in it?

Mr. MCCLEARY. Absolutely not.

LUNCHEON ARRANGEMENT

The CHAIRMAN. It's been reported that you were much involved in arranging the February 19 luncheon between Mr. Murdoch and President Carter. Is that correct?

Mr. MCCLEARY. That's correct.

The CHAIRMAN. How did plans for a Carter-Murdoch meeting come about?

Mr. MCCLEARY. The first time it was discussed was in the summer of 1979, when we felt that it would be good for the President and Mr. Murdoch to get together and get to know one another.

During the course of our conversation with Mr. Murdoch that night, it came about—it came out that he had several questions about the President's energy policy and economic policies and we thought that it would be good for them to get together and discuss those.

Then Mr. Murdoch was out of the country and for a variety of reasons, the meeting was not arranged during the summer. I became campaign manager for Carter-Mondale in September 1979. As soon as I got to New York, obviously, I began my work as campaign manager. I was interested in getting the endorsements of all the major newspapers in New York and I treated the Post, I think, very much like I treated the major newspapers there. I tried to arrange a meeting between Mr. Murdoch and the President.

We began those arrangements in late September and worked on it all the way through October, November, and December. For a variety of reasons, we weren't able to get them together during 1979 because Mr. Murdoch was out of the country.

When he did come back into the country, we arranged the meeting.

The CHAIRMAN. Was Mr. Rafshoon involved at all in the meeting in the White House between Mr. Murdoch and the President?

Mr. MCCLEARY. No, he was not. Mr. Rafshoon was involved earlier. He was at the dinner that I had with Mr. Murdoch in the summer of 1979.

The CHAIRMAN. He wasn't involved at the later meeting?

Mr. MCCLEARY. No, not to my knowledge.

The CHAIRMAN. Mr. Strauss referred to previous dates and we know of other dates that were apparently set up at one time or another before the February 19 date for the luncheon between the President and Mr. Murdoch.

Were any other dates selected before February 19 was settled on?

Mr. MCCLEARY. I believe that there were two dates, one in November and one in December. I'm not sure what those dates are. But I'm sure that there were a couple set because I remember the White House getting upset that I kept scheduling them and canceling them.

The CHAIRMAN. Why were they canceled?

Mr. MCCLEARY. Because Mr. Murdoch couldn't be in the country, I believe.

The CHAIRMAN. Mr. Murdoch asked that they be canceled?

Mr. MCCLEARY. That's correct because they didn't mesh with his schedule.

The CHAIRMAN. How were you involved in arranging the February 19 luncheon? Why were you involved and how?

Mr. MCCLEARY. Why? Because I was a campaign manager in New York and I was very interested in getting the endorsement of both the Post, the Daily News, the New York Times, and the Amsterdam News. And I worked on trying to secure the endorsement of all those major newspapers.

The CHAIRMAN. Was the purpose of the luncheon secured or did you see about the prospect of securing the endorsement of the President by Mr. Murdoch's paper?

Mr. MCCLEARY. Yes. It was my feeling that the administration's record vis-a-vis New York wanted the endorsement. I felt that an opportunity for the two of them to get together and to talk would be helpful.

That was the purpose of the meeting. That is correct.

The CHAIRMAN. Did you know Mr. Murdoch was scheduled to meet on that same day with the head of the Export-Import Bank?

Mr. McCLEARY. Absolutely not.

The CHAIRMAN. Did you know the purpose of Mr. Murdoch's meeting with the Export-Import Bank?

Mr. McCLEARY. I didn't know about it.

The CHAIRMAN. When were you first contacted about the February 19 luncheon? When were you first contacted and asked and suggested—or did you suggest it yourself?

Mr. McCLEARY. I suggested it. I kept pushing the meeting all throughout the fall and the early part of 1980. What happened was we negotiated with the campaign, kept trading dates backward and forward, and finally, we arrived at that particular date.

APPARENT CONFLICT OF INTEREST

The CHAIRMAN. Wouldn't it have occurred to you, Mr. McCleary, that there was at least an apparent conflict of interest here? Here you have the head of a newspaper who also was owner of an airline who was meeting with the Export-Import Bank on that day, that very day, and to have him then go over and meet with the President of the United States—don't you think that that should involve a matter that would at least seem suspect, however innocent it might be?

Mr. McCLEARY. As I say, we did not know about it. If we had known about it, I probably would not have suggested it for precisely this reason.

The CHAIRMAN. Well, you're a very accomplished and successful person in this respect. Why wouldn't you try to determine whether or not the President might be compromised under these circumstances?

Mr. McCLEARY. It would never dawn on me to ask Mr. Murdoch if he were having other meetings in Washington at the same time that he was going to meet with the President.

The CHAIRMAN. Why not? Why wouldn't that be a good safety measure?

Mr. McCLEARY. I can promise you in the future I will do that. I never have done it before.

The CHAIRMAN. Did Mr. Murdoch or any other Murdoch aides discuss with you Ansett's loan application for the Export-Import Bank?

Mr. McCLEARY. No.

The CHAIRMAN. Did any White House or Carter campaign official discuss with you Ansett's application for Eximbank loan?

Mr. McCLEARY. No.

The CHAIRMAN. Did you discuss the Ansett loan application with Mr. Moore or any Eximbank official?

Mr. McCLEARY. No.

The CHAIRMAN. Did you discuss the endorsement by the New York Post of Mr. Carter with the President?

Mr. McCLEARY. No, I did not.

The CHAIRMAN. You didn't? You simply went ahead because you were head of the New York operation and you felt that that was the appropriate thing to do as one of the three principal papers in New York, and that was a good reason?

Mr. McCLEARY. Right.

The CHAIRMAN. Did you have any discussion with the following people about possible support by Mr. Murdoch or Mr. Murdoch's newspaper of President Carter: First, Mr. Strauss?

Mr. MCCLEARY. Did I—excuse me—did I have any conversations?

The CHAIRMAN. Any discussions with Mr. Strauss of the possible support by Mr. Murdoch's papers of President Carter?

Mr. MCCLEARY. I'm not sure if I did or not.

The CHAIRMAN. Either the Texas paper, or—or you're not sure whether you did?

Mr. MCCLEARY. I'm not sure whether I did or not. I would imagine that I did.

The CHAIRMAN. You probably did. You might have discussed it with Mr. Strauss. How about Mr. Kraft?

Mr. MCCLEARY. I did discuss it with Mr. Kraft.

The CHAIRMAN. Anybody else at the White House, on the White House staff that you might have discussed it with?

Mr. MCCLEARY. I'm sure I discussed it with everybody because I felt so proud that we got it.

The CHAIRMAN. Did you discuss it in advance?

Mr. MCCLEARY. I considered it a very important endorsement.

The CHAIRMAN. Did you discuss how to get it? Did you recognize that Mr. Murdoch, as owner——

Mr. MCCLEARY. I felt fairly confident just on the merits of the case in a race between Senator Kennedy and President Carter, there was no question which way the Post would eventually come.

I think it was just a matter of just articulating those differences and that's, in fact, what happened.

The CHAIRMAN. You say you discussed it with a number of people. What other people did you discuss this with, the endorsement by the Post of President Carter?

Could you give us some idea?

Mr. MCCLEARY. I'm sure I discussed it with Mr. Kraft. I'm sure I discussed it with Mr. Powell and probably Mr. Jordan. In fact, just to say that we were going to get the endorsement—the fact is that probably in early fall, I had a sense that we were going to get the endorsement eventually, or that we could get the endorsement.

The CHAIRMAN. This was not an endorsement, as I understand it, for President Carter's reelection. It was an endorsement of him in the primaries. Is that right? It stopped short of a reelection endorsement.

Mr. MCCLEARY. That's correct.

The CHAIRMAN. It didn't say it wouldn't endorse President Carter, but it was simply for the primary it endorsed him in preference to Senator Kennedy or Governor Brown or any other democrat.

Mr. MCCLEARY. That's right. I hope we'll get Mr. Murdoch's endorsement for the fall also.

The CHAIRMAN. I've read that editorial and what the editorial did was, first, as I understand it, it dismissed Governor Brown, then it dismissed Senator Kennedy, and it settled on President Carter.

Mr. MCCLEARY. Yes, that's correct.

The CHAIRMAN. And it said, with all his shortcomings——

Mr. MCCLEARY. I don't remember the details. [Laughter.]

The CHAIRMAN. My time is up. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman. You've run through a reasonably comprehensive list of questions. But I would just like to pin down the way the meeting was set up.

SETTING A MEETING DATE

In settling on the February 19 date, you obviously discussed it with people in the White House, people who did the President's schedule, probably Mr. Powell, since he's in charge of that.

Could you tell us who in January, subsequent to the cancellation of the last meeting, whenever that might have been, in December or January, what have you, who you did discuss the setting up of the February 19 meeting with?

Can you give us those?

Mr. MCCLEARY. Well, first, I hope the Senators don't feel that setting up a meeting like this was an unusual occurrence. In fact, it was so usual that we set up meetings with the President, that there was an actual format for it through the campaign committee.

So what we would do, I didn't even, in fact, do it directly. I had a person on my staff who dealt directly with Washington campaign staff and there was a New York campaign desk there.

So that what happened is——

Senator HEINZ. Who was that?

Mr. MCCLEARY. In the Washington campaign desk?

Senator HEINZ. Who was the person who dealt with it?

Mr. MCCLEARY. From my staff, a man by the name of Paul Gallis. And there was just a set format and I'm sure they just went backward and forward trying to arrive at a date, trying to find a time when Mr. Murdoch was available.

If I remember correctly, the date that we set up in November and December, we came with specific dates to present to Mr. Rubinstein. Then he checked them out with Mr. Murdoch and I think finally, because we were having a hard time securing the date, he said, when you're available, when you're back in the country, why don't you let us know within a week when you'll be in Washington and we will try to arrive at a date in that week.

Senator HEINZ. Now you discussed the meeting beforehand with, you think, Mr. Strauss. You mentioned Mr. Powell, Mr. Jordan, obviously Mr. Kraft. Those are people you discussed the meeting with either to set it up or to give them information about the meeting.

Was there anybody else?

Mr. MCCLEARY. I don't have specific memory of talking to those people. What I'm saying is I do not rule out having talked to them. Obviously, in the course of just my day-to-day operations, I might have discussed it with——

Senator HEINZ. Could there have been anybody else that you would have discussed it with?

Mr. MCCLEARY. I don't know who else there would be.

Senator HEINZ. You would not have discussed it with the President's Counsel or anybody like that?

Mr. MCCLEARY. No.

Senator HEINZ. And you have stated that you didn't know about the Ansett loan, you didn't know about Boeing, you didn't know about the Eximbank.

Would any of the people that you talked to have reason to know about that? Did anybody mention that Mr. Murdoch had a busy schedule in Washington?

Mr. MCCLEARY. No, I don't think so. It was such a routine matter that I don't think that—I mean——

Senator HEINZ. It was important, but it was routine.

Mr. MCCLEARY. Yes. There are a lot of very important meetings we have and they become very routine.

Senator HEINZ. I believe that. I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. I'll pass for now, Mr. Chairman.

The CHAIRMAN. Senator Lugar?

Senator LUGAR. Let me just ask this question. You mentioned that it became a routine operation setting up the meetings in the White House, routine in the sense that you, a campaign coordinator for New York, had this degree of access to the President's time. You say, you had a form for this sort of operation and you routinely sent a great number of people to the President?

Mr. MCCLEARY. I should clarify myself. I should say that putting in the request was a routine procedure. Actually getting the time was very, very difficult.

The point I want to make here, though, is that Mr. Murdoch was not the only publisher or editor that met with the President. As an example, Michael Neal of the Daily News also met with the President.

Senator LUGAR. Did these meetings also take place in February?

Mr. MCCLEARY. I would imagine they did; yes.

Senator LUGAR. In other words, prior to the primary in New York?

Mr. MCCLEARY. Oh, of course.

Senator LUGAR. So that at least one of the questions that was involved here, I presume the ultimate question, always gets back to whether there was a discussion of the financing of the aircraft.

But you're suggesting that, in a routine way, persons could be suggested by you to be sent to the President to discuss editorial endorsements during this period.

Mr. MCCLEARY. Why don't you state the question again?

Senator LUGAR. I said although the ultimate question of the hearing may be whether the conversations included the financing of aircraft, it seems to me that you're suggesting that clearly, in the agenda for these conversations was editorial endorsement of the President by these journalists or publishers.

Mr. MCCLEARY. That's correct. I believe that if someone has an opportunity for an editor or publisher to sit down with the President for a short period of time and hear him articulate his policies, that it is very persuasive in terms of ultimately securing their endorsements.

I would doubt very seriously whether in the course of that conversation they discussed a particular newspaper's endorsement.

Senator LUGAR. You would doubt that that would come up?

Mr. McCLEARY. That's just my conjecture.
The CHAIRMAN. Senator Morgan.
Senator MORGAN. I have no questions.
The CHAIRMAN. Senator Riegle.
Senator RIEGLE. Thank you, Mr. Chairman.
Are they appearing as a group?
The CHAIRMAN. They are appearing together, and you can question them all.

NEW YORK POST FRONT PAGE STORIES

Senator RIEGLE. I want to start from a somewhat different point. A matter, as far as I know, that has not been raised in the hearing is the fact that the New York Post, apart from endorsing President Carter, also criticized Senator Kennedy more thoroughly than any other paper in the country, to my knowledge, in a series of front-page stories in the past 3 months.

I have not been able to get all the issues from the Library of Congress, but Senator Kennedy who is of course President Carter's challenger, was made the target of a front-page story in several issues. These stories were designed, I think, to portray him in a bad light. You were in New York. You obviously saw these stories running.

Did you ever talk to anybody at the New York Post about those stories before, during, or after they ran?

Mr. McCLEARY. No; I had nothing to do with the editorial policy of the Post or creating the front page. I would also like to ask the Senator to get a few of the New York Post headlines from August and September and see what was done to the President.

Senator RIEGLE. Tell us about those. What was done to the President?

Mr. McCLEARY. I think that the Post, whatever time period that you're dealing with, the Post had very dynamic headlines. [Laughter.]

It tends to be about your candidate, and you find it very distasteful. If it tends to be about somebody else's, it's obviously correct.

Senator RIEGLE. Were they character attacks on the President?

Mr. McCLEARY. I wouldn't say they were character attacks, no.

Senator RIEGLE. What was the nature of the attacks on the President?

Mr. McCLEARY. I would have to bring the articles.

Senator RIEGLE. I ask because it seems to me that they couldn't have been too extreme or you would have been a little more reluctant about scheduling Mr. Murdoch in to see the President.

Mr. McCLEARY. As I was saying earlier to the Senator, I felt that the paper had become more pro-Carter through the fall, actually. That's why I felt ultimately that we would get the endorsement of the newspaper.

Senator RIEGLE. In this period leading up to the meeting, leading up to the decision by the Eximbank to approve this loan application, it looks like the Post's focus had changed. The Post had decided to really work Senator Kennedy over quite thoroughly. You are aware of that, I assume. You're familiar with the articles about which I speak, the long-running series of front-page stories?

Mr. McCLEARY. Which is not unusual. That's right.

Senator RIEGLE. Did you ever discuss those with anybody at the New York Post before, during, or after the time they ran?

Mr. MCCLEARY. I often discussed with Howard Rubinstein, because I talk with Howard Rubinstein almost daily——

Senator RIEGLE. Who is he again?

Mr. MCCLEARY. Howard Rubinstein is a public relations man in New York who used to work for Mayor Beame, who I consider one of the best political minds in New York and who I talked to on a variety of issues. Obviously, in the course of conversation, I am sure that I commented on particular headlines or particular articles.

Senator RIEGLE. What does that mean? Help me to understand what the nature of that kind of a conversation would have been.

Mr. MCCLEARY. It's hard to judge. I can't remember in particular. I mean, it's hard to speculate.

Senator RIEGLE. Do you want to say something?

Mr. ESSAYE. I was just suggesting to the witness that he shouldn't speculate, Senator, which I think is important to you and to him.

Senator RIEGLE. The thing that concerns me here is that obviously the Post went out of its way to really do a job attacking, in this case, the President's opponent. I would think that the kinds of attacks that were leveled here are not of the same sort as you say. There were some headline stories about Carter earlier, but I gather they were of quite a different character from what appears here on Senator Kennedy.

What I would like to know is whether you or anybody you were connected with had anything to do with this. You knew it was coming? Were you aware of it ahead of time? Did you encourage it?

Presumably, one would think that adverse front-page stories about the opponent would help one's own candidate. I am just wondering what role, if any, you might have played here, what tie-ins might there be.

Mr. MCCLEARY. I have absolutely no control over the editorial page of the Post, nor do I have any control over the front page of it.

As to my personal reactions as to what went on in the Post's headlines or on the editorial page, I think that's irrelevant, what I personally felt about them. Obviously, I did not weep.

Senator RIEGLE. Did Mr. Rubinstein have any role in that, as far as you know?

Mr. MCCLEARY. No, I think he's just an adviser to Mr. Murdoch. I am not really quite sure what that relationship is.

Senator RIEGLE. What was the purpose of your talking with him?

Mr. MCCLEARY. Mr. Rubinstein is very close to Mayor Beame. He probably has one of the best knowledges of New York politics and is very useful to me, someone who comes from outside the State, knowing who the players are.

Senator RIEGLE. Mr. Rubinstein, do I understand that he works for Mr. Murdoch?

Mr. MCCLEARY. One of many clients, that's right. But, of course, I think what you're driving at is I did not talk to Mr. Rubinstein every couple of days to suggest stories to be put into the Post. My conversations with Mr. Rubinstein were not focused around the

editorial policy of the Post. I talked mostly with Mr. Rubinstein about New York politics and about the way he thought I was doing and the way we were handling the campaign there.

Senator RIEGLE. But you knew that one of his clients was Mr. Murdoch.

Mr. MCCLEARY. Oh, yes, of course.

Senator RIEGLE. Was he one of your contact points, then, to reach Mr. Murdoch? Was Mr. Rubinstein?

Mr. MCCLEARY. That's correct.

Senator RIEGLE. That's how you got to Mr. Murdoch is through Mr. Rubinstein; is that correct?

Mr. MCCLEARY. That's correct.

Senator RIEGLE. Then I think it's important that you describe as fully as you can exactly what did take place with Mr. Rubinstein with respect to the campaign. In this case, Senator Kennedy, ended up being the front-page target of this newspaper did Mr. Rubinstein do anything else that is relevant to what we are discussing?

Mr. MCCLEARY. That's pretty broad.

Senator RIEGLE. Could you describe the content of your discussions with Mr. Rubinstein as they would relate to the issues that we have been raising.

Mr. MCCLEARY. That's a pretty broad question. As I say I talked to Mr. Rubinstein probably once a day, once every other day. In fact, I am even talking to him now because I hope to get the endorsement of the paper for the fall.

A typical conversation as it revolves around the Post is: I might ask Mr. Rubinstein what is the thinking in the paper about Mr. Anderson, what is the thinking of the Post in terms of Mr. Reagan. That's really about the depth of my conversation.

Senator RIEGLE. I would hope, if that happens, that we could get the message over to the Export-Import Bank to sort of not do any business with Mr. Murdoch at the same time. It would be unfortunate if we had something else spring up as we're coming down the homestretch. I am serious about it, because I think the pattern here is very unfortunate. I think this reflects badly on the institutions involved—certainly, as far as the Export-Import Bank is concerned.

But it seems to me that without anybody in your role intending it, it's quite possible for somebody in this situation and Mr. Murdoch's position to use the situation quite effectively to sort of dangle out the endorsement. He might keep you calling on the telephone and everybody working hard to get him on the President's calendar. He gets on the calendar. He can't make the meeting, so he gets rescheduled and so forth, a number of times, and seems quite able to get in.

I am not sure, frankly, that, if he didn't have that power of endorsement, that there would be that kind of access. And that's sort of disturbing on one level. Some people say that's the way politics works, and maybe it does. But that's not all there is to this story. You also have the fact that this fellow, with another hat on, is over doing business at another window of Government. It turns out that he comes away with a very favorable deal which is valuable to him, which is worth money to him.

The concern that I have here is that we not see either the instruments of Government or anybody, for that matter, in a position where they can be used by somebody who has an interest, an angle to shoot. I think that's the thing we were after here. At least the thing I want to pin down is the question of whether, through a series of, call them, deft maneuvers or whatever, somebody was able to make a gain by virtue of this whole set of actions. That's what we're trying to pin down here.

But you talked to Mr. Rubinstein, you say, probably once a day on the average?

Mr. McCLEARY. That's correct.

I just think you're projecting an awful lot.

Senator RIEGLE. I am not projecting anything. I am just trying to sort of figure out what goes on.

My time has expired at this point. Maybe we will get a chance to pursue this a bit later.

The CHAIRMAN. Well, I might tell Senator Riegle the Post has a way with their headlines. When I told a Post reporter when he interviewed me not long ago that Mayor Koch deserved credit for standing up to the transit workers, their headline was—this is the front-page headline: "Prox to NYC: 'Take a walk.'" [Laughter.]

I was very flattered that they just had the "Prox" there, because with only four letters you're moving up in the world.

Mr. McCleary, just one or two other questions before I ask Mr. Kraft.

Was the lunch with President Carter alone or with other people there, the luncheon between Mr. Murdoch and President Carter on February 19?

Mr. McCLEARY. I believe it was alone.

The CHAIRMAN. Isn't that unusual? We were told by Mr. Strauss that the President dines with many publishers. And he does. You read in the paper about a number of publishers going to the White House for dinner or for lunch. Why was this lunch alone?

Mr. McCLEARY. I don't think there is any need for anybody else to be in it. I think when Michael Neal of the Daily News went down, he was alone also.

The CHAIRMAN. Also, there were no other witnesses of any conversation that might take place. [Laughter.]

Were there other luncheons in which the President had a one-on-one meeting with a publisher?

Mr. McCLEARY. Those are the two that I am familiar with in terms of New York.

The CHAIRMAN. Any other publisher that met with the President alone?

Mr. McCLEARY. Those are the two I am familiar with.

The CHAIRMAN. And who are those two?

Mr. McCLEARY. Michael Neal, who is actually editor, not publisher, of the Daily News. And Rupert Murdoch.

The CHAIRMAN. Mr. Murdoch. Mr. Murdoch was one of them.

Mr. Kraft, do you know of any others? You arranged the lunch, as I understand. Is that right?

Mr. KRAFT. I requested it.

The CHAIRMAN. You requested it.

Mr. KRAFT. Yes, sir.

The CHAIRMAN. Do you know of any other instances in which the President had a meeting with a publisher, a luncheon meeting alone with a publisher?

Mr. KRAFT. I requested another one in January or February with the publisher, I believe, of the Chicago Tribune. I don't think that was a luncheon meeting. I think it was simply a brief visit.

The CHAIRMAN. Any other luncheon meetings?

Mr. KRAFT. None that I can recall.

The CHAIRMAN. So there have been two luncheon meetings that have taken place between the President and a publisher alone.

Mr. KRAFT. What was the other meeting?

Mr. MCCLEARY. I don't know whether it was a luncheon or not. It was a private meeting.

The CHAIRMAN. Then this was the only luncheon meeting you know of in which the President had a meeting alone with a publisher; is that right?

Mr. KRAFT. Yes, that's the only one I know of. He lunches alone with Senators sometimes.

The CHAIRMAN. That's different. [Laughter.]

Now, was there any explicit or implicit understanding with Mr. Murdoch—this refers to Mr. McCleary—any explit or implicit understanding with Mr. Murdoch about Ansett's loan application with Exim Bank and the New York Post's endorsement of President Carter?

Mr. MCCLEARY. No.

The CHAIRMAN. That you know of? None? All right.

Now, Mr. Kraft, do you know Rupert Murdoch?

Mr. KRAFT. I just met him for the first time in this hearing room today.

The CHAIRMAN. You just met him. Did you ever talk by telephone or in any other way or have any exchange of any kind with him before President Carter's endorsement on February 22?

Mr. KRAFT. No.

The CHAIRMAN. None? And for today, you had a chance to talk to Mr. Murdoch? Is that a proper construction of your not having met him before?

Mr. KRAFT. That's correct.

The CHAIRMAN. As I say, it's been reported that you arranged the February 19 luncheon or that you requested a lunch between Mr. Murdoch and President Carter. Can you tell us what that means when you say you "requested the lunch"? What do you do?

Mr. KRAFT. I was appointments secretary during the first year and a half of this administration. I am fairly familiar with the appointments and scheduling office and process. As campaign manager, I send numerous publishers to the White House for meetings, groups for briefings or introductions to the President, a quick picture, or luncheon meetings, or simply brief meetings. You simply have somebody on your staff draft a memo, you initial it, and you send it to the appointments and scheduling office and hope that somehow or other it will fit into the 2-week schedule or further down the line.

The CHAIRMAN. Why did you arrange this particular luncheon?

Mr. KRAFT. At the recommendation of our New York State campaign manager, Joel McCleary. I concurred with Joel's assessment

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that it would be productive if the publisher, Mr. Murdoch, were to meet with the President. It didn't even necessarily have to be a luncheon; they could just spend some time together and talk about the issues in the campaign, the problems that are facing the country.

I think a memo did go from my office over to the White House, requesting such a meeting sometime in the fall. As has been pointed out here, it was deferred and postponed a couple of times. Then it finally took place in February.

The CHAIRMAN. Did you talk to any of Mr. Murdoch's associates in connection with the lunch: Rubinstein, Kummerfeld, Squadron, any of the others?

Mr. KRAFT. No; I did not.

The CHAIRMAN. You didn't talk to any of them. You simply got the request from Mr. McCleary; you understood from that that Mr. Murdoch would be available, and therefore you went ahead and made the request?

Mr. KRAFT. Yes.

The CHAIRMAN. Why was February 19 selected?

Mr. KRAFT. I don't know. Apparently, it was a time that was mutually convenient to the President and Mr. Murdoch.

The CHAIRMAN. Who suggested the date, do you know?

Mr. KRAFT. I don't know.

The CHAIRMAN. Did you discuss any other dates?

Mr. KRAFT. No. After the initial memo went over from my office, I, in effect, was out of the process.

The CHAIRMAN. Did they give any reason at all for selecting that particular date?

Mr. KRAFT. None that I know of.

The CHAIRMAN. Such as Mr. Murdoch would be in Washington, would be in the country? He's a widely traveled man. Obviously, he has interests all over the world.

Mr. KRAFT. As I say, it was a date apparently the two could get together on.

The CHAIRMAN. Did you know that Mr. Murdoch was scheduled to meet on that very day with Mr. Moore of the Export-Import Bank?

Mr. KRAFT. No, I did not.

The CHAIRMAN. Did you know the purpose of Mr. Murdoch's meeting at the Eximbank?

Mr. KRAFT. No.

The CHAIRMAN. Did you talk with Mr. Strauss about the lunch?

Mr. KRAFT. No.

The CHAIRMAN. Did Mr. Murdoch or any Murdoch associates discuss with you Ansett's airline loan application to Eximbank at any point before or after, or anything?

Mr. KRAFT. No.

The CHAIRMAN. They didn't discuss it at any time?

Mr. KRAFT. No, sir.

The CHAIRMAN. Did you have any discussions concerning the matter of the Ansett loan with any of the following individuals: first, the President?

Mr. KRAFT. No.

The CHAIRMAN. Anybody on the White House staff?

Mr. KRAFT. No.

The CHAIRMAN. Anybody associated with the Carter reelection campaign, including Mr. Strauss, Mr. McCleary, Mr. Rafshoon, or anybody else?

Mr. KRAFT. No.

The CHAIRMAN. Chairman Moore of the Eximbank?

Mr. KRAFT. No.

The CHAIRMAN. Other officials or staff members of Eximbank?

Mr. KRAFT. No.

The CHAIRMAN. Anybody I haven't mentioned?

Mr. KRAFT. No, sir.

The CHAIRMAN. You simply didn't discuss it with anybody?

Mr. KRAFT. My first knowledge of that loan was when I read about it in the Star.

The CHAIRMAN. When was that?

Mr. KRAFT. When it came out in the Washington Star, after the fact.

The CHAIRMAN. After the what?

Mr. KRAFT. After the fact.

The CHAIRMAN. You don't know roughly when that would be?

Mr. KRAFT. Sometime in April, I believe.

The CHAIRMAN. Let me finally ask you: was there any explicit or implicit understanding with Mr. Murdoch about Ansett loan applications with Eximbank and the New York Post's endorsement of President Carter, to your knowledge?

Mr. KRAFT. I have no way of knowing that. I would be almost absolutely certain that there would be none.

The CHAIRMAN. Any other questions?

Senator HEINZ. Yes.

The CHAIRMAN. Senator Heinz.

SPECIAL TREATMENT PRIOR TO ELECTIONS

Senator HEINZ. Mr. McCleary, as campaign manager, do you have many people come to you prior to the election asking for some kind of special treatment from the Administration with respect to their business or whatever particular interest it was they represented?

Mr. MCCLEARY. Sure.

Senator HEINZ. If you had said "No," you would have been the first campaign manager in history to have been ignored.

Do people ever come seeking very explicit treatment from the Federal Government?

Mr. MCCLEARY. Uh-huh. Sure.

Senator HEINZ. How did you handle those requests?

Mr. MCCLEARY. Usually, totally ignored them. If people persisted, usually just relayed them on to the campaign. If it would be a specific thing, like getting a White House tour or getting a picture signed or something like that, or if it was terribly involved, recommending that they go back through the mayor or that they go try to contact the appropriate person in the Administration.

Senator HEINZ. Contact the appropriate person in the Administration? What kind of things would that have been?

Mr. MCCLEARY. Let's say—I am just speculating here—if an official was interested in a particular program or something, the con-

versation might be, "Who would I contact on something like this?" And we would say, "Well, why don't you contact the mayor's office and get them to deal directly."

Senator HEINZ. But if it was a Federal nexus, you wouldn't refer them to the mayor. Who would you refer them to?

Mr. MCCLEARY. Both the mayor and the Governor and the Senator are obviously very well associated with the White House and the administration. They dealt directly on matters where people were not—in that particular association, I would relay another request, if it was meaningful, on to the campaign committee.

Senator HEINZ. Does that mean through Mr. Kraft?

Mr. MCCLEARY. Well, no. Probably through the New York desk, which is marked "contact person." I only dealt with Mr. Kraft on really larger political questions as to whether someone was going to endorse, whether someone was not going to endorse, what the general sense was.

Senator HEINZ. You never on any occasion said to Mr. Kraft, "Listen, we have some people here who are really upset with our regulations or our policy or some other aspect of the Federal Government, Carter administration policy"?

Mr. MCCLEARY. Well, yes. In the course of the campaign, obviously, in my political reporting, that would come out because, as this committee well knows, probably one of the dominant issues in any New York campaign right now is the fiscal situation in New York and the whole issue as to whether—or to how helpful the Democratic legislature and the Democratic administration has been to New York City.

Senator HEINZ. But you never discussed, say, a businessman's problem with Mr. Kraft?

Mr. MCCLEARY. Not Mr. Kraft.

Senator HEINZ. Who did you discuss it with, if anyone?

Mr. MCCLEARY. I would relay it through the apparatus. I mean I can't think of specifics here. I'm just saying that if somebody came and had a request, it might be sent on through the campaign structure. And the only purpose of that would be——

Senator HEINZ. But you didn't have a particular person that you talked to? I mean, campaign managers are just like presidents, they have one-on-one meetings.

When you had such a meeting that required some kind of consideration higher up or in government, you must have done something with it. What did you do, specifically?

Mr. MCCLEARY. I structured the campaign such that usually it went on directly. And I can't think of specific examples where I really dealt with campaign problems directly.

I think the question that you're getting at is whether——

Senator HEINZ. I just wanted to know how you handled that kind of demand. Every campaign manager has that kind of demand place on them.

You know as well as I do that people are walking into our offices all the time. They walk into yours.

The difference is it's our responsibility to listen and make decisions based on the best information. You don't have, as a legislator, as a President, or a member of the executive branch, that kind of

authority. You have to refer them someplace, so I'm trying to find out where you referred them.

If you say, "Well, I referred them someplace else in the campaign," that's all well and good. But somewhere they pop out.

The biggest thing that people want is access to the politicians. In this case, the big enchilada is the President. But he's not going to have that many 1-on-1 lunches. You, yourself, have said he's only had one. So these people see other people.

I'm trying to determine—and I can't figure out from what you've told me—what you did and how it worked. I don't know whether you don't know or, you know, you just would rather not discuss the details here on the record.

Mr. KRAFT. Senator, could I interject something here?

Senator HEINZ. By all means.

Mr. KRAFT. I think, in a very general sense, the one office in the White House that's had an outstanding relationship with the local and State officials—in many instances those officials, be it mayors or leaders in the State assembly, would go directly to the people that they've worked with in Jack Watson's office, Bruce Kirshenbaum and others. In the liaison capacity, they've been very helpful and effective over the years.

My guess is that the relationship has been so close that in some instances those officials would tend to go right around or over the State campaign committee, because they have such a good relationship with Jack's office.

In other instances, I would guess that Joel might refer a request or a problem to Jack's office.

Senator HEINZ. If it involved intergovernmental relations.

Mr. KRAFT. Yes.

Senator HEINZ. But we're not strictly focusing on intergovernmental relations. We're focusing largely on nongovernmental special interest relations. I think that's fairly clear.

Let me ask you this. I'd like to talk briefly about Mr. Rubinstein—is that the correct pronunciation?

Mr. MCCLEARY. That's correct.

Senator HEINZ. Now, Mr. Rubinstein is a very influential person. I understand he's very heavily involved in politics, he has a lot of clients. Rupert Murdoch is one of his clients, and he has many others. He's very, very active, has a lot of interests, a lot of clients, a lot of politics.

You said, as I recollect, that you talked to him everyday.

Mr. MCCLEARY. Well, I haven't since the campaign. But during the closing days of the campaign, yes, very often.

Senator HEINZ. Did you talk to him about concerns of his clients?

Mr. MCCLEARY. No. That wasn't the purpose.

Senator HEINZ. It was strictly politics?

Mr. MCCLEARY. Mr. Rubinstein is very influential in New York because he has very good political judgment. And I find that very, very helpful. He's a very loyal Democrat; he's interested in seeing the President reelected, and that is what we discussed.

Senator HEINZ. But at no time did he ever suggest that any of his clients had an interest in activities of the Federal Government, even in a general way, saying, "By the way, it would certainly be

helpful politically if the President or someone would see so-and-so"? He never even suggested anything like that?

Mr. McCLEARY. The only person I think he suggested that the President see was Mr. Murdoch.

Senator HEINZ. And he didn't suggest that other people in the administration see anybody else on anything else? Not in the campaign now, in the administration.

Mr. McCLEARY. Well—I mean, I think he's wanted people, like anybody else, to go to state dinners and that kind of thing.

Senator HEINZ. But I mean on the kind of things we're talking about.

Mr. McCLEARY. I mean, we might have talked about those things, but I can't remember them. It would be very unusual.

Senator HEINZ. Mr. Kraft, just one question for you. I think that you stated that you did not know ahead of time anything about Murdoch meeting at the Eximbank?

Mr. KRAFT. That's right.

Senator HEINZ. And you didn't know anything about the loan?

Mr. KRAFT. That's right.

ACCESS TO GOVERNMENT DECISIONMAKERS

Senator HEINZ. Did you ever get people asking you for access to Government descisionmakers during the course of this campaign?

Mr. KRAFT. You can think of instances in which people complained about policies.

Senator HEINZ. Of course, people complain all the time. I'm asking whether they made a specific request. Did you get requests for access to Government decisionmakers?

Mr. KRAFT. I'm trying to think of a specific instance. I'm sure I have, although I can't recall having acted or made appointments with individuals.

Senator HEINZ. Very well.

My time has expired.

The CHAIRMAN. Any further questions?

Senator Stevenson.

Senator STEVENSON. Mr. Chairman, I believe that Senator Riegle has raised a question that was not satisfactorily answered, and we ought to try to resolve it before we let these witnesses go.

Did you, Mr. McCleary, or you, Mr. Kraft, or anyone else acting on behalf of the Carter campaign that you have knowledge of, supply any material or any suggestions or any information to Mr. Rubinstein or anyone else for possible use in the New York Post against Senator Kennedy?

Mr. KRAFT. From a national committee viewpoint?—I'm almost certain I speak for the New York Campaign Committee as well—no.

Senator STEVENSON. Mr. McCleary.

Mr. McCLEARY. I don't think so; no.

Senator STEVENSON. You don't think so?

Mr. McCLEARY. I never supplied a specific piece of information on Senator Kennedy to the Post; no.

Senator STEVENSON. I said materials, suggestions, or information.

Mr. McCLEARY. No.

Senator STEVENSON. Thank you.

The CHAIRMAN. Senator Morgan.

Senator MORGAN. Mr. McCleary, there's been some questions asked about your attempting to get the New York Post endorsement for President Carter.

Is there anything at all unusual about trying to get a newspaper to endorse a candidate?

Mr. MCCLEARY. No, sir. I think it's very much within the responsibilities of the campaign manager to secure such an endorsement.

Senator MORGAN. I would assume that with three major newspapers in New York you would work to try to get all of them; is that correct?

Mr. MCCLEARY. That's correct. We had Michael Neal see the President. The Vice President went by to see Michael Neal. The Vice President went by to see the New York Times. The Vice President went by to see Newsday, out on Long Island.

Mrs. Carter went by to see El Diario, the Hispanic paper. So we had a very systematic campaign to try to explain the policies of the administration to these newspapers, for the simple reason—if I may put it in—that I feel that to a certain extent that people do not understand fully the extent of what this administration has done for New York City and New York State.

Senator MORGAN. Mr. Chairman, I was going to say that he's been more successful than I've been when he gets the editor to go see the candidate. I always have to go to the boardrooms of the newspapers.

I see that the Vice President has done the same thing.

Mr. MCCLEARY. Yes, sir.

Senator MORGAN. In other words, you were doing what we candidates always try to do to get an endorsement if we can or at least a warm reception or a better understanding from the newspapers?

Mr. MCCLEARY. Yes, sir.

Senator MORGAN. You did not discuss with Mr. Murdoch this loan or the Export-Import Bank or anything connected with that?

Mr. MCCLEARY. That's right. I've only had one conversation really in my life with Mr. Murdoch.

Senator MORGAN. That was on the evening——

Mr. MCCLEARY. That we had dinner together.

Senator MORGAN. That you described earlier.

You say you were successful in getting the editor of the Daily News to come to Washington?

Mr. MCCLEARY. Yes, sir.

Senator MORGAN. Mr. Rubinstein was active in New York democratic politics?

Mr. MCCLEARY. He has a long history.

Senator MORGAN. I assume one of the first things you did when you went to New York was seek out people that had been involved in democratic politics that you felt might be favorable to the President?

Mr. MCCLEARY. That's correct.

Senator MORGAN. Sought their advice and depended on them for advice to go out and campaign.

I don't have any further questions.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. I'm wondering, Mr. McCleary, did the New York campaign make any use of the anti-Kennedy material that appeared in the Post, make any reprints or distribute these to anybody?

Mr. MCCLEARY. No. I think we stayed away from that, quite consciously.

Senator RIEGLE. Were you surprised that the Post went to the lengths that they did in the kind of front page treatment, the negative treatment they gave Senator Kennedy?

Mr. MCCLEARY. The way I understand it, Mr. Murdoch adheres to the English approach to the use of the newspaper in political campaigns and feels that once he endorses a candidate that he's made his decision as to who would best serve the people and joins the campaign the best he can in terms of trying to elect that candidate.

Senator RIEGLE. So you weren't surprised then?

Mr. MCCLEARY. No.

Senator RIEGLE. Do you think this helped your campaign?

Mr. KRAFT. Not much. [Laughter.]

Senator RIEGLE. I'm just wondering if you think the material against the challenger here was helpful to your campaign, among at least some voters?

Mr. MCCLEARY. I didn't write those editorials or didn't—I didn't write the front page. And I would not write them that way.

Senator RIEGLE. I understand.

Well, now, it's interesting, I'm trying to think of any other example of any kind of newpaper of size in a major city that would have operated in that fashion. I can't think of another one.

We've talked about the Manchester Guardian over the years—I think that's the right name.

Mr. KRAFT. The Union Leader.

Senator RIEGLE. The Union Leader has worked over candidates with some regularity. But I have never seen a case in a major newspaper where there's been this kind of sustained attack.

Mr. KRAFT. Senator, can I make a point with regard to that?

Senator RIEGLE. Yes.

Mr. KRAFT. If I recall—I don't have those clippings in front of me, and I don't know all of the headlines that you're talking about—but if my memory serves me correctly, some of those Post headlines and stories were reacting to or following up on major investigations made by other publications at that time.

In other words, the New York Times ran a lengthy investigatory story on the incidents surrounding the accident in 1969. I believe the Washington Star had an article, a long article about the effect of the tides at that time and the contradiction with the testimony given, as well as the Reader's Digest.

In other words, I don't think it's entirely one paper zeroing in on Senator Kennedy. I think it was part and parcel.

Senator RIEGLE. Well, Mr. Kraft, can you cite a single example of any other major newspaper that's devoted virtually its entire front page, day after day, to what constitutes attacks on one candidate? I really haven't seen that.

The Reader's Digest and the others had stories of their own, but they were in an entirely different context.

You don't really mean to say to the committee that you know of another example that's the equivalent of the front page treatment that the Post gave Senator Kennedy—anywhere in the country. If you do, I'd like you to cite it, because I would think I'd know about it. And I don't know about it.

Mr. KRAFT. I think the Manchester Union Leader can be as vitriolic or hard-hitting, or even unfair as the Post toward a candidate, as the New York Post.

Senator RIEGLE. Did Mr. Loeb ever get an appointment with the President? [Laughter.]

I ask it as a serious question, because it seems to me we've got essentially two newspapers who have put themselves in a class by themselves—in terms of their approach.

Mr. MCCLEARY. I wouldn't put the Post in that class at all. [Laughter.]

Senator RIEGLE. I gather you wouldn't. You hardly could, because you're the New York campaign manager and you can't afford to ignore the Post, I wouldn't think. Clearly you did not ignore the Post.

The thing that concerns me here—and I guess we'll have to take this up with Mr. Murdoch—is that you have a situation here where the tactics—campaign tactics—the campaign dynamic, the timing, the primaries, and everything else obviously are all working at the same time.

SIDE DEAL

At the same time, there was this side deal going on, which, as you say, you were not aware of, and others in the administration have also said they were not aware of, but which was a very substantial transaction.

And as it turned out, it turned out very well for Mr. Murdoch. The transaction was handled with the Export-Import Bank, handled on an expedited basis, very favorable terms, broke the rules, bent the rules, and it looks to me like you're dealing with a very clever customer here. Perhaps you know that. Perhaps you can see it now, looking back. Maybe you don't see it now, but that's the way it's beginning to look to me.

In any event, this is obviously a situation that I hope we can find a way not to repeat, not just for this administration, but for any administration, because I think it's damaging to the institutions involved. I think it ends up hurting the Presidency. I think it ends up hurting the institution, like the Export-Import Bank. I even think it ends up hurting the world of newspapers. In other words, I think all newspapers end up, pulled down a notch because of the behavior of one newspaper. That happens to be my view. Others here may not share it.

I don't want to see anybody used. I don't want to see you used. I don't want to see the institutions of government used, especially if somebody's shooting a financial angle on the side.

It may be that nobody knew all the pieces but Mr. Murdoch. But he apparently did know all the pieces, because he was working all the bases of this thing.

Anyway, an interesting story at least.

The CHAIRMAN. Gentlemen, I'd like to just make sure that I have the correct conclusion here. You can correct me if I'm wrong.

We have a series of three coincidences. No. 1, on the same day, the publisher of the New York Post met with the President for lunch. He also met with the Export-Import Bank.

Three days later, the Post endorsed the President. Six days later, the loan was made. And this was the only incident, you tell me, the only incident in which a publisher had lunch alone with the President; is that right or not right?

Mr. KRAFT. I'd say that's the only one that I know of. I imagine—you know, the Appointments Office would know of other private lunches with figures from the news media or the publishing world.

The CHAIRMAN. Well, thank you very much. We appreciate your testimony.

Our next witness is Mr. Phillip Alston, the U.S. Ambassador to Australia.

Mr. Alston, would you continue to stay on your feet for a minute and raise your right hand.

[Witness sworn.]

TESTIMONY OF PHILLIP H. ALSTON, U.S. AMBASSADOR TO AUSTRALIA

The CHAIRMAN. Mr. Alston, do you have any statement you'd like to make to the committee?

Ambassador ALSTON. I will read a few remarks.

The CHAIRMAN. Go right ahead.

Ambassador ALSTON. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before the committee in order to discuss the recently concluded contract of sale betwen Ansett Airlines and the Boeing International Corp., and to describe my rather limited role in facilitating financing for the sale through the Export-Import Bank.

With your permission, I will make a brief statement and then respond to any questions you or other members of the committee may have.

I was aware that Boeing was seeking to sell aircraft in the Australian market. I was told that a change in the management of Ansett had caused its board of directors to question whether the previous "one aircraft policy" should be adhered to and that Boeing thus had a realistic opportunity to secure the Ansett contract if acceptable financing could be arranged.

On February 25, 1980, I received a telephone call from Mr. Robert A. Clarke, who represents Boeing in Sidney. Mr. Clarke explained that the most important fact in the Boeing-Airbus competition for the Ansett order were the respective financing arrangements available through Airbus and those available from the Export-Import Bank.

He informed me that there was pending before the Eximbank a proposal for a loan to Ansett airlines to finance the proposed sale to Boeing and that a favorable decision by the Eximbank would help to put Boeing in a competitive position.

PROMPT DECISION ESSENTIAL

Mr. Clarke emphasized that a prompt decision was essential because the delivery schedule included in the Airbus offer was valid only until March 1. The Ansett board of directors needed an indication that competitive financing was available through Eximbank in order to justify a decision to defer final action beyond the March 1 deadline.

Mr. Clarke asked that I contact the Export-Import Bank and urge that a prompt and favorable decision be reached on the Ansett proposal.

I regarded it as my duty to do everything I legitimately could to assist Boeing. Shortly after my conversation with Mr. Clarke, I telephoned John L. Moore, Jr., President and Chairman of the Export-Import Bank. Mr. Moore and I were law partners for many years in Atlanta.

In our conversation I stressed the importance of the transaction to Boeing and to the American economy. I urged that a prompt decision be reached, and expressed my hope that the decision would be favorable.

I was pleased to learn several days later that the Eximbank was able to offer financial terms to Ansett which were regarded as competitive with those offered by Airbus, although, as I learned at a luncheon I hosted on March 15, not as competitive as Murdoch would have liked. This was the only occasion, incidentally, on which I discussed this transaction with Mr. Murdoch or anyone else associated with Ansett. I was, of course, extremely pleased to learn on March 17 that a sale agreement had been reached between Ansett and Boeing.

Boeing's success in obtaining the Ansett contract was extremely important, not only to Boeing but to the American economy. I am proud to have made a contribution to the successful conclusion of this transaction.

May I say, before submitting to questions by this group, that your questions indicate an omission of what I believe to be the central fact in this discussion. That is the competition between Boeing and Airbus, to see who was going to sell airplanes.

The CHAIRMAN. Were you here yesterday, sir?

Ambassador ALSTON. No, sir; I was not.

The CHAIRMAN. We discussed it in great detail, and I agree with you.

We are concerned about it. We asked in great detail of the Export-Import Bank. At any rate, there are a series of coincidences. We wanted to learn as much about it as we could.

You referred to Mr. Murdoch. You referred to his presence at a luncheon where you were. How long have you known Mr. Murdoch?

Ambassador ALSTON. That lunch took place in my home, or what's called The Residence, at the Embassy in Australia.

The CHAIRMAN. How well do you know Mr. Murdoch?

Ambassador ALSTON. I know Mr. Murdoch pretty well, but not intimately. I'd known him before I moved to Australia to become Ambassador, and I've seen him four times since. One of those times would have been at my house, at that luncheon.

The CHAIRMAN. How did you come to know Mr. Murdoch in the first place?

Ambassador ALSTON. I came to New York to meet Mr. Murdoch.

The CHAIRMAN. When was that, sir?

Ambassador ALSTON. That was, I guess, April or early May of 1977, just before I reported to Australia for duty.

The CHAIRMAN. What was the purpose of that visit? Because Mr. Murdoch was an important Australian citizen and you wanted to meet him?

Ambassador ALSTON. Mr. Murdoch was reported to be an important Australian citizen interested in all of the things that go on in Australia. He has since proved to be just that.

The CHAIRMAN. Did you know at that time Mr. Murdoch owned the New York Post?

Ambassador ALSTON. I don't believe I did. I expect I did know that he had an interest in the New York media at that time, but I'm not sure but whether I identified with a magazine called the New Yorker.

But I'm not certain about that.

The CHAIRMAN. When did you learn that he was the principal owner of the New York Post?

Ambassador ALSTON. I could not be precise about that.

The CHAIRMAN. Did you know that he owned a Texas paper?

Ambassador ALSTON. I am not at all certain that I knew he owned a Texas paper.

The CHAIRMAN. What type of contact did you have with Mr. Murdoch in Australia, in addition to the type of contact you already have discussed?

Ambassador ALSTON. I had dinner with Mr. Murdoch at his house, a place called Yass, which is just outside of Canberra, where I think Mr. Murdoch raises sheep or cattle.

My wife and I went up and we had an enjoyable time with some other guests that he had.

The CHAIRMAN. How frequently did you see him professionally and socially?

Ambassador ALSTON. I never saw Mr. Murdoch professionally, if I understand the meaning of that word. But I did see him at another of his properties shortly after he bought that property when I was in the neighborhood opening up a cattle show.

That's one of the duties of being an American ambassador. So I think, in total, I've seen him four times.

The CHAIRMAN. Have you spoken with Sir Reginald Ansett about the takeover of Ansett Industries by Mr. Murdoch and Sir Peter Ables?

Ambassador ALSTON. I've never met Sir Reginald.

The CHAIRMAN. Can you tell the committee about any discussion you may have had with Mr. Murdoch about the Ansett loan application?

Ambassador ALSTON. I never had any discussion with Mr. Murdoch with respect to his application for a loan from the Eximbank. But I did tell Mr. Murdoch at the end of that luncheon, which consisted of people, all of whom were interested in the Ansett transaction, that we'd be interested in hearing if there was anything to announce.

The CHAIRMAN. If there was anything what?

Ambassador ALSTON. To announce. At that time, we very much hoped that the announcement would be to the effect that Ansett had decided to buy Boeing airplanes. Mr. Murdoch said, we would have something to announce 2 days from that time. And he said—I've included it in my written statement as sort of an aside—that the Eximbank had been competitive, but not as competitive as he would have liked it to be.

That was the extent of my conversation with Mr. Murdoch about the loan from the Eximbank.

The CHAIRMAN. Did you discuss this loan with any other associate of Mr. Murdoch, any subordinate?

Ambassador ALSTON. I have not discussed that loan with anybody other than Mr. John Moore. That occurred in a telephone conversation about which I'd best testify, in which I called Mr. Moore and asked that his bank, Eximbank, consider an application for a loan to Ansett, and I urged favorable consideration and a prompt decision.

The CHAIRMAN. But you asked for that while you had a social acquaintance with Mr. Murdoch without discussing the details of the loan with Mr. Murdoch. What position were you in to ask Mr. Moore to give that consideration?

Ambassador ALSTON. My information came from Boeing's representative in Sidney. You have to keep in mind, Senator, that what we were in out there was a competition with Airbus. Airbus had sold TAA, which is the principal competitor of Ansett, and the American community, of which I consider myself a vital part in Australia, very much hoped that Boeing would get the Ansett sale.

The CHAIRMAN. I beg your pardon. Could you tell the committee about any discussions that you had with Mr. Murdoch about the U.S. Presidential campaign?

Ambassador ALSTON. I've had no discussion with Mr. Murdoch with respect to the U.S. Presidential campaign that I can recall.

The CHAIRMAN. You didn't ask anything about having his American newspapers support President Carter?

Ambassador ALSTON. I did not, under no circumstances, nor did I discuss that subject with anyone else.

The CHAIRMAN. You've been on a very close relationship for many years with Mr. Moore. I understand he was a partner of yours.

Ambassador ALSTON. I sort of feel like I helped raise Mr. Moore.

The CHAIRMAN. You kind of raised him as if you were a godfather to Mr. Moore. [Laughter.]

Ambassador ALSTON. I was godfather to his son.

The CHAIRMAN. There was a time when we could say "godfather" without its having any implications at all except he was a very dear friend of your parents.

Ambassador ALSTON. I will say that we are very close friends, and I would have implicit trust in anything that he would say to you or to me.

The CHAIRMAN. You have known Mr. Moore. I mean you have been talking to Mr. Moore since he left the firm and you left the firm, you to go to Australia, Mr. Moore to come to work for the President, or rather, to come to work for the Eximbank?

Ambassador ALSTON. I had nothing to do with Mr. Moore's getting the job with the Eximbank. I would have liked to have claimed credit for that, but I didn't have the opportunity.

Mr. Moore came to Australia on Eximbank business when he and his wife stayed with us during that time, when he was in Canberra.

I came to Washington, I think it was late in January, early February. I have the dates somewhere here, when the prime minister of Australia came to see the President of the United States, January 27 through February 7. And on one night while I was in Washington, I had dinner with Mr. Moore and his wife and my wife and Mr. and Mrs. Richard Beattie, who are also partners in my law firm.

The CHAIRMAN. Although you recognized Mr. Murdoch was not only a very prominent citizen of Australia, but a very powerful newspaper publisher in this country, you did not discuss with Mr. Moore the possibility of Mr. Murdoch endorsing or assisting in the President's reelection campaign?

Ambassador ALSTON. Senator, I know Mr. Murdoch won't take offense at this, but Mr. Murdoch's name never came up in the conversation. Neither Mr. Murdoch nor any of his varied interests.

The CHAIRMAN. Mr. Alston, you called Mr. Moore on Sunday, February 24, to urge the Eximbank to favorably and quickly approve Ansett's loan application. You say you were contacted by Boeing.

Is that correct?

Ambassador ALSTON. That would have been Monday morning in Canberra, Senator. That's Sunday afternoon, the night before here.

The CHAIRMAN. Were you contacted, were you approached? Did you have a telephone call or any other communication from anyone except Boeing in this connection?

Ambassador ALSTON. I never had a letter from anyone about the transaction. Mr. Clark, whom I knew and whose predecessor I knew, was interested in making the sale and asked me to get in touch with the Export Import Bank, as I said, to urge a prompt decision, and hopefully, a favorable decision.

The CHAIRMAN. And you had no discussion of any kind with anybody connected with Mr. Murdoch or Ansett. Is that correct?

Ambassador ALSTON. Absolutely not.

The CHAIRMAN. You were in Washington in late January and early February. During your visit, you talked with Hamilton Jordan, Robert Strauss, John Moore, and President Carter.

Did you discuss in any of your conversations with those individuals Mr. Murdoch's Ansett loan application with Eximbank or support of President Carter by Mr. Murdoch's U.S. newspapers?

Ambassador ALSTON. With none of those gentlemen did I discuss the Export-Import loan to Mr. Murdoch or the support of Mr. Murdoch and his newspapers for President Carter's reelection—Mr. Murdoch's name did not directly or indirectly occur at any one of the conversations I had with any one of those gentlemen.

The CHAIRMAN. Was there any explicit or implicit understanding with Mr. Murdoch about Ansett's loan application with Eximbank and the New York Post endorsement of President Carter?

Ambassador ALSTON. There was no explicit, direct, or implied reference to that event at all. Mr. Murdoch and I never discussed it; neither did I discuss it with any representative of Mr. Murdoch.

And the subject of the endorsement of the New York Post of President Carter occurred much later, to my knowledge.

The CHAIRMAN. Senator Heinz?

UNAWARE OF MEETING

Senator HEINZ. Mr. Alston, I take it, then, that in response to the chairman's questions that you've given, that at no point prior to February 19 were you aware that Rupert Murdoch was scheduled to meet with President Carter?

Ambassador ALSTON. At no point was I aware that Mr. Murdoch was to meet with President Carter. I can't tell you precisely when I found that they had had lunch. I rather think it came from a newspaper article.

Senator HEINZ. What about Mr. Murdoch's meeting with John Moore?

Ambassador ALSTON. I had no idea that Mr. Murdoch was going to meet with John Moore, and I didn't know about that meeting until well after the event. And I expect I learned that from the newspapers.

Senator HEINZ. I think you stated on that 13½-hour plane flight you and Mr. Murdoch met, but you didn't talk about anything consequential?

Ambassador ALSTON. Mr. Murdoch and I waved to each other as we left the Pan Am VIP room to get on the plane. Mr. Murdoch sat in the upper section of the Boeing 747, which is configured to handle seats. After we'd been underway for about 20 or 30 minutes, I thought that it would be nice to go up and say hello.

I expect saying hello to Mr. Murdoch took less than 30 seconds. I said, hello. I hope we're friends. I came on down the stairs. I think I waved to him.

When he got off in Los Angeles, I was coming to Washington. I didn't know he was going to Boeing.

Senator HEINZ. You didn't know ahead of time that he was going to be on that flight?

Ambassador ALSTON. I did not know until I saw him at Pan Am.

Senator HEINZ. The embassy in Australia became aware when, of Ansett Airlines' interest in Boeing aircraft?

Ambassador ALSTON. Senator, I can't be precise about that. I'd have to rely on the telegrams that we sent. I think I've been shown one. It may have been dated December 7, but I'm not certain about that.

I would accept at face value what came on those telegrams. I could refresh my recollection if you gave me a copy.

Senator HEINZ. But you did become aware of it sometime in December or January.

Ambassador ALSTON. Let me say this. If you live in Australia——

Senator HEINZ. I did.

Ambassador ALSTON [continuing]. Through the process of osmosis, you become aware of certain things. One of them was the rivalry that exists between TAA and Ansett. One other was the prospects that Mr. Murdoch wanted to buy Ansett.

Senator HEINZ. I was an emigrant. I emigrated to Australia when I was a young man.

Ambassador ALSTON. Well, then, you know my good fortune in being sent there.

Senator HEINZ. But be that as it may, yes, even then, Ansett Airlines and TAA were going at it tooth and nail. But the question I have for you is about when do you think you first got to know about Boeing's interest?

Ambassador ALSTON. About what now?

Senator HEINZ. When did you first get to know about Ansett's interest in purchasing Boeing aircraft? January, February?

Ambassador ALSTON. I think the date that's of more interest to you is the date that Mr. Clark called me from Sydney. That date was February 25. As I recall, February 25 was a Monday in Australia and a Sunday night in Atlanta.

That's the first time I became consciously aware of the transaction that's under discussion here now, although I was perfectly aware of the fact from reading the newspapers that Mr. Murdoch was attempting to acquire the equity or a substantial part of the equity in Ansett Airlines.

Senator HEINZ. What was that date, again?

Ambassador ALSTON. The date that I got the call from Mr. Clark was February 25.

Senator HEINZ. February 25? Now on February 24, you made a call to John Moore.

Ambassador ALSTON. That would have been February 24 in Washington, Senator. It would have been February 25 in Australia.

Senator HEINZ. So you hung up and you called Mr. Moore.

Ambassador ALSTON. I hung up talking to Mr. Clarke and called Mr. Moore.

If I'm not mistaken, I may have caught him at home.

Senator HEINZ. Now there's a cable that arrived in Washington, D.C. on March 7 written as a result of a February 15 meeting by the Exim team. For some reason, it didn't arrive at Exim in Washington. You would not have seen that cable. No one in your commercial section would have been aware of that.

Ambassador ALSTON. Senator, much of the traffic out there I do not see, much I do see. I'll be pleased to refresh my recollection and testify if you'll show me a copy of the cable.

I'm not aware, as it is, of the cable of which you speak.

Senator HEINZ. We'll get you a copy of the cable. Would it be usual, and I have no idea, for your commercial section to try and monitor what the Eximbank is doing in Australia? It would seem to me that it would not be unusual. But I don't know if they did.

Ambassador ALSTON. Well, it would be usual, I hope, for our commercial section to be interested in the sale of any American product in Australia. This happens to have been a prospect for a major sale, so I'd be very much surprised at this point had they not monitored that process.

Senator HEINZ. Would they have seen fit to ask you for any comment—would they have informed you of any such important transaction that was in the offing, or is that something that they would not bother informing you about?

Ambassador ALSTON. No, sir. I think they would have kept me informed if they were playing any significant role. And I think they knew through my conversations probably with DCM, Deputy Chief of Mission, that I'd had a call from Mr. Clarke or that I had talked with Mr. Moore. I expect they would have known that. I can't recall specific conversations with respect to any of the staff as to that particular transaction. But I think it would be safe to say the Embassy was aware of the opportunity Boeing had to sell airplanes to Ansett.

That's the game we play there and that's the only game we play there.

Senator HEINZ. But you would not—let's be hypothetical. If in January you had known of Ansett's interest in Boeing aircraft and if you had known in January——

Ambassador ALSTON. I may very well have known in January.

Senator HEINZ. Whether you did or not, just a hypothetical question. And if you had known that the Export-Import Bank financing was quite the key to it, and if your people had told you what the situation was, would it be normal practice or would you, generally speaking, not think to call up your friend, John Moore, at the Eximbank and say, listen, this is really important. It's a big slice of business. It's now or never.

Ambassador ALSTON. Senator, I'd have had no hesitancy in calling John Moore. It was a little easier because I knew him so well. But I would have done anything to get Export-Import to perform as it's supposed to perform, that is and to wit, sell American merchandise overseas. And I would have called him in a minute.

It so happens that the call to John Moore was initiated by the Boeing representative.

Senator HEINZ. I would expect nothing less of an alert and dedicated ambassador such as you have a reputation to be. It does strike me as odd that nobody in the Embassy came to you sooner than they did, or that nobody else came to you sooner than they did.

Ambassador ALSTON. I must ascribe that to the proposition that Boeing didn't think it would have the opportunity to sell to Ansett. You see, I want to be careful not to split these dates. But we may not have thought that Ansett would vary that old practice that it had with TAA of buying the same equipment.

Senator HEINZ. They have a mirror image policy. They emulate whatever TAA does.

Ambassador ALSTON. There was a time when they bought the same equipment and flew the same routes. That's been changed. Before the change, we didn't think we would have the opportunity. But once we thought we had that opportunity, we moved immediately.

Senator HEINZ. You've just been given the cable that I referred to which was written in Australia on February 15, but not received until March 7 or 8.

Ambassador ALSTON. Let me read this, Senator:

Subject, Boeing and Airbus competition update.

And it seems to be dated March 7, 1980. Paragraph 1 reads as follows:

In the meeting with Ansett Transport Industries on February 15, the Exim team had a very productive meeting. Ralph Cooper, Ansett's executive general manager, reviewed corporate history and provided insight into the impending decision on Boeing or Airbus.

I can say right off, I don't recall having seen this telegram. Shall I continue reading it?

Senator HEINZ. No. We'll make a Xerox of it. But I don't think you need to read it any further if it doesn't look familiar.

Ambassador ALSTON. This does not look familiar so far.

Senator HEINZ. You can examine it and let us know later.

My time has expired. I don't want to take Senator Stevenson's time.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

COMMITTEE NOT CONCENTRATING ON MAIN ISSUE

Mr. Ambassador, you started your comments by suggesting this committee was ignoring the central issue, which you said was the competitiveness of the American aerospace industry.

Ambassador ALSTON. I don't think I said "ignore," Senator. I think I said you might not be concentrating on what I think is the main issue.

Senator STEVENSON. This committee has been studying that issue for a lot longer than you've been ambassador, or John Moore, Chairman of the Bank. The most recent hearings on that issue were held on February 22, when, among others, Mr. Pierce of Boeing testified before this committee.

That's not the central issue before this committee at this time. That issue involves the policy which discriminates against other exporters far more disadvantaged than Boeing and grants Boeing 8-percent interest rates at the expense of other exporters, to which loans will be made at higher interest rates. If those funds didn't go to Boeing, they'd go to somebody who needed it more.

And the issue before us in this case is why. Now, you said that you had a telephone conversation with John Moore? Just one?

Ambassador ALSTON. I believe there were two, Senator. I think he called me back at some stage. I don't have the date. He called me back to let me know that it had been considered or was in the process of being considered by this committee.

Senator STEVENSON. What was the date of the first conversation?

Ambassador ALSTON. The first conversation was February 25 in Canberra. That would be February 24, in Washington I believe.

That was the call from Bob Clarke. As I recall, I put down the telephone and called John Moore immediately.

Senator STEVENSON. At that time the Bank——

Ambassador ALSTON. I think the second call may have come—and I want to be not too precise about this, but I think that on February 29 John Moore let me know.

Senator STEVENSON. Well, it's the first call that I am interested in. At that time the Bank staff had prepared a preliminary commitment or memorandum which raised for the Board's consideration financing by the Bank of about $656 million at 8 percent for the purchase of 25 aircraft from Boeing by Ansett.

Was that the proposal that you called John Moore to urge his support for?

Ambassador ALSTON. Senator, I did not get into specifics with John Moore and I didn't attempt to understand the specifics that came to me from Bob Clarke of Boeing. I did say that I would pass on to John Moore, to the Eximbank—I don't know whether I mentioned John Moore to Bob Clark or not—the opportunity that the Bank had to finance the purchase by Ansett of Boeing planes. But I did not get involved in specifics.

Senator STEVENSON. You didn't discuss with him the dollar amounts?

Ambassador ALSTON. There were some discussions, but I didn't key in on those and they made no impression on me other than the fact that they were very significant dollars. I wanted to see Boeing make the sale.

Senator STEVENSON. You indicated in your earlier remarks and again now that the issue to you was competition with Airbus.

Ambassador ALSTON. I say that, Senator, because that really is the only part of this transaction with which I have familiarity.

Senator STEVENSON. Yes. Then did you make this recommendation, however loose and vague it may have been, without making any effort to determine what the competition from Airbus was?

Ambassador ALSTON. Yes, I did. I made no effort at all. I accepted at face value what Bob Clarke told me. I didn't attempt to control the Board of Directors of Eximbank. What I did ask is that they make a prompt decision and that hopefully it would be a favorable decision.

Senator STEVENSON. Do you realize now that the Airbus offer was for the financing of only four aircraft, for a total of $150 million, whereas this proposal, which by implication you supported, was for $656 million for 25 aircraft?

Ambassador ALSTON. I think I read that somewhere, Senator. It hadn't affected my judgment or thinking, no, sir.

Senator STEVENSON. Let me then, Ambassador, just express the hope that in the future, before making such a recommendation to the Bank——

Ambassador ALSTON. Senator, let me say this. I think the Bank had a staff far more competent than the American embassy in Canberra to develop the facts.

Senator STEVENSON. You attempted to make a recommendation. The purpose of the recommendation was to meet the competition. But you did not examine the competition.

My suggestion is that before you make such recommendations in the future, you examine your competition or not make the recommendation.

Ambassador ALSTON. My recommendation, Senator—I want to go back and make this clear—was not that the Bank make the loan. It was that the Bank react as quickly as it could, and I hoped favorably, leaving to the Bank's Directors whether or not the loan would be made. It would never have occurred to me to impose my judgment on the Board of Directors of Eximbank.

Senator STEVENSON. Well, you were calling for a purpose. The purpose, you say, was to bring the whole matter to the attention of the Bank, that already knew about it. Didn't you, at that point?

Ambassador ALSTON. I think what I was doing was attempting to put some emphasis on what I thought was the importance of the sale of Boeing airplanes to Australia, rather than the sale of Airbus, which had already been successful with Ansett's competition, TAA.

Senator STEVENSON. That's a very important objective. But the responsibility of the Board is to meet competition. In this case it's proposing to meet competition that didn't exist.

Ambassador ALSTON. I was not and am now not aware that was the case.

Senator STEVENSON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman.

I think Senator Stevenson's line of discussion is important. You're a lawyer, so you know how to use words carefully. You say that you recommended that they act favorably, but that you weren't necessarily urging them to approve the loan. I think you know you just can't use those words in the same sentence and have them mean anything.

Ambassador ALSTON. They mean something to me, Senator.

Senator RIEGLE. Help me understand if you would.

Ambassador ALSTON. What I think I wanted to say is, I hoped they would act favorably and I urged them to act quickly. We had a March 1 deadline.

Senator RIEGLE. You made no recommendation?

Ambassador ALSTON. I could not have made a recommendation, because I didn't know the facts. And I don't know the facts today, the premises on which that loan was made.

I knew that Boeing was in competition with Airbus. That general fact I knew. That was a competition I hoped that we would win and I hoped Eximbank would make its financing available. It had to be totally Eximbank's decision.

Senator RIEGLE. We can have the record read back if you wish, but in your response to Senator Stevenson you did say that you hoped the Board would act favorably. I guess you're saying that that was not what you had intended to say.

Ambassador ALSTON. I hoped it would be a favorable one, yes.

Senator RIEGLE. Pardon?

Ambassador ALSTON. I hoped that the decision by the Eximbank would be favorable; yes.

Senator RIEGLE. That brings it up again. How can you hope the decision would be favorable if you're not in a position to make a recommendation? Apparently you had some reason to hope that it would come out favorably. I wonder if you could try to reach back and put that in place for us.

Ambassador ALSTON. I just hoped our side would win. I think that's the best way I could put it. Our side in this instance was Boeing and the other side was Airbus.

MURDOCH'S GAIN AND TAXPAYERS LOSE

Senator RIEGLE. Let me tell you what appears to have happened. Mr. Murdoch may just be a good poker player, in terms of how he touched all the bases here.

In any case, it looks like the Federal Government ended up offering more favorable terms to Ansett than were necessary, maybe to the tune of about $13 million. Therefore, as taxpayers we may be out $13 million in this transaction. A more prudent judgment of business arrangement would have jacked up the interest rate in such a way that we would not have lost the $13 million, and Mr. Murdoch would not have gained it.

That's the way it appears now. It looks like, it all worked out Murdoch's gain and to the loss of the Government. That's the way it seems, unless we can assemble a case that shows otherwise. So far that's not happened.

You understand that? Is it clear to you what appears to have happened now?

Ambassador ALSTON. I hear these figures. I am not in a position to accept them at face value. I don't know the facts. If you will tell me that that is factual, I'll do my best to accept it.

I'm not sure you can measure this in so precise terms as you're attempting to do. But I'll accept what you say.

I did not know those facts to exist. My information came in general terms from Boeing. Boeing was anxious to sell the aircraft.

Senator RIEGLE. I'm sure they were. The problem is that the money doesn't come out of their pocket, either. It comes out of the pocket of the Government. It gets very complex here. There are a lot of close-knit relationships. You and Mr. Moore were former business partners.

I asked Mr. Moore if he was associated with the President's campaign. He was. I assume you were. The problem is that anybody who's outside that circle, looking in on this, trying to reconstruct what happened; wonders whether the taxpayer got taken for a ride, with the sequence of events falling as it does?

What we're trying to do is put the case together in a way that it can all make sense. That's where we're having trouble. We're having trouble making everything fit so far.

You hoped, then, that the Board would act favorably. But that doesn't necessarily mean that they would approve the thing.

Ambassador ALSTON. I hoped that Boeing would make the sale. That's probably the best way to put it.

Senator RIEGLE. Did you ever talk with Mr. Moore about any other Export-Import Bank actions, about any specific deals in Australia?

Ambassador ALSTON. No, sir. I think there was one Export-Import loan in place prior to my going to Australia or prior to Mr. Moore taking on the Eximbank, and I think we may have discussed it in the most general manner. It was a silver or lead mine. But that would hardly amount to a discussion.

Senator RIEGLE. Let me back up now. There were a lot of things happening here. Some things you knew about, some things you didn't know about. We're all trying to look back and add it all up.

As you look back now, does it appear to you that Mr. Murdoch was trying to speed this thing up. Did he try to stampede everybody into a decision that would be more favorable to him than might otherwise be the case if the board tested the Airbus offer a bit more?

Ambassador ALSTON. I would not reach that conclusion, Senator, for I think two reasons. You've got to know for a certainty that the Airbus offer would not have been extended. I don't know what Airbus was going to do. I never had any contact with the Airbus people. But if the Airbus offer was going to expire and Ansett had to make the decision, then I think everything that has been done has been done correctly.

Senator RIEGLE. The problem is that, the answer to the question of how firm the timetable was on the Airbus offer was essentially getting programed from Mr. Murdoch and his people.

Do you have a feeling it was coming from somebody else?

Ambassador ALSTON. No, sir. Restate that for me again?

Senator RIEGLE. I'm saying that the information about the Airbus offer and the facts on the deadline were really coming from Mr. Murdoch's side.

Ambassador ALSTON. I couldn't say that. I would not know that to be a fact. I'll assume that we had other sources of information about the Airbus offer. But I don't know.

Senator RIEGLE. Mr. Murdoch appears to have worked out a very good deal for himself.

Ambassador ALSTON. This I don't know. That's the object of the exercise, of the free enterprise system, is to work out a good deal.

Senator RIEGLE. Wait a second. This isn't just a free enterprise situation. You're talking about a Government-subsidized rate. This isn't free enterprise. This isn't the free market working. This is a case where the Government is going to peg a rate here. If they peg the rate where it's supposed to be, then that saves the Government and the taxpayer money. If they peg the rate lower than it needs to be, that's like giving somebody a gift of money.

In this case, it looks like Mr. Murdoch got a gift of about $13 million. That's the problem.

Ambassador ALSTON. This I don't know.

Senator RIEGLE. That's what we're trying to pin down.

Ambassador ALSTON. I also don't know how many jobs were created or will be created as a result of making that sale.

Senator RIEGLE. The point is, you get the jobs anyway. If you can cut the deal at a more proper interest rate, you still get the jobs. You can still sell the airplanes. You just don't nick the taxpayer for an extra $13 million.

Ambassador ALSTON. I'm just not sure in this circumstance that Airbus didn't——

Senator RIEGLE. This is the hard part to pin down; but it is important here. Even if nobody knew all of the things that were happening except for Mr. Murdoch, did we end up having a decision here that was adverse to the U.S. Government? We've heard a lot of testimony, but it looks as if this interest rate was pegged artificially low. However this happened, it was a good deal for Mr. Murdoch; it was not a particularly good deal for the U.S. Government.

That's all for me right now, Mr. Chairman.

The CHAIRMAN. Do you have any more questions?

[No response.]

The CHAIRMAN. Thank you very much, Mr. Ambassador. We very much appreciate your testimony.

[The following statement and record were received for the record:]

STATEMENT OF THE HONORABLE PHILIP H. ALSTON, JR.
UNITED STATES AMBASSADOR TO AUSTRALIA
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

MAY 13, 1980

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE IN ORDER TO DISCUSS THE RECENTLY CONCLUDED CONTRACT OF SALE BETWEEN ANSETT AIRLINES AND THE BOEING INTERNATIONAL CORPORATION, AND TO DESCRIBE MY RATHER LIMITED ROLE IN FACILITATING FINANCING FOR THE SALE THROUGH THE EXPORT-IMPORT BANK. WITH YOUR PERMISSION, I WILL MAKE A BRIEF STATEMENT AND THEN RESPOND TO ANY QUESTIONS YOU OR OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

THERE ARE TWO MAJOR DOMESTIC AIRLINES IN AUSTRALIA -- TRANS-AUSTRALIA AIRLINES (TAA) AND ANSETT AIRLINES. BOTH WERE ENGAGED IN MAJOR AIRCRAFT PROCUREMENT PROGRAMS DURING 1979-80. BOTH HAD TRADITIONALLY FOLLOWED A POLICY OF BUYING THE SAME KIND OF AIRCRAFT. IN 1979, TAA AGREED TO PURCHASE AIRCRAFT FROM AIRBUS. AIRBUS WAS ACTIVELY SEEKING TO SELL AIRCRAFT TO ANSETT.

I WAS AWARE THAT BOEING WAS ALSO SEEKING TO SELL AIRCRAFT IN THE AUSTRALIAN MARKET. I WAS TOLD THAT A CHANGE IN THE MANAGEMENT OF ANSETT HAD CAUSED ITS BOARD OF DIRECTORS TO QUESTION WHETHER THE PREVIOUS "ONE AIRCRAFT POLICY" SHOULD BE ADHERED TO AND THAT BOEING THUS HAD A REALISTIC OPPORTUNITY TO SECURE THE ANSETT CONTRACT IF ACCEPTABLE FINANCING COULD BE ARRANGED.

ON FEBRUARY 25, 1980, I RECEIVED A TELEPHONE CALL FROM MR. ROBERT A. CLARKE WHO REPRESENTS BOEING IN SIDNEY. MR. CLARKE EXPLAINED THAT THE MOST IMPORTANT FACT IN THE BOEING-AIRBUS COMPETITION FOR THE ANSETT ORDER WERE THE RESPECTIVE FINANCING ARRANGEMENTS AVAILABLE THROUGH AIRBUS AND THOSE AVAILABLE FROM THE EXPORT-IMPORT BANK. HE INFORMED ME THAT THERE WAS PENDING BEFORE THE EXIMBANK A PROPOSAL FOR A LOAN TO ANSETT AIRLINES TO FINANCE THE PROPOSED SALE TO BOEING AND THAT A FAVORABLE DECISION BY THE EXIMBANK WOULD HELP TO PUT BOEING IN A COMPETITIVE POSITION. MR. CLARKE EMPHASIZED THAT A PROMPT DECISION WAS ESSENTIAL BECUASE THE DELIVERY SCHEDULE INCLUDED IN THE AIRBUS OFFER WAS VALID ONLY UNTIL MARCH 1. THE ANSETT BOARD OF DIRECTORS NEEDED AN INDICATION THAT COMPETITIVE FINANCING WAS AVAILABLE THROUGH EXIMBANK IN ORDER TO JUSTIFY A DECISION TO DEFER FINAL ACTION BEYOND THE MARCH 1 DEADLINE. MR. CLARKE ASKED THAT I CONTACT THE EXPORT-IMPORT BANK AND URGE THAT A PROMPT AND FAVORABLE DECISION BE REACHED ON THE ANSETT PROPOSAL.

Among many of the responsibilities of an Ambassador, one of the most important, in my view, is that of promoting the interest of American businesses abroad. I, therefore, regarded it as my duty to do everything I legitimately could to assist Boeing. Shortly after my conversation with Mr. Clarke, I telephoned John L. Moore, Jr., President and Chairman of the Export-Import Bank. Mr. Moore and I were law partners for many years in Atlanta. In our conversation I stressed the importance of the transaction to Boeing and to the American economy. I urged that a prompt decision be reached, and expressed my hope that the decision would be favorable. Later, I believe the same day, I called Bob Clarke to let him know I had reached John Moore. It is my recollection that Mr. Clarke was not in and that I left word with his secretary to the effect that Eximbank was aware of my interest in the Boeing-Airbus competition.

I was pleased to learn several days later that the Eximbank was able to offer financial terms to Ansett which were regarded as competitive with those offered by Airbus. I later learned from a brief remark made by Rupert Murdoch at a luncheon which I hosted in Canberra on March 15 that the terms offered by the Eximbank were regarded as competitive, although

NOT AS COMPETITIVE AS MURDOCH WOULD HAVE LIKED. THIS WAS THE ONLY OCCASION, INCIDENTALLY, ON WHICH I DISCUSSED THIS TRANSACTION WITH MR. MURDOCH OR ANYONE ELSE ASSOCIATED WITH ANSETT. I WAS, OF COURSE, EXTREMELY PLEASED TO LEARN ON MARCH 17 THAT A SALE AGREEMENT HAD BEEN REACHED BETWEEN ANSETT AND BOEING.

I DID NOT ANALYZE THE RESPECTIVE TERMS OFFERED TO ANSETT BY AIRBUS AND THE EXIMBANK. I REALIZE THAT THERE HAS BEEN SOME DISCUSSION CONCERNING WHETHER THE EXIMBANK OFFER COULD HAVE BEEN LESS FAVORABLE BUT STILL SUFFICIENT TO SECURE THE CONTRACT FOR BOEING. I HAVE NO OPINION ON THIS ISSUE. I VIEWED MY ROLE IN THIS MATTER MERELY AS THAT OF SEEKING TO ASSIST AN AMERICAN BUSINESS FIRM TO MAKE A MAJOR SALE IN AUSTRALIA.

NOR WAS I AWARE OF ANY POLITICAL RAMIFICATIONS RESULTING FROM THE ANSETT PROCUREMENT DECISION. WHILE I WAS IN WASHINGTON BETWEEN JANUARY 27 AND FEBRUARY 7 I HAD A NUMBER OF MEETINGS WITH WHITE HOUSE OFFICIALS INCLUDING THE PRESIDENT. THE ANSETT-BOEING TRANSACTION WAS NOT MENTIONED IN ANY OF THESE DISCUSSIONS NOR IN ANY LATER CONVERSATIONS WITH THESE OFFICIALS. I PLAYED NO ROLE IN ANY MEETINGS WHICH MAY HAVE TAKEN PLACE BETWEEN MR. MURDOCH AND THE PRESIDENT AND MR. MOORE.

BOEING'S SUCCESS IN OBTAINING THE ANSETT CONTRACT WAS EXTREMELY IMPORTANT, NOT ONLY TO BOEING, BUT TO THE AMERICAN ECONOMY. I AM PROUD TO HAVE MADE A CONTRIBUTION TO THE SUCCESSFUL CONCLUSION OF THIS TRANSACTION.

DEPARTMENT OF STATE

Washington, D.C. 20520

MAY 9 1980

Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Ambassador Philip H. Alston, Jr. has asked that the following letter be submitted to you as part of the record in the hearings your Committee will be holding May 12 and 13, 1980. He has also asked that the Department of State inform you that he accepts the Committee's invitation to testify before it at 2:30 p.m. on the second day of the hearing.

Begin Quote:

Mr. Chairman:

1. Herewith I submit a written response to a telex, received here in Canberra April 30, 1980, in which you invite me to appear at a hearing before your Committee, scheduled at 2:30 p.m., on May 13, in Room 5302, Dirksen Senate Office Building. The stated purpose of the hearing is to inquire into a decision by the Export-Import Bank to approve a preliminary commitment for a loan to Ansett Airlines to finance the purchase of American-manufactured aircraft (herein called "the loan").

2. I serve as the United States Ambassador to Australia under a Presidential commission dated April 29, 1977.

3. I know the following persons, all of whom have been mentioned in connection with the transaction:

I. The President of the United States
II. The Chairman of the Export-Import Bank John L. Moore, Jr.

III. Mr. Robert Strauss
IV. Mr. Hamilton Jordan
V. Mr. Jody Powell
VI. Mr. Tim Kraft
VII. Mr. Joel McCleary, whom I have not seen and with whom I have not spoken in perhaps three years.
VIII. Mr. Rupert Murdoch

4. On February 25, 1980 I received a telephone call from Mr. Robert A. Clarke, who is the representative in Sydney for Boeing International Corporation ("Boeing").

5. Mr. Clark asked that I urge upon Exim Bank a favorable and prompt decision on a proposal for a loan to Ansett Airlines, the proceeds of which loan would be used to purchase "Boeing" planes. Mr. Clarke emphasized that time was of the essence as Ansett needed an indication of the loan terms available to it from Exim in order for Ansett to make the decision between "Boeing" and Airbus prior to March 1, the date the Airbus offer was to expire. I was aware of the fact that "Boeing" was in competition with Airbus for the Ansett order.

6. It is my recollection that shortly after hearing from Mr. Clarke I telephoned John L. Moore, Jr., Chairman of the Exim Bank. In our conversation I did in fact urge a decision favorable to "Boeing" and also I urged that Exim act promptly.

7. John Moore and I were for many years law partners in Atlanta immediately prior to assuming our present jobs.

8. I was in Washington between the dates of January 27 and February 7, 1980 in connection with a meeting between the Prime Minister of Australia and the President of the United States.

9. While in Washington I saw the President, John L. Moore, Jr., Robert Strauss, Hamilton Jordan and Tim Kraft.

10. The loan was not discussed with any one of these gentlemen with the possible exception of Mr. Moore. I do not recall either of us mentioning the loan but will accept his statement if his recollection on this point is different from mine.

11. I am perfectly certain that the subject of support from Mr. Murdoch's newspapers for the President in his re-election bid was never mentioned with anyone.

12. I had nothing to do with arranging a meeting between the President and Mr. Murdoch.

13. I had nothing to do with arranging a meeting between Mr. John L. Moore, Jr. and Mr. Murdoch.

14. The sole considerations prompting my call to Mr. Moore regarding the loan were:

I. a conviction that the loan was fully consistent with Exim's "reason for being", and

II. a strong desire to see "Boeing" win the competition with Airbus because of the favorable impact of a significant "Boeing" sale on the US economy and our balance of payments.

Respectfully submitted,
Philip H. Alston, Jr.

End Quote.

The Ambassador currently plans to arrive in Washington from Australia on Sunday, May 11. If you or members of the Committee staff wish to get in touch with him prior to the hearing you may do so through our Office of Australian and New Zealand Affairs (tel. 632-9690).

Sincerely,

Brian Atwood

J. Brian Atwood
Assistant Secretary for
Congressional Relations

The CHAIRMAN. Our final witnesses are Rupert Murdoch and Donald Kummerfeld.

Mr. Murdoch and Mr. Kummerfeld, would you raise your right hand?

[Witnesses sworn.]

TESTIMONY OF RUPERT MURDOCH, PUBLISHER, NEW YORK POST, AND DONALD KUMMERFELD, PRESIDENT, NEWS AMERICAN PUBLISHING, INC., ACCOMPANIED BY HOWARD M. SQUADRON, ATTORNEY

The CHAIRMAN. Mr. Murdoch, how was your lunch meeting on February 19 with President Carter arranged?

Mr. SQUADRON. Pardon me, Mr. Chairman, my name is Howard Squadron. I am Mr. Murdoch's counsel. I would like to state for the record that I never went to the Middle East with Mr. Strauss.

If the chairman will permit——

The CHAIRMAN. Mr. Squadron, we may have questions for you, so would you rise, also.

[Witness sworn.]

Mr. SQUADRON. Mr. Chairman, Mr. Murdoch would like to make a statement. I have copies of it here.

The CHAIRMAN. All right. We'll have the clerk pick up the copies.

Mr. Murdoch, we'd be happy to have you make whatever statement you wish.

Mr. MURDOCH. Thank you, Mr. Chairman, members of the committee.

I am pleased to appear here today in response to your invitation, because it affords me the opportunity to clarify certain facts.

First, I met on February 19 with Eximbank officials at the suggestion of Boeing executives, who felt I could help to explain the Ansett situation with respect to the purchase of Boeing aircraft. The appointment was scheduled by Boeing executives, processing the loan application involving the purchase of Boeing products. The date was an accommodation to me, because I was previously scheduled to be in Washington that day.

EXIM LOAN NOT EXTRAORDINARY

Second, the Exim loan commitment itself is not at all extraordinary. Ansett had received a firm competitive offer from Airbus that required quick response, and some members of the Ansett Board of Directors preferred the Airbus products. Airbus was holding $500,000 of Ansett funds to secure preferential delivery position and the Airbus obligation was to become firm unless canceled within 3 weeks—that is, on March 1. No matter what your approach is to interest and cost computation, the Exim loan proposal cannot be regarded as more favorable than the Airbus loan offer. Even after the Exim commitment was received, it was a very close question for Ansett. We sought and obtained an extension from Airbus in order to permit the Ansett board members to review both proposals before making a final decision. Certainly nobody at Ansett—myself included—ever regarded the Exim loan proposal as containing unusually favorable terms.

Third, my luncheon with the President was totally unconnected to the Ansett purchase of Boeing aircraft and accompanying Exim

loan. The first suggestion for such a meeting was made the previous June. The President called me in early October to invite me to lunch and a date was set for November 8. It was canceled because I had to be out of the country on November 8; and it was rescheduled around November 28 for December 19. Again, unexpectedly, I had to be out of the country and the luncheon was canceled. Around January 28 it was rescheduled for February the 19. Until the middle of December there was no connection between any company in which I have an interest and Ansett. The Ansett purchase of Boeing aircraft was not confirmed and the Exim loan application was not made until after the last luncheon appointment had already been scheduled. Neither at the luncheon nor at any other time—with the President or anybody else connected with the White House or the President's campaign—did I or anybody else representing Ansett discuss the purchase of Boeing aircraft or the Exim loan.

Fourth, the New York Post's expression of preference for President Carter rather than Senator Kennedy came as no surprise to any New York Post reader. Nor did its timing, as the New York Post frequently expresses early preferences in political races. Rather, the Post reader may have been surprised by the faint praise of President Carter and the reservation of judgment about the general election. In any event the New York Post endorsement was totally unrelated to any matter beyond the merits of the candidates.

Finally, I am most sorry that the coincidence of timing has created such misunderstanding. Ansett hopes to continue to buy Boeing Aircraft and in that connection will probably apply for Exim financing. I expect that each application will be treated fairly on the merits, in view of the competition.

I publish newspapers and have been subject to misleading publicity in the past so I am personally able to keep this situation in perspective. It would be most unfortunate if other potential foreign purchasers from American companies that compete with aggressive and successful foreign producers like Airbus, were to receive a signal that American financing is unavailable or unnecessarily difficult to obtain.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Murdoch.

Mr. Squadron and Mr. Kummerfeld, do you have any statements you wish to make?

[No response.]

The CHAIRMAN. All right, sir.

Mr. Murdoch, I'd like to read a brief quotation from an article in the New York Times and ask for your comment. I'm reading only in part from that article.

It says:

> Let us be charitable and assume that the Carter staff is so riddled with incompetence that nobody warned the President that the visitor's endorsement he was seeking was that very day dickering for an enormous government loan. Further assume that old Georgia law partners, Moore and Alston, have only the best interests of U.S. exports at heart. Finally, assume that one thing has nothing at all to do with another. Mr. Murdoch was independently speaking the New York Post's mind about the Presidential preference and he was public-spiritedly steering jobs and business to the U.S. and Boeing rather than to France's Airbus. Lavishing on

everyone concerned the benefits of every doubt and imputing to all the highest motives, doesn't this deal reek of at least the appearance of a conflict of interest?

What's your response to that?

SOME PEOPLE LOOK OF CONSPIRACIES

Mr. MURDOCH. No, sir, I think the difficulty here is that some people seem to be looking for conspiracies. It's the most simple deal possible.

I was in favor of buying American aircraft for a number of reasons. There were many good reasons not to. And we finally came down on the side of Boeing. There was no conspiracy, nothing at all.

The CHAIRMAN. Well, you blandly deny it. But I'm not talking at this point about a conspiracy. The appearance——

Mr. MURDOCH. This is from my friend Bill Safire's column—well, he works for other people who have other barrows to roll.

The CHAIRMAN. The fact is he states, and it seems to me accurately, it is true that you had this meeting. It coincided with the meeting with the President. The only time the President met with a publisher alone at lunch, according to two of his campaign officials, the only time they could recall, you met alone with him.

Mr. MURDOCH. I think he met with Mr. O'Neill, too, of the Daily News, lunched with him.

The CHAIRMAN. Then, in the second place, the same day you meet with the President, you meet with the Export-Import Bank about a loan, which some of us construe is extremely favorable to your position. And it's a multimillion dollar loan. And within 3 days you endorsed the President, and within 6 days you get your money.

Mr. MURDOCH. We haven't seen the money yet.

The CHAIRMAN. All right. You're correct.

Within 6 days you have a decision in your favor.

Mr. MURDOCH. Mr. Chairman, I'd like to make it quite clear that I looked upon this as a loan that was being made at the request of Boeing in order to help Boeing make the sale. The negotiation which had gone on for these aircraft was carried out by both my partner, Peter Abeles, and myself, with Airbus and with Boeing, over a period of time.

I think, if anything, Sir Peter played a bigger part in those negotiations than I did. I happened to be in this country in February when Boeing said, "Can you come down and tell Mr. Moore firsthand what your position is?"

On reflection, I'm sorry I agreed to do that. I should have said, "No. Someone may misconstrue it. You'd better get my partner to go and talk about it." And he could have flown in from Australia.

The CHAIRMAN. Well, your editorial is one thing. And the articles that you carried on Senator Kennedy are something else. They were extraordinarily critical of Senator Kennedy.

Mr. MURDOCH. I wasn't in the country at the time.

The CHAIRMAN. But you're well aware of what your paper publishes, are you not?

Mr. MURDOCH. I see my papers. I don't write them, sir.

The CHAIRMAN. Of course. But you take responsibility for it?

Mr. MURDOCH. Naturally. I appoint the editors. I stand behind the editors.

The CHAIRMAN. You've been here all afternoon. What's the reaction to the criticism that Senator Riegle has so skillfully made, and I think accurately made, that this was a smear job on Senator Kennedy of a dimension that we rarely see in American newspapers?

SMEAR JOB

Mr. MURDOCH. If there was a smear job, sir, it certainly had never been connected with the matter that's being investigated today, because it took place many months before it crossed my mind to buy Ansett Airlines. So that's quite unconnected.

I don't believe it was a smear job. Senator Kennedy came to see me last year. He explained his position about a number of issues. I thought he was charming and an articulate man, although we disagree about a lot of things.

I think the newspaper has done no more—has carried no more stories detrimental to Senator Kennedy than other newspapers have in this country. Of course, it's a tabloid newspaper. It uses big headlines, which gather more attention.

You could argue, you know, about the size of a headline on page 1 or a line or two on page 1 or page 31.

The CHAIRMAN. Now, let me discuss another issue that we haven't gotten into yet today. You or your representative assisted Eximbank in preparing an analysis of Ansett's transport industries, which was included in the Bank's preliminary commitment memo. The memo mentions that the final steps in the acquisition of Ansett by the Murdoch-Abels group, I quote, "are in the process of being completed at the present time."

Did you or your representatives mention to Eximbank that your shares of Ansett Transport Industries have not yet been registered?

Mr. MURDOCH. No, sir. They still haven't been either. But I am the joint chief executive, as, sir, Peter Abels is, and we have full authority to act for the airline.

But I can explain it to you. It would take us a long time. It has to do with the television law in Australia. Until we get final clearance on the control of a television station which is owned—two, actually, which are owned by Ansett Airlines, those shares cannot be registered. And we're still waiting. The matter is pending in the courts in Australia.

The CHAIRMAN. Did you tell the Bank that you would have to seek the approval of the Australian Broadcasting Tribunal?

Mr. MURDOCH. We were seeking the approval actively.

The CHAIRMAN. But you didn't tell the Bank?

Mr. MURDOCH. It didn't occur to me that it was important.

The CHAIRMAN. But if the decision was adverse to you——

Mr. MURDOCH. We would have to give up the stations.

The CHAIRMAN. Or sell the airline.

Mr. MURDOCH. One of them is a very large enterprise; one of them is very small.

The CHAIRMAN. Is it fair to say that your whole acquisition in Ansett is under challenge before the High Court of Australia?

Mr. MURDOCH. No, sir.

The CHAIRMAN. You say it's not under challenge?

Mr. MURDOCH. Absolutely, sir.

What is under challenge before the High Court is the manner in which the Australian Broadcasting Tribunal carried out its hearings. Until that has been resolved—and I think the judgment is due this week—the Broadcasting Tribunal is not able to bring down its judgment on the matter.

The CHAIRMAN. If they bring down their judgment adversely to you, then you would have to dispose of your Ansett shares.

Mr. MURDOCH. First, if the High Court was to bring down an adverse judgment on that, there would have to be hearings.

If, on the other hand, it goes all right, but the Tribunal finds against us, which seems impossible, but if they do, we will have to sell the television station.

The CHAIRMAN. But your interest and your expertise and your association has been largely in publishing and media, rather than in the air transport field, has it not?

Mr. MURDOCH. Yes, sir.

The CHAIRMAN. You'd then have to sell the television station. But why wouldn't you also sell the airline?

Mr. MURDOCH. We really haven't contemplated it, but the television station, we've already sold one television station—I want to make it clear about that—one in Brisbane.

The one in Melbourne is a station which we'd like to keep. But it's not essential to our business.

OWNERSHIP AND MANAGEMENT IN JEOPARDY

The CHAIRMAN. Is it, in your view, completely proper for you to negotiate on behalf of Ansett and commit the company to hundreds of millions of dollars in purchases when aspects of your ownership and your management position are in jeopardy?

Mr. MURDOCH. There are no aspects of our ownership or our authority in Ansett in jeopardy. We act with full authority.

The CHAIRMAN. What about an adverse decision by the High Court?

Mr. MURDOCH. That would affect the ownership. It would not affect our authority from the Board. We've been appointed by the directors of that company, and we own the shares.

The CHAIRMAN. The committee has received indication that you're really interested in—only in the media portion of your Ansett holdings?

Mr. MURDOCH. No, sir. It is what originally led me into it; that's true.

The CHAIRMAN. Do you have any plans to dispose of your Ansett transport industry and just retain the media portion?

Mr. MURDOCH. No, sir.

The CHAIRMAN. When do you expect to file formally for the $200 million loan for aircraft purchases?

Mr. MURDOCH. I would imagine very soon.

The CHAIRMAN. Why has it taken so long?

Mr. MURDOCH. Well, I imagine there's been the hiatus around these hearings, but certainly preparation is going ahead in Australia by our Ansett offices.

The CHAIRMAN. It seems like a long delay. As you say, you haven't got the money yet.

Mr. MURDOCH. We haven't paid Boeing yet. We pay Boeing out over about 3 years. They're not going to get these airplanes until the end of 1983.

The CHAIRMAN. I understand that. But it would seem to me that you would file formally for the loan, button it up. You're a very competent businessman. But you say that it's just a matter of not having it cleared.

Mr. MURDOCH. Mr. Kummerfeld tells me that it is also the matter of the commitment fee. We don't need the money now. When we need the money to pay Boeing, we'll file for it.

The CHAIRMAN. My time is up.

Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

Mr. Murdoch, you say that you met with Mr. Moore at the suggestion of Boeing executives. Who were the Boeing executives?

Mr. MURDOCH. Mr. Pierce. I had never met Mr. Pierce before, to my recollection. But Mr. Pierce—it was either Mr. Pierce or Mr. Hong, who was the vice president for sales.

Senator STEVENSON. When was that?

Mr. MURDOCH. That would have been when I got back from Toulouse, February the 11th or 12th—I'm corrected, about a week before the meeting. And they said could I do this? I said, "I'm only here for a couple of weeks, but it would help if I could do it the day I was in Washington."

Senator STEVENSON. And you were in Toulouse to discuss aircraft purchases with officials of Airbus?

Mr. MURDOCH. Yes, sir.

Senator STEVENSON. What did you say to John Moore at that meeting on February 19?

Mr. MURDOCH. I explained what the proposal was, what our choice was, between—and it was a very complicated choice, to remain with the old two-airline policy in Australia or buy Airbus. We were under a great deal of pressure by a lot of people, both outside and inside the company, to close with Airbus, although I preferred Boeing and made no secret of that.

I said that we mapped out the strategy of fighting the other airline by retiring our DC-9's and bring in 737's and by fighting the Airbus with 727's.

It will be remembered that we were going to be 18 months behind the Airbus, which was a very severe risk for us to take, quite apart from the other risk of deciding to compete with the Government.

Senator STEVENSON. You said you described the Airbus proposal?

Mr. MURDOCH. I gave Mr. Moore the Airbus proposal.

Senator STEVENSON. What was the Airbus proposal?

Mr. MURDOCH. The Airbus proposal at that stage was for four Airbuses, which is the equivalent of about five 767's in seating and passengers. It was to lend us 85 percent of the entire cost of the Airbus program. It was for four airplanes, but there was never any question, in the two sets of discussions I had with Airbus, that it would be for everything associated with it, down to new hangars, new tarmac works, passengers, et cetera, the only difference being that that amount of money wouldn't have to be paid off until the

eleventh and twelfth years. So the loan from Airbus would really be a 12-year loan.

They were going to go around the rules of the game that way.

Senator STEVENSON. It was four aircraft?

Mr. MURDOCH. It was for four aircraft.

Later, after the Eximbank told me that they were only prepared to go underline for a similar number of seats, five 767's, I got back to Airbus and said would they make a similar proposal for more Airbuses? Would they think of buying more Airbuses down the line years later? And they said, "Yes."

I have a telex here still from Airbus, which said, yes, they would do the same thing, for up to 10 Airbuses.

The CHAIRMAN. Would the Senator yield?

Could we have that communciation for the record?

Mr. MURDOCH. Certainly. [See p. 259.]

Senator STEVENSON. As of the 19th and your meeting with John Moore, you had a proposal from Airbus to finance four aircraft?

Mr. MURDOCH. Yes, sir.

Senator STEVENSON. How much? That was 85 percent?

Mr. MURDOCH. That was 85 percent of the entire aircraft, regardless of whether they had American engines or anything.

Eximbank said they could only lend for the American-made part of the airplane.

Senator STEVENSON. That was 100 percent in the case of American airplanes, Boeing?

Mr. MURDOCH. No, sir, I'm sorry. Eleven percent of the new Boeings are made outside of this country, and it's 85 percent of 89 percent. And that's on the wide-body plan. Excuse me. On the package as a whole, which was our answer to the Airbus, the alternative to the Airbus, we were in fact offered 62 percent.

Senator STEVENSON. The Airbus package for four aircraft worked out to how much, roughly, in dollars?

Mr. MURDOCH. I believe it was about $200 million. However, four Airbuses at the current price would be about $40 million each.

Senator STEVENSON. We've had other suggestions that it was $150 million.

Mr. MURDOCH. My communication I just passed shows what it was.

Senator STEVENSON. Did it include an option for all-dollar financing?

Mr. MURDOCH. No, sir. It was a mixed bag of currencies.

Senator STEVENSON. You got no offer from Airbus at any time for all-dollar currencies?

Mr. MURDOCH. No, sir.

Senator STEVENSON. I'm going to have to do what you said, ask you to speculate. You say that you apprised John Moore of this proposal by Airbus for the financing of four aircraft. The staff of the Eximbank the next day, or at least in a memorandum dated the next day, February 20, prepared a preliminary commitment memorandum to the board of directors of Eximbank on financing of Boeing sales to Ansett for $656 million at 8 percent for 25 aircraft. Why?

Mr. MURDOCH. I thought I just explained it. That was to fight the Airbus.

Senator STEVENSON. Pardon?

Mr. MURDOCH. To fight the disadvantage of not having an Airbus, of having no wide-bodied jets. We would have to go nearly 2 years fighting against the modern Airbus with planes of a different generation.

We decided to trade in our DC–9's and buy 737's, which had more passenger appeal, and to get four more 727's to give us greater frequency. That's why the number came up to 25.

Senator STEVENSON. That originated with you, the $656 million, 25 years, 8 percent? Was that your suggestion?

Mr. MURDOCH. Did you say 25 years, sir?

Senator STEVENSON. I'm talking about aircraft, I meant to say.

Mr. MURDOCH. Yes, sir.

Senator STEVENSON. That originated with you, at the meeting on the 19th?

Mr. MURDOCH. No. I believe that Boeing set that up long before I went there. You see, we went to the manufacturers. They came to us and Airbus said, We got Government banks to give the money, 7.95 percent. Boeing said, Our Government banks will match. That's as far as we knew about it.

Senator STEVENSON. But on February 19, at your meeting with John Moore, there was no match. You referred to a Telex, I believe, that came after that meeting, the Telex from Airbus.

Mr. MURDOCH. That's right. The Telex that I gave Mr. Moore that day arrived a day or some days beforehand.

Senator STEVENSON. What did the Telex say, again?

Mr. MURDOCH. That was about the four Airbuses. I'm sorry if I've confused you. The later offer.

Senator STEVENSON. So on February 19, you had an offer for four Airbuses. When you proposed to John Moore financing for 25 of the Boeings for $656 million at 8-percent, at that point you had no such offer of financing from Airbus for a comparable number of aircraft, for a comparable amount of money?

Mr. MURDOCH. No, sir. The reason why we did that is that this was the beginning for both airlines, really, of bringing in the new generation of airplanes. You don't buy four airplanes, five airplanes, and stop there. If you have a fleet of 25, you have to go out and replace them. This was going to continue right through the 1980's and it will. Having made a decision for one type of airplane, we are hooked. We can't come back with any leverage and say we want money for some more of them.

We wanted to make sure, if we were going to be buying Boeing throughout the 1980's, that we'd get their support.

Senator STEVENSON. I understand that. I think we all do. What I don't understand is the willingness of certain members—a member of the Eximbank Board to propose this without determining whether there was a competitive proposal from Airbus. In fact, there was not.

Let me switch the subject. The American public knows only what the media itself lets it know. In this self-governing country, the power of the media is the only way we can communicate to the people, is through the media. The public knows nothing except what it gets from the media and its advertisers and other interest groups.

We Senators have an ethics code with which I have some painful familiarity as former Chairman of the Senate Ethics Committee. That code recognizes that even an appearance of a conflict of interest erodes public confidence in our integrity and our impartiality.

Do you have no such code?

Mr. MURDOCH. Of course we do, sir. And I sympathize with you in what you're saying about the media, in particular watching television and what a job they did on me the last couple of days.

NO CONFLICT OF INTEREST

There is no conflict of interests here, unless it's in the eye of the beholder. I was a customer. My partner was a customer. And there were two companies who were selling—there were two companies, Airbus and Boeing, and we had to make a choice, and we had a responsibility to our stockholders to make a correct choice.

Whether we've made the right one or not won't be known for 5 or 8 years.

Senator STEVENSON. Mr. Murdoch, you did not answer my question. My question was about an apparent conflict of interest. On the one hand you have, as you acknowledge, an obligation to the stockholders of Ansett. You also have an obligation to the American people as a publisher of a large newspaper. Does not that obligation require you to avoid any appearance of partiality, of conflict of interest?

Mr. MURDOCH. Absolutely. I quite agree.

Senator STEVENSON. Did you do so in this case by dealing with the Eximbank by lunching with the President the same day?

Mr. MURDOCH. I have expressed regret that I went to the Eximbank.

Senator STEVENSON. And then got a commitment of many hundreds of millions of dollars at a rate subsidized by the taxpayers, and a primary election in which you endorsed the President. Are you suggesting to us that that is avoiding any appearance of partiality or conflict of interests?

Mr. MURDOCH. I'm saying it's only in the eye of the beholder.

Senator STEVENSON. It is in the eye of the beholder.

Mr. MURDOCH. Right. It's in the eye of the beholder. As far as I'm concerned, I felt no conflict of interest. I felt I was getting no favor from the Eximbank or from Boeing or from this Government. Indeed, if I felt so I certainly would have withdrawn. I would not have asked for it.

And I've expressed regret that it could be misunderstood in this way and regret that I went to the Eximbank. I should have asked someone else to go there.

Senator STEVENSON. Was Mr. Kummerfeld involved in the management of Ansett?

Mr. MURDOCH. He is a director of News Corporation, Ltd., the holding company, which has 50-percent ownership interest in Ansett.

Senator STEVENSON. And you attended this meeting?

Mr. KUMMERFELD. That's right.

Mr. MURDOCH. Because he's a director of the company and my right-hand man.

Senator STEVENSON. And that doesn't create a conflict of interest?

Mr. KUMMERFELD. I was fulfilling my duty as director of a huge corporation which is a 50-percent owner of Ansett Airlines.

Senator STEVENSON. And your duty as the director of a large newspaper to the American public?

Mr. KUMMERFELD. I think, sir, I would associate myself with Mr. Murdoch's remarks in that regard, that there is only an appearance of impropriety. There was none. We didn't consider that the two matters had any connection, because we didn't consider that we were going to Washington to ask for a favor.

Senator STEVENSON. You acknowledge there was an appearance of impropriety?

Mr. KUMMERFELD. Only in the eye of the beholder.

Senator STEVENSON. Exactly, in the eyes of the beholding American public.

Mr. MURDOCH. I don't know that it's true, sir. Maybe in the eyes of Mr. Safire, but he has a very fertile mind. I don't know about the American public.

Senator STEVENSON. I should think some greater sensitivity to the opinions and the decencies of the American public would lead you to take no such chances as you have in this case; in fact, lean over backward to avoid any possible appearance of conflict of interest.

Mr. MURDOCH. We have leaned over backwards, sir. And I'm sorry we had this meeting with Eximbank, and it could have been misinterpreted in this way. We have always been extremely careful to keep our duties as publishers quite separate from any other business interest, although we also behaved in the most responsible way as businessmen and all behavior involves a public duty.

Senator STEVENSON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman.

A very interesting case. I don't know how fully this whole story is being reported in the New York Post, but all the twists and turns of this particular case could fill an entire edition.

I think somebody used somebody here. I'm not quite sure yet who it was, because everyone comes in and says, "Not me". You are the last on the list. Maybe what we have is a series of innocent parties who were involved in a situation that certainly has a disturbing appearance.

I think, you yourself made a comment in passing to the effect that, had you known, you would not have had these meetings on the same day, because of the problem of the appearance.

Mr. MURDOCH. I wouldn't have had the meeting at all, sir.

Senator RIEGLE. I understand that your lunch with President Carter has been criticized in Australia. You might know this better than I.

Mr. MURDOCH. No, sir.

Senator RIEGLE. I'm told that Government officials in Canberra indicated that you had lunch with the President, while the Prime Minister Fraser, while he was here on an official visit to the United States only a short time before, could only get a 1-hour

appointment. I can imagine that does create some sensitivity problems in Australia.

Is that essentially correct?

Mr. MURDOCH. That might explain a thing or two. But I don't think so.

Senator RIEGLE. It's very interesting that you should manage, as publisher of the New York Post, to have more time with the President than the Australian head of state who was visiting here.

Mr. MURDOCH. Senator, excuse me. It's not unusual. I mean, even before I was a publisher of a newspaper in this country, I had an hour with President Kennedy when he was President, and I was taken to a luncheon, albeit a large one, with President Johnson. Publishers tend to be invited to these things, particularly in election years.

ANTI-KENNEDY BARRAGE

Senator RIEGLE. I see.

You made a reference before to the point that was raised about some of the newspaper stories done on Senator Kennedy. Part of your response was that maybe that had happened last year some time or before you got involved in the Ansett situation.

Of course, that's not correct. As I look at the dates on these papers, March 18 of this year, March 13 of this year, March 17. I'm sure you're familiar with "Desperate Ted Storms New York," "Ted Kennedy's Secret Parties," on January 17. These issues were published after you were involved with Ansett.

Mr. MURDOCH. I was saying that our attitude to Senator Kennedy had not changed as a result of buying Ansett; it appeared over the period beforehand, some of it did.

Senator RIEGLE. Here's my concern, in terms of the pattern that disturbs many people. One additional item that I think needs to be added to the list is that the "Post" really worked Senator Kennedy over. I'm not aware of any other contemporary example. This may be a different news style. This may be the norm in other places or in other countries. It's certainly not the norm here.

So I'm interested about the timing and the severity of that attack. If somebody did want to get a good reception here in Washington from the administration, it just might occur to somebody that this might be one way to do it.

Mr. MURDOCH. Can I say this, sir——

Senator RIEGLE. Can I ask a question? Are you the person that makes the decision on who gets special front page treatment over a period of weeks and months? Do you make that decision?

Mr. MURDOCH. No, sir.

Senator RIEGLE. Do you participate in that decision?

Mr. MURDOCH. No, sir.

Senator RIEGLE. Is it cleared with you?

Mr. MURDOCH. Let's be quite clear about this. The two articles you may be referring to have been the results of investigation and statements by people on Chappaquiddick. I was warned about those articles about an hour before they appeared. I was called in Australia by the editor who was running these articles and he wanted me to know that we might catch some flack.

Senator RIEGLE. You weren't involved at any point in sitting down with your editorial people and saying that you wanted to see Kennedy really given good full front-page treatment of this sort?

Mr. MURDOCH. No, sir.

Senator RIEGLE. This was a decision by other people, that you had no part in?

Mr. MURDOCH. Absolutely, sir.

Senator RIEGLE. Does it trouble you some, in light of the appearance issue that we've discussed here, that there should have been such an anti-Kennedy barrage occurring right on the eve of these other events? Wouldn't it have been better from an appearance point of view, that he had not been sort of the page 1 target at that time?

Mr. MURDOCH. No, sir. I think if he had been a page 1 target, he was there for a longer time than that. And it never occurred to me to attempt to change the policy of any newspaper because we happen to be investing in Ansett. The two just don't mix.

Senator RIEGLE. If I may inquire—I hope this isn't a trade secret. If it is, you may not want to respond. How do you decide to pick an everyday subject or a subject that appears virtually without exception in the front page, every single day?

Mr. MURDOCH. Sir, that's not true at all about Senator Kennedy. I'm sorry. It's very easy to get papers and put them together. Take last year. There have probably been 2,000 editions of the New York Post, 5 editions a day—1,000 editions, if you like, over this period. I'm sure you can pick out 50 times on which Senator Kennedy may have been on page 1, probably 100 times in which the President has been.

There's no day by day——

Senator RIEGLE. First, it's not just the number of occasions. I wish you would give us that for the record. It would be easier for you to check that than ourselves. But I would like to have it for the record, if I may. Mr. Chairman, could we get the number of times, let's say within the last 6 months, some item with reference to Senator Kennedy was on the front page: and second, the degree to which, one was essentially an adverse or an attack kind of an article, versus whatever treatment you may have been giving the President.

Mr. MURDOCH. I really question that very seriously. The one you held up there, "Ted Storms New York," that was true. I mean, he did come into New York and campaign in the streets.

Senator RIEGLE. You missed a word. It says "Desperate Ted Storms New York."

Mr. MURDOCH. Was that inaccurate at the time?

Senator RIEGLE. We've got "Ted Kennedy's Secret Parties." This is January 17, this is March 13, March 18. Here is another exposé-seeming photograph and article. This is on January 19. Here's another one on January 18, with a king-sized story and photograph.

Mr. MURDOCH. Of what, Senator?

Senator RIEGLE. I don't have them all. That's why I say, rather than guess at it, if you could give us an accurate——

Mr. MURDOCH. Some of those pages you showed there didn't even have Senator Kennedy as the main item on the page. There was a

photograph. I think if you looked at the New York Times you'd see how many times he was on the front page of the New York Times. It's just no more often.

Senator RIEGLE. All I am saying to you is, I mean, I read a lot of newspapers. I don't know another newspaper in the country that has approached these kinds of issues in this fashion. I think you are unique in that respect. That may or may not be the successful business formula. That's sort of a separate issue, as far as I am concerned.

I am trying to discern whether there is a pattern here that's troubling me. Even if it's an accidental pattern, even if it's strictly a matter of just sheer coincidence, the point is, once you start to add up enough things, it becomes disturbing. It becomes disturbing to almost any neutral or casual observer after the list gets overly long, and I think the list is overly long in this case.

Mr. MURDOCH. Senator, may I just respond to that?

Senator Kennedy is a highly newsworthy person, particularly at the moment. We would not be doing that if he weren't. The test is whether those stories are truthful or not. It's not for us to argue, really, on what is a matter of judgment. The real matter lies with whether the story is true or not.

Senator RIEGLE. I think that's one question. I guess I would also raise the point that if you had been running anything like the equivalent pieces on President Carter, you wouldn't have been invited to lunch. I think that's one way not to get invited to lunch.

Mr. MURDOCH. On the contrary, sir. We ran in another newspaper with five times the circulation of that, an extremely embarrassing article about President Carter's family on page 1.

Senator RIEGLE. Which paper would that have occurred in?

Mr. MURDOCH. The Star, which has a circulation of 3.5 million. That was about President Carter.

Senator RIEGLE. Which paper is this now?

Mr. MURDOCH. The National Star, a weekly newspaper.

Senator RIEGLE. The National Star?

Mr. MURDOCH. I will be very happy to give you a copy of that newspaper to read. [Laughter.]

Senator RIEGLE. I am not a regular reader. I have heard of it.

Mr. MURDOCH. Well, you're missing something. [Laughter.]

Senator RIEGLE. I may be glad I am missing it. I am not sure.

Let me tell you what I think it's important for us to pin down. I want to try to understand exactly why you did decide to buy Boeing, if, as you say, in your view, the financial arrangements were not preferable in the Boeing deal? What swung the weight of the case in your mind toward Boeing?

CHANGE AIRLINE POLICY IN AUSTRALIA

Mr. MURDOCH. Well, there are a number of arguments. I have a large investment in this country. I have an admiration for the Boeing Co., for their airplanes. I believe the Australian public has a trust in Boeing airplanes. And basically, we want to change the airline policy in Australia; that being a more or less protected 50–50 split between two airlines, one government and one private. We wanted to make our airline different and competitive, although that was a pretty risky strategy.

And so, temperamentally, I was in favor of Boeing, but at the very first board meeting that I was at in December, the previous manager made five separate attempts to lock in the Airbus order then and there. I managed to avert that. Then we investigated it, went through it. And my partner said to me, "Look, if they don't give us 8 percent, we won't buy it." I said, "Why?" He said, "Well, I am against it." As far as I was concerned, I probably would have done it on my own, but at more than 8 percent, it would have been defeated 8 to 3 by the board.

Senator RIEGLE. If the percentage had been higher than approximately 8.1 or so?

Mr. MURDOCH. Yes, sir. I would just like to add to that, only last week we called for tenders for aircraft simulators from a British firm, a Canadian firm, and an American firm, together with financing details. We have had no response yet on financing from the American firm. The British firm has offered financing in U.S. dollars, 7¾ percent. The Canadian firm in U.S. dollars at 8 percent.

Further, if it's of any interest, my partner, Sir Peter Abeles, just happened to be buying two ships at the moment in Europe. He's been offered a deal to buy two ships from Italy, a $70 or $80 million thing, at 8 percent in U.S. dollars. These are not unusual rates in this business.

Senator RIEGLE. Back at the time that this rate was negotiated, it's your testimony, then, that anything a hair above 8 percent would not have flown?

Mr. MURDOCH. Yes, sir.

Senator RIEGLE. With your board.

Mr. MURDOCH. Yes.

Senator RIEGLE. Did you say that to anyone? Did you pass that word on?

Mr. MURDOCH. Yes, sir. We wrote Mr. Moore a letter on that.

The CHAIRMAN. Can we get a copy of that letter too?

Senator RIEGLE. Yes, if we could take a look at that.

Senator RIEGLE. I think you stated that you saw the situation like that. And you said it in such a way that I think you convinced Mr. Moore, because he really got moving at high speed. He pushed very hard to move on this, so you convinced him, I must say.

Mr. MURDOCH. Well——

Senator RIEGLE. How can we be sure, by the way, other than your assertion, how can we be sure in terms of the competitive rate, taking into account currency differentials and all the other factors, that it had to be 8 percent in order to just offset the Airbus package?

Mr. MURDOCH. You'd have to call all the different directors and ask them one after the other.

Senator RIEGLE. I am more concerned about what Airbus was actually offering.

Mr. MURDOCH. Oh, I am sorry. The Airbus, I think I have put into evidence already the Airbus offer.

Senator RIEGLE. That's not exactly for the same package; is it?

Mr. MURDOCH. No. For four Airbuses. There was a later one for a further six Airbuses, which I have just given.

Senator RIEGLE. I assume, if the financing were exactly the same, that your testimony would be that you would go with the Boeing plane, but that there were some competitive reasons for doing that. You've got some fiscal reasons for doing that. That was your impulse.

Mr. MURDOCH. Right.

Senator RIEGLE. So, there was some differential advantage that you saw in going Boeing. Presumably, you could start pricing additions to the interest rate until you fully priced out whatever that advantage was until suddenly, even though you prefer the Boeing, you would go with Airbus. I would like to try to establish what that differential is here.

Mr. MURDOCH. First of all, we only have 62 percent cover on this package of airplanes against 85 percent from Airbus. That's a very big difference. A large amount of money.

Senator RIEGLE. If the interest rate were 8¼, you're clear and certain that you would have to go the other way?

Mr. MURDOCH. I am convinced I could not have sold it to my board of directors, yes, sir.

Senator RIEGLE. How would you have voted?

Mr. MURDOCH. I think I would have come back to Eximbank and seen if we could have gotten more than 62 percent, if they would have gone up to 85 percent. We try and negotiate it. But my instructions were "not a penny over 8 percent." And we had a split board on it.

Senator RIEGLE. My time is up. Thank you, Mr. Chairman.

The CHAIRMAN. You do have a way with headlines in your paper. [Laughter.]

Mr. MURDOCH. Thank you, sir.

The CHAIRMAN. In your luncheon meeting alone with President Carter, did you discuss the Ansett loan application?

Mr. MURDOCH. Never, sir, never.

The CHAIRMAN. You did not. Did you discuss—did he know or did you make it known in any way—did you feel that he knew that you were an owner of Ansett?

Mr. MURDOCH. No, sir. It was a terribly long conversation, mainly dominated by the President. Apart from the general subjects, such as Iran, and he spoke about New York City, it was a long conversation which I can't repeat in full.

NO DISCUSSION OF ANSETT LOAN APPLICATION

But I can assure you, sir, and the committee, never ever was any mention ever made of Ansett, Eximbank, John Moore, Mr. Alston, or anybody.

The CHAIRMAN. Did you discuss with anybody in the White House or the Carter reelection campaign Ansett's loan application before the Eximbank?

Mr. MURDOCH. Certainly not, sir.

The CHAIRMAN. Mr. Kummerfeld, did you discuss the Ansett loan with anybody in the White House?

Mr. KUMMERFELD. No, sir.

The CHAIRMAN. Anybody in the reelection campaign?

Mr. KUMMERFELD. No, sir.

The CHAIRMAN. Mr. Murdoch, was there any explicit or implicit understanding of anybody in the White House, the Carter reelection campaign, or Eximbank about Ansett's loan application to Eximbank and the New York Post's endorsement of President Carter?

Mr. MURDOCH. None at all, sir. As far as I know, as far as I had anything to do with it, nobody even knew that I had an investment in an airline, no knowledge at all.

The CHAIRMAN. Did you discuss with President Carter the possibility of endorsement by your newspaper?

Mr. MURDOCH. Yes, sir.

The CHAIRMAN. But there was no discussion whatsoever of the Ansett loan application?

Mr. MURDOCH. None at all, sir. I just told President Carter that we expected to be endorsing him in the primary, although we hadn't made up our mind about the general election. Which he didn't seem very pleased with.

The CHAIRMAN. Mr. Kummerfeld, did you have any explicit or implicit understanding with anybody in the White House or the Carter reelection campaign or the Eximbank about the loan application and the New York Post's endorsement of President Carter?

Mr. KUMMERFELD. No, sir.

The CHAIRMAN. All right, sir.

Well, I want to say that you are a remarkable man, Mr. Murdoch. We have had a lot of witnesses before this committee, but I was especially impressed with what a quick study you are. You seem to know a whale of a lot about an industry which you've just gotten into. You are very refreshing, intelligent, and an effective witness, and responsive.

Mr. MURDOCH. Thank you, sir.

The CHAIRMAN. You are also able to win your way with the Export-Import Bank.

And we want to thank you very much for coming and testifying. Mr. Kummerfeld, too.

The committee will stand adjourned.

[Whereupon, at 5:35 p.m., the hearing was adjourned.]

[Material ordered inserted in the record follows in the Appendix.]

APPENDIX

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C., May 22, 1980.

Hon. JOHN L. MOORE, Jr.,
Chairman, Board of Directors, Export-Import Bank of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: The Committee's investigation of consideration by the Export-Import Bank in February of financing for the sale of Boeing aircraft to Ansett Airlines of Australia, and the oversight hearings held May 12 and 13 by the Committee (which included a review of the Bank's overall aircraft financing policy) point to the following conclusions:

1. The handling of the Ansett application was sloppy as a direct consequence of failure to question the factual assertions and bargaining tactics of Mr. Rupert Murdoch of Ansett Airlines and Mr. Jack Pierce of the Boeing Company.

2. The Bank's favorable financial offer in the Ansett case showed a lack of due regard for conserving the public's money and, by exceeding the Airbus offer, undercut U.S. negotiating efforts to reach a common international line of restraint on official financing of aircraft sales.

3. The Bank's practice, in some cases, of providing direct credit support for the sale of U.S. aircraft which face no direct competition from foreign aircraft is wasteful and unnecessary to secure export sales.

4. The Bank's devotion of over one-half of its direct credit commitments to aircraft sales, including a disproportionate share for Boeing—one of the largest corporations in the country—diminishes the Bank's capacity to support other U.S. exporters, many of whom face tough foreign competition backed by government-subsidized credits.

5. Bank lending at interest rates several percentage points below the U.S. Government's cost of borrowing constitutes an extraordinary subsidy and, if continued, could erode the financial soundness of the Bank.

We urge you to act promptly to rectify Bank policies and practices in each of these areas, and would appreciate receiving a full report on actions taken to that end.

WILLIAM PROXMIRE,
Chairman.
JAKE GARN,
Ranking Minority Member.
ADLAI E. STEVENSON.
JOHN HEINZ.

[From the New York Times, Mar. 18, 1980]

EXIMBANK FAVORS LOAN FOR MURDOCH'S AIRLINE

(By Judith Miller)

WASHINGTON, March 17.—An Australian airline controlled by Rupert Murdoch, publisher of The New York Post, has received preliminary approval for an unusually low-interest $206 million loan from the Export-Import Bank to help finance the purchase of more than 20 Boeing aircraft.

Mr. Murdoch announced in Australia today that his company would buy 21 Boeing airliners valued at $400 million, including five of Boeing's new wide-body, fuel-efficient 767 models. The Murdoch company chose the Boeing planes over the Airbus Industrie A–300, the European-made aircraft that is Boeing's main competitor.

An Export-Import Bank spokesman in Washington said, however, that the Eximbank had as yet received no formal application from Mr. Murdoch or his company for a loan to finance the purchase. The spokesman said that the bank, at Boeing's request, had approved a preliminary commitment for financing but that Mr. Murdoch had not yet come directly to the bank for the loan.

Mr. Murdoch did take part, however, in negotiations for Export-Import Bank financing, which received preliminary approval by the bank on Feb. 28. Mr. Murdoch began negotiations for the loan with Eximbank officials on the same day he had a private lunch at the Oval Office with President Carter.

WHITE HOUSE LUNCHEON

A White House spokesman and Mr. Murdoch said the loan was not discussed during the luncheon. In a telephone interview last week, Mr. Murdoch said he had mentioned to Mr. Carter that The New York Post was going to endorse his renomination but also that the paper had made no decision on the general election. On Feb. 22 The Post endorsed Mr. Carter's nomination.

Mr. Murdoch said he had never discussed the aircraft financing with the President or any other White House official. "I'd be very careful not to," Mr. Murdoch said.

Mr. Murdoch said, and the White House concurred, that there was "no connection" between the lunch, the newspaper's endorsement three days later and the Export-Import Bank's extension of the financing six days after that.

"The timing was purely coincidental," said Ray Jenkins, a White House press spokesman.

No official objection was made by Export-Import Bank directors on Feb. 28 when they approved the preliminary credit extension, but the terms of the transaction have generated dissension within the agency. The Export-Import Bank makes or guarantees loans to encourage trade between the United States and other countries. Its directors are appointed by the President, subject to Senate ratification.

Government officials involved in the financing say competition between Airbus and Boeing has been intense. At issue is whether the financing package offered Mr. Murdoch's company could have required higher interest rates, have covered a smaller fraction of the expected purchase price and still have been competitive with the Airbus offer.

DEFENDED BY EXIMBANK HEAD

John L. Moore Jr., the Export-Import Bank's president and chairman, strongly defends the terms. "This is a very competitive sale," said Mr. Moore, who was appointed to the post in 1977 by President Carter. "I'm vehement in support of United States exports, and I'm vehement in support of President Carter, but I don't put the two of them together."

Today in Melbourne, Mr. Murdoch said that his Australian company had decided to buy five wide-body Boeing 767 twin-engine aircraft, a dozen 737 twin-engine jets and four 727 three-engine planes.

Although the Export-Import Bank does not normally publicize its preliminary financing negotiations or commitments, Eximbank and Administration officials have confirmed the following details about the transaction.

The Eximbank loan involved an application for financing for the purchase of various Boeing aircraft by Ansett Transport Industries, which owns Australia's largest private airline, two television stations and other interests. Mr. Murdoch

gained control of Ansett last December when his company, News Ltd., increased its stake in Ansett to 47 percent from 20 percent at a cost of about $90 million.

According to Export-Import Bank officials, Mr. Murdoch met with Mr. Moore on Feb. 19 to discuss financing for the prospective purchase.

Mr. Murdoch was considering whether to purchase the Boeing 767 or the Airbus Industrie A-300, which has recently captured a growing proportion of the world's commercial aircraft market. According to officials present at the meeting, it was understood that a key factor in Ansett's selection of aircraft would be the financing available.

After the meeting, Boeing representatives had lunch with several Export-Import Bank officials, but "Murdoch said that he had to go have lunch with the President," according to one senior Eximbank official.

Mr. Moore acknowledges that the Ansett financing received top priority attention. He said that Philip A. Alston Jr., United States Ambassador to Australia, Mr. Moore's former law partner in Atlanta and a close friend, telephoned him the weekend of Feb. 23 "to see whether I knew about the prospective sale." Mr. Moore said, "It was the first opportunity to make a big plane sale in Australia, and he was very interested, as any Ambassador should be."

On Feb. 26, the Export-Import Bank board of directors, composed of three Democrats and two Republicans, met to discuss possible financing for the sale of as many as 25 airliners—a dozen 767's, four 727's and nine 737's—to Ansett. The board was inclined to support financing for the sale, but officials at the meeting expressed some concern over whether the terms of the financing were too generous.

A MEETING OF OFFICIALS

On Feb. 27, Mr. Moore met with C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and Henry C. Wallich, a member of the Federal Reserve Board, to discuss the possible financing.

Administration officials said Mr. Bergsten's staff was especially critical of the financing package, contending that the loan provided too much coverage at too low an interest rate. According to aides, Mr. Moore argued to Mr. Wallich and Mr. Bergsten that unless the low interest rate was offered, Ansett would buy the Airbus and Boeing would lose an important sale.

On Feb. 28 the board met again and approved, without formal dissent, two preliminary financing commitments for Ansett. The first includes Government financing for 85 percent of the $236 million purchase price of five Boeing 767's. The 10-year loan would be in United States dollars, and the interest rate offered would be 8 percent. The second commitment covers financing for the purchase of the 727's and 737's at 8.375 percent and 8.4 percent, respectively, with less coverage.

Several Export-Import Bank and Administration officials argued that the financing package for the Boeing 767's was much more generous than the financing offered by Airbus.

TWO FINANCING OPTIONS

According to these officials, Aurbus had offered Ansett two financing options. The first included a multicurrency loan at an average interest rate of 7.95 percent. The second option included financing in United States dollars at an interest rate of 9.25 percent.

"We considered these financing options to be equivalent," one Airbus representative said in an interview. Although the mixed-currency loan would carry a lower interest rate, because of fluctuations in exchange rates, paying back the loan "would probably be much more expensive in the future," he said.

Several Treasury Department officials agreed.

"We could have offered 9 percent and have still been under the Airbus offer," said one Treasury Department official.

In addition, Export-Import Bank officials familiar with the financing say it is generous, even when compared with the bank's financing for other airplanes and for other prospective 767 sales. Bank officials could recall only two financings (neither involving 767's) during the last fiscal year at 8 percent or less. The cost of borrowing, moreover, has been rising rapidly.

According to bank statistics, about 51 percent of the $2.82 billion in the bank's direct loan financing for the fiscal year ending next Sept. 30 is for aircraft sales. On average, Eximbank financing covers only 51 percent of the cost of the planes, and the interest rates extended average 8.4 to 8.5 percent.

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ATTITUDE ON FINANCING

According to authoritative bank sources, two of the directors were initially troubled by the financing and insisted that the terms be tightened. Donald E. Stingel, a Republican member of the board, noted at the Feb. 28 meeting that, assuming a sale of 12 of the 767's, a loan value of $564 million, each one-quarter percentage point of interest would amount to a subsidy of $6.6 million.

Mr. Stingel declined to discuss the preliminary commitment in detail.

Mr. Moore and Mr. Bergsten agree that they differed over the terms of the financing. Both flatly deny, however, that any mention was made during their discussion of Mr. Murdoch's endorsement of President Carter's campaign for renomination.

ANSETT ANNOUNCES PLANS

MELBOURNE, AUSTRALIA, March 17 (AP)—Ansett Airlines will buy $400 million worth of Boeing planes for use inside Australia, and it hopes to expand its service overseas, the carrier announced today.

Rupert Murdoch, the newspaper publisher who also is a joint managing director of Ansett, said at a news conference that the airline would be looking for international routes and would need more planes if it wins them.

"We want to fly to New Zealand, and we immediately want to take up the route" to Singapore "that Qantas has just surrendered," he said.

In Seattle, the Boeing Company said deliveries of the aircraft ordered by Ansett would begin in June 1981.

[From the Washington Post, Mar. 19, 1980]

EX-IM CHIEF PUSHED LOAN FOR MURDOCH

(By John F. Berry)

Chairman John L. Moore Jr. of the Export-Import Bank on Feb. 26 tried to convince members of the Bank's Board to approve of $657 million low-interest loan to an airline controlled by Australian Rupert Murdoch, according to members of the Board.

The loan was to enable Murdoch's airline to buy planes manufactured by Boeing Co. rather than competitive airliners built by a European consortium.

Moore, a former Atlanta attorney appointed to the Ex-Im post by President Carter, made his proposal a week after Murdoch visited the president. Two days after the visit, the Murdoch-controlled New York Post became the first big city newspaper to endorse Carter's re-election.

The Carter administration and other persons familiar with the Board's operation have denied any political motivation in Moore's proposal. Moore, who currently is abroad, was unavailable for comment.

The Feb. 26 proposal was rejected by a vote of 2–1, with Moore favoring it and two other members—Margaret W. Kahliff and Thibaut de Saint Phalle—opposing.

On Feb. 28, after the Ex-Im staff completed research requested by the two opposing members, a more modest plan was presented to the Board. After further modification, all four members of the 5-person Board that were there that day voted for the loan, which amounted to about $290 million at about 8.2 percent annual rate of interest.

The Ex-Im loan grew out of the need by Murdoch's airline, a subsidiary of his Ansett Transport Industries, to remain competitive with another domestic Australian carrier, Trans Australia.

In his Feb. 26 proposal, Moore reported that TA had made a firm order for a dozen A-300 planes manufactured by Airbus Industrie, a European combine.

Airline experts say that in Australia, TA and Ansett maintain the same routes, time schedules and like aircraft. Thus, in this unusual set-up, Ansett felt compelled to buy new planes to match TA.

Boeing is manufacturing a new line of aircraft, the 767, to compete with the popular Airbus. Boeing had tried, and failed, to get TA to order the developing 767, instead of the Airbus, which is already being delivered. Rejected by TA, Boeing aggressively sought the Ansett business.

But, without favorable financing—which European governments offer the Airbus manufacturer to spur exports—Ansett could not afford to buy the Boeing 767s. As a result, Ansett and Boeing sought help from the Ex-Im Bank.

Ex-Im can only offer particularly favorable financing to meet foreign competition for U.S. products. After the initial Feb. 26 proposal was rejected, the Ex-Im staff learned that TA had made a firm order for only four Airbuses—rather than the 12 that Moore had claimed when he was pushing for the $657 million loan.

The final loan, which was hammered out on Feb. 28, matched the seating capacity in the four Airbuses with 5 of the smaller 767s. The loan to finance the four 767s was for about $200 million at an annual interest rate of 8 percent.

According to board member de Saint Phalle, Ex-Im sought to "sweeten" the deal by offering Ansett a package. If the airline agreed to buy the four 767s, Ex-Im offered favorable financing on an additional 4 Boeing 727s and 9 Boeing 737s.

The total Boeing package, for which Ex-Im puts up about $290 million at an average annual rate of about 8.3 percent, was accepted by Murdoch on Monday at Ansett's Melbourne headquarters.

Ex-Im is advised on policy matters by the National Advisory Council, made up of representatives from the Treasury and State Departments and the Federal Reserve.

An aide to the council, who was a part of the Ansett negotiations, claimed there was no politics involved in the loan. He said that the fact that Murdoch ate lunch with Carter on Feb. 19—after meeting with Moore at Ex-Im followed by the N.Y. Post endorsement—"couldn't have affected us one bit."

The Ansett loan, because of its size, must get Senate approval before it is granted. Senate Banking Committee Chairman William Proxmire (D-Wisc.), who has been critical of the favorable terms extended by Ex-Im to facilitate aircraft sales, is expected to look closely at the Ansett deal.

Moreover, Ex-Im's budget already is under scrutiny by appropriations committees in both houses. In February, a Senate International Finance Subcommittee rejected Ex-Im's proposed 1981 budget, calling for a more complete accounting of spending plans. So far, a new budget has not been submitted.

One subcommittee aide notes there is considerable frustration on the Hill over the administration of Ex-Im. He added that if politics did, in fact, play a role in the loan to Ansett, it could be a serious blow to the already troubled Export Bank.

"Nobody in Congress—including members of Carter's own party—is going to be happy with any politicalization of Ex-Im," he said.

[From the Washington Post, Mar. 30, 1978]

Ex-Im Chief Criticized—Moore in Spotlight Over Letters and Loan

(By John F. Berry)

If U.S. exporting companies have a friend in Washington, it has to be John L. Moore Jr., who is chairman of the Export-Import Bank, that grey, unobstrusive pile located across Lafyette Park from the White House.

Under Moore, a former Atlanta attorney appointed to his post by President Carter in May 1977, the Ex-Im Bank has aggressively financed billions of dollars a year in U.S. exports by lending funds to foreign buyers at rates ranging between 7⅜ percent and 8¾ percent. In fact, the Ex-Im Bank is nothing less than a taxpayer-financed subsidy program with the ostensibly worthy mission of improving America's balance-of-payments position.

Ex-Im Bank's borrowers are foreign entities that must use incredibly low-interest rate loans to buy American-manufactured products. So when the top executives of America's biggest companies got personal letters from Moore late last year, they read them with care. But to many of the businessmen, the message between the lines was troubling. In those letters, dated Nov. 5, 1979, Moore was asking the corporate executives whose exports his bank had subsidized so generously to provide the Bank with a subsidy from their own corporate coffers.

In the letter, obtained from the Bank through a Freedom of Information request, Moore explained that the Ex-Im Bank has been unable to raise enough money to administer the program, announced earlier, to get minority-owned banks into the export-financing business. Moore wrote that he figured the program would cost $175,000 to operate for 12 months, but "due to Ex-Im Bank's budget limitations, the maximum amount which we are able to provide for this important project is $25,000."

Moore then said he was asking "each of you to consider participating in the $150,000 balance." He said the Ex-Im Bank woud be "custodian" of the funds, which would be used to pay expenses such as the fees of a private consulting firm called

Industry Consultants Inc. The Washington based firm, founded in July 1978, is helping the Ex-Im Bank staffers administer the program.

Back in January 1979, when the program first was announced, Moore initially had sent a letter to the heads of some 40 major corporations simply requesting that the companies direct business to minority banks. All the companies readily agreed to that request from Moore. But to a number of executives—and to many members of the Ex-Im Bank staff—Moore's later request that the companies help finance the program was fraught with obvious conflicts.

Most obvious, of course, was that Moore wanted contributions from companies that regularly come to him seeking help in export financing. "It just seemed that he was putting an arm on us," said one export executive. And while a major exporter hardly could complain about putting up a few thousand dollars for such an apparently worthwhile program when it benefitted from hundreds of millions of dollars of financing extended its foreign customers each year by the Ex-Im Bank, there was a troubling principal involved here.

Even so, all but a few companies contributed $3,000 or $10,000 each a knowledgeable industry source said they included Boeing with $10,000, Lockheed $6,000, McDonnell Douglas $5,000 and United Technologies $7,500. With support for Moore's minority-banking program coming from aerospace companies, it is noteworthy that under Moore 52 percent of $3.7 billion in export credits extended by the bank so far in fiscal 1980 has gone to finance U.S. aircraft sales.

Although many of the top executives were reliably reported to have been troubled by the implications of Moore's pitch, only one company is known to have refused to contribute as a matter of principle. According to William L. Neely, treaurer of Rockwell International Corp. in Pittsburgh, his company "was quite willing to lend a hand as (the Ex-Im Bank) had envisioned (the minority banking program) originally." But, added Neely without elaboration, "When it came down to supporting Ex-Im Bank's budget, that's where we had to draw the line."

While Moore allows that his program does give the appearance of putting the arm on corporations, he said "we made it clear that it was voluntary. We were asking for a nickel of their assets for a very worthy program."

Others say that Moore also may have been mindful that the program might have paid political dividends for Jimmy Carter among blacks and other minorities. But when Moore belatedly realized that the Ex-Im charter wouldn't allow him to dip into the Bank's already strained budget for the pet project, he turned to the corporations for a bailout.

Moore, it seems, should have been sensitive to any ethical problems in the minority banking program. After all, during the days just before Carter was sworn into office, Moore wrote the set of stiff ethical guidelines for the new administration. As the administration's ethical watchdog, Moore reviewed Bert Lance's dealings and apparently concluded that the Georgia banker could be named budget director without fear that his scrapes with bank regulators someday would embarrass the new president.

Since Carter named Moore chairman of the Ex-Im Bank, criticism has ranged from those who call him surprisingly naive to others who see him suffering a terminal case of Potomac fever. Moore is accused of being a poor administrator who has let the bank drift without a captain as he travels the world. A number of observers inside and outside of the Bank say morale has plummeted, and careerists accuse Moore of politicizing the Bank through his appointments and in other ways.

Not helping the cause any was the $656 million loan to Ansett at 8 percent annual interest for 10 years to an airline Down Under half-owned by Australian financier Rupert Murdoch. The loan, part of a larger package, was to enable Murdoch and his business partner to buy five Boeing 767 wide-bodied jets to match the seating capacity of four wide-bodied planes purchased by their Australian domestic competitor from Airbus Industrie, a European aircraft manufacturing combine.

It wasn't the size of the loan that triggered the controversy; the Ex-Im Bank recently loaned nearly $1 billion at about the same interest rate on another deal. Rather it was the distinct scent of politics—suggested in news stories describing the loan deal.

As the stories noted, in the midst of a meeting about the loan with Ex-Im Bank officials, Murdoch took a break to have lunch with President Carter at the White House. Two days after the luncheon, on Feb. 21, Murdoch's New York Post became the first big-city daily to endorse Carter's re-election. Seven days later, after Moore pressed the staff to complete research in a tremendous rush to meet a Murdoch-imposed deadline, the Ex-Im Bank board approved a $201 million loan to Murdoch's Ansett Airlines.

Last week, two key members of the Senate Banking Committee—Chairman William Proxmire (D-Wisc.) and Adlai Stevenson (D-Ill.), chairman of the Subcommittee on International Finance—sent a letter to the Bank demanding a detailed explanation of the loan. They set April 3 as the deadline for meeting their extensive demands, including tape recordings of board meetings at which the loan was discussed.

Adding a further patina of politics to the Murdoch loan is that Moore's former Atlanta law partner, Philip Alston, a long-time Carter supporter, is ambassador to Australia. While Alston and Moore did exchange phone calls during the Ansett loan negotiations, Moore says no political pressure was brought by Alston or anyone else. What's more, Moore says, the low interest rate of 8 percent on the loan used in the purchase of the Boeing 767s was extended to Ansett to match a rate offered by Airbus of 7.95 percent.

Puffing on his pipe during an interview in his large office that overlooks Lafayette Square, the White House and beyond, Moore said that Murdoch didn't even mention that he was having lunch with the president when he broke off negotiations that day.

Loan interest rates charged by the Bank spread from a range of 8½ percent to 9½ percent to a range of 7⅜ percent to 8¾ percent. And even with interest rates soaring all around the Bank—and with the Ex-Im Bank itself paying 13 percent for money it lends at 8 percent—Moore sees no need for higher rates so long as foreign governments are offering comparably low rates to subsidize their exports.

But a former high bank official criticizes Moore for not carefully analyzing the Bank's lending policies. "No respectable economist would defend what he's doing," says this person, echoing a sentiment voiced by others interviewed for this article. "John Moore isn't managing. He's got the ability, but he's having a grand time flying around the world."

A review of Moore's travel vouchers shows that he was away from the Bank more than 200 days in 1979, a wanderlust that began as soon as he took office and shows no sign of abating. Moore says the travel was to drum up business lost by his predecessor, Stephen DuBrul, a New York investment banker who made only one foreign trip in 16 months and was tight-fisted with Bank funds. Under Moore, there has been a 600 percent increase in direct credits to foreign buyers and U.S. products.

Moore's extensive travels, mostly in first class compartments, and similar wanderings by some other board members have sopped up much of the funds budgeted for travel by the Bank. This leaves precious little money to finance working trips by the Bank's career professionals.

Most of Moore's appointments within the Bank have come under sharp criticism, but none more than that of Mat Schaffer. Schaffer, 30, is another ardent traveler, who recently boasted he has visited a slew of countries during his brief couple of years in the Bank. Like Moore, he is a Georgian and a former Rhodes Scholar at Oxford University.

The trouble is, Schaffer's doctorate was in anthropology. Without any apparent experience in business or banking, he has risen meteorically to senior vice president of the Ex-Im Bank, making him the Bank's third ranking official, to the dismay of some careerists. Moore dismisses critics of Schaffer within the Bank by saying, "He's not in the career mode." He maintains that Schaffer "has performed well."

As for the future, Moore says he wants to stay on as chairman of the Bank if Jimmy Carter is re-elected. It's a marvelous place to work, he says.

[From the Washington Star, Mar. 30, 1980]

Export-Import Bank Draws Fire for Loan to Airline Controlled by Murdoch

(By Caroline E. Mayer)

The Export-Import Bank's decision to grant an extremely low-interest loan to an airline controlled by Rupert Murdoch, publisher of the New York Post, was made in great haste.

In fact, the decision last month was made so quickly that the board lacked the normal financial data on either the transaction or the company.

Internal bank documents show that John L. Moore Jr., president and chairman of Ex-Im Bank, pushed hard to win approval of the $290 million loan at a low interest rate to Ansett Transport Industries. His explanation: Only a favorable loan package

would induce the Australian airline to buy wide-body jets from the Boeing Co. instead of from the European consortium that makes the increasingly popular Airbus.

Moore's role of winning the Bank's approval of the loan—at an 8.1 percent weighted average interest rate—is spelled out in the transcript of two meetings held to consider the loan. The transcripts, usually confidential, were made available to The Washington Star by the Ex-Im Bank.

The Bank's decision has come under sharp criticism because it coincided with a meeting between Murdoch and President Carter and the New York Post's endorsement of Carter for last week's New York primary.

"The New York Post's endorsement of President Carter's renomination three days after the Bank gave preliminary approval to the financing gives an appearance of impropriety and leaves the impression that a key government agency may have been politicized to further the president's reelection," Sens. William Proxmire, D-Wis., chairman of the Senate Banking, Housing and Urban Affairs Committee, and Adlai Stevenson, D-Ill., chairman of a Subcommittee on International Finance, wrote in a letter to the Bank last week.

Their particular concern is that on Feb. 19, the week before the Bank first considered the Ansett loan, Murdoch had a brief meeting with Moore and then had lunch with Carter at the White House.

Both Murdoch and presidential aides have said the loan was not discussed at the lunch.

Nonetheless, the Senate committee, which has authority to review all Ex-Im Bank loans above $100 million, is investigating.

Bank directors say Moore, a presidential appointee, campaigned exceptionally hard to get the loan approval. "Although it's very seldom that Moore doesn't push for these loans, he pushed harder than usual for Ansett," said Director Margaret Kahliff in a recent interview.

Moore has denied any connection between the newspaper's endorsement and the loan. He has also defended the Bank's loan package, saying it carries an average 9.3 percent interest rate when the additional private financing Ansett must come up with is included.

Ex-Im Bank is putting up nearly two-thirds of the total loan of $441.3. Then Bank has made a preliminary commitment to loan $200 million, at an 8 percent interest rate for 85 percent of the total purchase price of five wide-body Boeing 767s.

The Bank also has committed itself to an 8.375 percent rate for $34.5 million—50 percent of the purchase price of four narrow-body Boeing 727s. A $55 million loan at an interest rate of 8.4 percent was also approved to cover 40 percent of the cost of buying nine 737s.

In the past, Ex-Im Bank has approved loans with interest rates of about 8 percent for Boeing aircraft, but with bank interest rates shooting up to 13 percent, why wasn't the loan rate increased?

The transcripts of the Bank's two meetings on Ansett—the first on Feb. 26, the second on Feb. 28—indicate politics were not mentioned during the formal discussions. What they do show is that some directors and staff members were concerned about the speed with which the loan was approved.

"This is a case (in which) I think we need to make an all out effort," Moore told his fellow Ex-Im Bank directors. "I'm convinced that whether we like it or not, it's an all or nothing situation. We cover this whole thing, 85 percent at 8 percent or there's just no decision."

At the beginning of the first meeting, David Peacock, a Bank loan officer, complained that the staff had not gathered enough facts. As a result, he said, "we do not have current financials on Ansett." However, the company's credit-worthiness was not a consideration because the firm was an "old valued client of ours and carries the guarantee of the government of Australia."

Nevertheless, Peacock complained, "I would like to say that I think the negotiating tactics of Boeing and Ansett should make us very wary of this deal. First of all, it's inconceivable to me that an old customer of ours like this could have been contemplating an $800 million purchase without having given the (Bank's) Asia division any kind of inkling about this."

Moore responded immediately. Peacock's complaints, he said, were Ansett's defense, Moore said the firm only had until March 1 to exercise an option on a loan package proposed by the Airbus consortium.

The Airbus offer had been made about a year ago, shortly after Ansett's only competitor, TransAustralia Airlines, agreed to buy the 250-seat wide-body jets from Airbus.

In this case, the competitor's choice was an important factor because the two airlines had a long-standing policy of using the same equipment for their flights, all of which are within Australia. However, after Murdoch bought 50 percent of Ansett's stock late last year, directors agreed to entertain a break with tradition by considering a bid by Boeing for the 200-seat 767s.

But, with the Airbus offer due to expire March 1, little time was left to come up with a deal.

Ex-Im Bank officials said that if a favorable offer couldn't be devised quickly, the U.S. aircraft manufacturers would lose access to the potentially profitable Australian market.

"What we are looking at is the question of trying to retain half of the Australian domestic market—one which I would believe in the future will be a rapidly growing market," said Charles E. Houston, the Bank's vice president in charge of Asian affairs, during the first meeting.

Despite Moore's urgings, the other two Bank director's present—Kahliff and Thibaut de Saint Phalle—were reluctant to approve a loan without more information about the Airbus offer.

In question was whether the Airbus offer was for four wide-body jets or for 12. If only four were covered, then an 8 percent loan for 12 comparable 767s would be excessive, de Saint Phalle argued.

Although politics was not mentioned, it was clear that at least one director knew who Murdoch was. "Murdoch is one of the brightest men that I have ever run across . . . Murcoch is a really shrewd negotiator," de Saint Phalle said.

At the second meeting two days later, John Lange, director of the Treasury's Office of Trade Finance, said that upon review, international finance officers in Treasury, the departments of Commerce and State and the Federal Reserve System had no objection to the 8 percent loan for four jets.

However, he added, "we would have hoped that matching the (Air-bus proposal where the loan be paid back at the) dollar rate at 9.25 percent would be certainly acceptable to all logical and reasoned human beings. But we hear what you're saying."

Lange continued: "The decisionmaker in this case is playing Mexican standoff with us and wants an 8 percent rate . . . We can't, and don't feel it appropriate to even try and second guess you on this."

George Heidrich, the Bank's deputy vice president for Asian affairs, added: "It seems to me that the fellow that asks about an 8 percent dollar rate is either financially naive or thinks we are."

"The latter," Moore replied; yet, he then rebuffed attempts to raise the interest rate, or make the loan repayable in German marks.

Then, the four Bank directors present unanimously approved a loan commitment covering five 767s—the equivalent, they figured, of four Airbus jets with the larger seating capacity.

NEW YORK POST

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The Democratic primaries: The Post endorses Carter

The race for the Democratic presidential nomination still has months and miles to go but the first primary in New Hampshire next week is likely to enhance President Carter's already strong claim to the right to run for a second term. We hold reservations about a number of his policies but, in our view, the candidates challenging him for the party's nomination are not at all acceptable alternatives.

Gov. Brown's candidacy is a blend of purism and opportunism. At times he seems to be lodged in the best of all possible worlds. He is only marginally involved with the realities of ever-increasing OPEC oil prices, the ever-present opportunism of an elderly Soviet leadership taking advantage of sudden changes in the world order — such as the destabilization of Iran and the seizure of U.S. hostages there, which opened the way to their invasion of Afghanistan.

Brown sees the world in terms of the restless have-nots condemned to poverty by an East-West arms race; like Senator Kennedy, he rejects nuclear power as an immediately available alternative source of energy; too often, he gives the impression that his world is made up largely of the followers of rock 'n' roll and the Sierra Club.

Senator Kennedy's candidacy has been flawed from the outset as much by the public's continuing doubts about his conduct at Chappaquiddick as by his own inept handling of that issue. Moreover his recent attempt to become a born-again candidate is shadowed by his political record.

His domestic proposals for gas rationing and price and wage controls are impractical. There is no pressing need for the cumbersome regulations of rationing — an invitation to abuse by bureaucrats and exploitation by multiple car owners whereas there are obvious conservation benefits in levying the same high gasoline taxes imposed by most other countries.

Similarly, there is a large expert consensus that a price and wage freeze is a chimera: inevitably, it creates a much larger inflation when controls are lifted — as happened when President Nixon used this discredited device.

As for Kennedy's sustained criticism of Carter's handling of the Iran and Afghanistan crises, and of foreign and defense matters in general, this comes oddly from a Senator who has consistently opposed the building of strong American strategic and conventional forces and the linking alliances to support them.

Carter, by contrast, is emerging from a long period of wishful thinking about the world as he would like it to be, especially in his relations with the aging and unpredictable Soviet leadership.

He has emerged as a man who is likely to be all the more severe in judgment and prudent in action and response for having been so demonstrably betrayed after the signing of SALT II.

We have reservations: about his commitment to New York City, especially his failure to persuade Congress that welfare and Medicaid are as much federal responsibilities as the inadequately funded social welfare programs Congress has lately been imposing on this and other big cities; about his readiness to accept advice which must make Israel vulnerable to an emerging, PLO-run Palestine state; about a $16 billion budget deficit which will surely grow closer to a $40 billion deficit; about his obvious failure to confront inflation.

But on these and other complex issues, Carter, clearly, is a fast learner. He comes now to the primary campaigns with three hard and disillusioning years of on-the-job training. He has made mistakes and is none the worse for those experiences.

Indeed, he has gained strength and confidence in his handling of both domestic and foreign affairs and brings to his exacting task a zeal and dedication which are often awesome — long hours, an open mind, an ability to digest and recall the most detailed intelligence about current crises.

He has the tested character and physical strength for the role. His renewed appreciation for the fundamental American values which he brought with him to Washington is now his greatest asset as he begins the long haul through the primaries. In this demanding endeavor he deserves the fullest support of all Democrats.

JOHN TOWER, TEX.
WILLIAM L. ARMSTRONG, COLO.
NANCY LANDON KASSEBAUM, KANS.
RICHARD G. LUGAR, IND.

KENNETH A. MC LEAN, STAFF DIRECTOR
MC DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

March 21, 1980

Honorable John L. Moore, Jr.
Chairman
Export-Import Bank of the
United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

Dear Chairman Moore:

We are concerned about recent newspaper articles on the Export-Import Bank's preliminary commitment of a low interest loan to finance the sale of aircraft to an Australian company controlled by New York Post publisher Rupert Murdoch. These articles, in the New York Times, Washington Post and Wall Street Journal, raise questions about ExIm's handling of the loan. They suggest that the loan was offered on preferential terms and that ExIm's consideration and decision may have been politically motivated. The New York Post's endorsement of President Carter's renomination three days after the Bank gave preliminary approval to the financing gives an appearance of impropriety and leaves the impression that a key government agency may have been politicized to further the President's reelection.

The Committee, in order to exercise effectively its oversightwith respect to the ExIm Bank, requests the following information:

-- A complete chronology of the request for the loan and ExIm consideration of the matter. The chronology should include:

the date when the first suggestion of financing of the sale of U.S. aircraft to Ansett Transport Industries, Mr. Murdoch's Australian company, was made to any staff employee or official of ExIm and the date when financing was first suggested to the Bank's Board;

the names of all persons who approached ExIm about the matter and the dates on which contact occurred;

the date when the ExIm staff was asked to prepare an analysis of the need and the appropriate terms for the credit. (The Committee requests copies of all staff analyses of the need for or possible terms for credit to support U.S. aircraft sales to Ansett.);

the dates when Mr. Murdoch or any representatives of Mr. Murdoch, Ansett or Boeing, discussed possible financing with ExIm staff, officials or members of the Board. Please include the names of the ExIm staff and officials and the substance of the meetings;

the dates when senior Treasury Department and Federal Reserve Board officials were consulted on the proposed financing. The newspaper accounts indicate that you met with C. Fred Bergsten of Treasury and Henry Wallich of the Federal Reserve Board. Did you go to see them to discuss the financing? Was it the usual practice for you to meet personally with other senior government officials to discuss proposed financing matters? Messers. Bergsten and Wallich were reported to be critical of the handling of the Ansett financing. The Committee requests a report on their criticisms and your response;

the dates when the ExIm Board considered the financing of the sale to Mr. Murdoch's airline. The Committee requests the tape recordings of the Board's meetings of February 26 and 28 and any other meetings at which the financing question was discussed;

whether the National Advisory Council met to consider the need for ExIm financing of the Ansett sale. If yes, on what dates did the Council meet? The Committee would like copies of any preparatory documents or briefing materials provided to Council members; and

whether ExIm staff, officials or Board members had any communications or meetings with White House officials, State Department officials or officials of the U.S. Embassy in Canberra regarding the aircraft financing request. If yes, the Committee would like the dates and details of the communications or meetings and the names of those individuals involved.

-- The size of the financing package. What was the size and terms of the financing first suggested to the ExIm Bank Board ($657 million was mentioned in newspaper articles)? What justification was given and by whom? If the figure was $657 million, or any amount above the amount eventually approved by the Board, the Committee wants to know the basis on which the higher figure was proposed, and how and why the lower final figure was arrived at. In addition, the Committee requests what evidence of foreign subsidized export competition was available to ExIm and was presented to the ExIm staff, officials and Board during consideration of possible financing of the aircraft sales. The Committee wants to know how many Airbus aircraft the ExIm Board was initially told that Trans Australia, an airline that competes with Mr. Murdoch's Ansett airlines, planned to buy, who provided the information and on what date.

-- The interest rate first suggested and any rate suggested which varied from the preliminary commitment to finance Ansett's purchase. The ExIm preliminary commitment covers the proposed purchase of Boeing's new Model 767 wide body, medium range airliner and narrow body Boeing 737s and 727s. According to newspaper accounts, the Bank offered financing at an 8 percent interest rate for the Model 767 purchase, a far lower rate than the 9.25 percent that Airbus Industries reportedly offered in its proposed financing arrangements for the sale of its wide body aircraft to Ansett.

The Committee wants to know:

why ExIm proposed 8 percent interest on the Model 767 financing and how that figure was arrived at by the ExIm staff and Board;

whether ExIm considered a higher interest rate, such as 9 percent, that would result in a smaller U.S. government subsidy on the loan but still would have been more favorable than Airbus' proposed terms;

the interest rates, percent of coverage, and term of financing offered by ExIm for each medium range aircraft sale for which a preliminary commitment, letter of interest, or commitment was made since 1977;

the interest rates ExIm has been paying on its recent borrowings to fund its loans; and

the interest rate ExIm expects to pay for money to fund the Ansett aircraft sale.

-- Loan coverage. The ExIm Bank usually finances up to 50 percent of an aircraft sale. The Committee wants to know why the Bank, in the Ansett case, has offered to provide 85 percent of the financing of the Model 767 purchase. The Committee requests copies of the ExIm staff analysis on the extent of coverage that should have been offered on the Ansett purchase.

The Committee requests that the tapes of the February 26 and 28 meetings of the Board be sent to the Committee forthwith, and that each other item of information requested be submitted as soon as it can be obtained or compiled, and that, in any case, all information be submitted to the Committee not later than 3:00 p.m. Friday, April 4, at the Committee office, Room 5300 Dirksen Senate Office Building.

Thank you in advance for your cooperation.

Sincerely,

William Proxmire
Chairman
Committee on Banking, Housing and Urban Affairs

Adlai E. Stevenson
Chairman
Subcommittee on International Finance

WP:bfj

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. — JAKE GARN, UTAH
ALAN CRANSTON, CALIF. — JOHN TOWER, TEX.
ADLAI E. STEVENSON, ILL. — JOHN HEINZ, PA.
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DONALD W. STEWART, ALA.
PAUL E. TSONGAS, MASS.

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

March 21, 1980

The Honorable Henry Wallich
Governor
Federal Reserve System
20th & Constitution Avenue, N. W. #B-2004
Washington, D. C. 20551

Dear Governor Wallich:

We are concerned about the recent newspaper articles on the Export-Import Bank's preliminary commitment of a low interest loan to finance the sale of aircraft to an Australian company controlled by New York Post publisher Rupert Murdoch. These articles, in the New York Times, Wall Street Journal and Washington Post, raise grave questions about Ex-Im's handling of the loan, the extent of the coverage and the interest rate to be charged.

The New York Times article mentioned that John Moore, Chairman of the Export-Import Bank, met with you on February 27 to discuss the possible financing.

The Committee would like a report on any comments on or criticisms of the financing, as proposed or adopted, made by any official of the Federal Reserve Board, and copies of any analysis on the need for or terms of possible financing prepared by, or provided to, any official of the Federal Reserve Board. In addition, the Committee requests the dates of any meetings you had with Mr. Moore to discuss the matter, where you met with Mr. Moore, the names of any other persons present, and whether it was usual for you to meet with Mr. Moore to discuss proposed Ex-Im loans in this manner.

The Committee would appreciate a reply by April 4.

Thank you in advance for your cooperation.

Sincerely,

William Proxmire
Chairman
Committee on Banking, Housing and Urban Affairs

Adlai Stevenson
Chairman
Subcommittee on International Finance

HARRISON A. WILLIAMS, JR., N.J.
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

March 21, 1980

Honorable C. Fred Bergsten
Assistant Secretary for
International Affairs
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20020

Dear Mr. Secretary:

We are concerned about the recent newspaper articles on the Export-Import Bank's preliminary commitment of a low interest loan to finance the sale of aircraft to an Australian company controlled by New York Post publisher Rupert Murdoch. These articles, in the New York Times, Wall Street Journal, and Washington Post, raise grave questions about ExIm's handling of the loan, the extent of the coverage and the interest rate to be charged.

The New York Times article mentioned that John Moore, Chairman of the Export-Import Bank, met with you on February 27 to discuss the possible financing and that your staff was especially critical of the financing package. Your staff felt, the article continued, that the loan provided too much coverage at too low an interest rate.

The Committee would like a report on any criticisms of the financing, as proposed or adopted, made by any official of the Treasury Department, and copies of any analysis on the need for or terms of possible financing prepared by, or provided to, any official of the Treasury Department. In addition, the Committee requests the dates of any meetings you had with Mr. Moore, the names of any other persons present, and whether it was usual for you to meet with Mr. Moore to discuss proposed ExIm loans in this manner.

The Committee would appreciate a reply by April 4.

Thank you in advance for your cooperation.

Sincerely,

William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs

Adlai E. Stevenson
Chairman, Subcommittee on
International Finance

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

1 APR 1980

Dear Senators Proxmire and Stevenson:

In reply to your letter of March 21 regarding the Treasury Department's consideration of Eximbank's Preliminary Commitment for a loan to finance aircraft to Ansett Transport of Australia, enclosed are both a copy of the Eximbank Preliminary Commitment document and a Treasury staff memorandum on the transaction. The staff memorandum is an internal briefing document given to me the evening before my meeting of February 27 with Chairman Moore on the subject. It is the only Treasury memo on the issue.

The staff memorandum is critical of the proposed transaction with Ansett Transport on three counts: its coverage of two types of aircraft which were not in direct competition with Airbus in this instance, the level of proposed interest rates and the implications of the overall offer for our effort to negotiate international limitations on aircraft financing. It should be noted that we have raised similar criticisms on a number of aircraft transactions; the Ansett proposal is not unique in this regard.

In addition, it must be admitted there are no definitive answers to the questions involved: whether financing for the entire package (including its non-competitive elements), and dollar interest rates which at least approach lower foreign-currency rates, are necessary to win a particular contract. Aircraft have represented over one-half of Eximbank's financing in the recent past, so active discussion of these issues between Eximbank and Treasury (and other agencies) is frequent.

Chairman Moore and I met on this subject on February 27, 1980. Other persons present at the meeting were John Lange, Director of the Office of Trade Finance, and Rodney Bent, International Economist,

both of my staff. Mr. Moore and I frequently discuss such matters over the telephone or at meetings of the National Advisory Council, though it is not usual for us to meet to do so.

I hope this answers the questions posed by your letter. Please let me know if I can be of further assistance on the matter.

Sincerely,

C. Fred Bergsten
Assistant Secretary
(International Affairs)

The Honorable
William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable
Adlai E. Stevenson
Chairman, Subcommittee on
International Finance
United States Senate
Washington, D.C. 20510

Enclosures

February 26, 1980

Assistant Secretary Bergsten

Thru: James A. Griffin, Acting Deputy Assistant Secretary

John D. Lange

Proposed Eximbank Credits

There are two mammoth credit transactions that are to come before the Eximbank Board on Thursday: the first involves $772 million in aircraft for Australia; the second involves $830 million for the Yacycreta hydroelectric project in Argentina.

1. Aircraft for Australia. In brief, Bank staff want to offer Ansett Transport a package deal of: (1) twelve B-767s, with 85% cover at 8% interest; (2) four B-727s, with 50% cover at 8.375% interest; and (3) nine B-737s with 40% cover at 8.4% interest. The justification for the package is Airbus competition.

   There are three problems with the transaction as it is structured:

   First, the Bank is proposing a package deal of three different types of aircraft, when only one -- the B-767 -- is truly competitive with the Airbus in this situation. The Bank is offering the two other types of aircraft at soft terms to sweeten the pot. This approach fritters away Bank resources.

   Second, the Airbus offer is denominated in three currencies, with differing interest rates for each: the DM portion is at 6.5%, the French franc portion is at 8.75% and the U.S. dollar portion is at 9.25%. Anset and Boeing have asked the Bank to match the nominal blended rate of the Airbus offer (about 7.99%) without reference to the fact that the U.S. Eximbank portion will be entirely in dollars. This is interest rate illusion at its most galling. Clearly, the Eximbank rate should be around 9.25%, to match what Airbus is charging for the dollar portion of its loan.

   Third, the Bank will be giving our hopes for a common line on aircraft short shrift if they offer an 8% interest rate for the B-767s. There may be a grandfather clause element in the Airbus offer, which the Bank may feel exempts their own offer, but we should certainly establish some contact with the Germans and the French to see if we can't avoid counter-productive bidding.

ITF:RBent

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You might wish to raise all the above points with Moore.

2. Yacycreta Hydroelectric Power Project. The Bank's announcement of a preliminary commitment for this project is likely to make a big splash since it's both a large transaction ($830 million) and one that's been held up for human rights reasons. The announcement may make the USG look somewhat hypocritical since we've abstained from voting on this project in the IDB (for human rights reasons) and yet will be pushing it through subsidized export credits.

Attachments

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

HENRY C. WALLICH
MEMBER OF THE BOARD

April 4, 1980

The Honorable William Proxmire
United States Senate
Washington, D.C. 20510

Dear Senator Proxmire:

I appreciate the concern you have expressed in your letter of March 21, 1980, regarding the large preliminary commitment recently approved by the Export-Import Bank Board to finance exports of aircraft to Ansett Transport Industries of Australia. The proposal was consistent with the terms of Eximbank financing commitments for other foreign airlines over the past year and, for that reason, I thought the transaction acceptable. However, I have had a strong and growing concern that the interest rates offered on this credit commitment and on other recent Eximbank commitments have become increasingly concessional relative to market rates of interest.

The Federal Reserve staff first became aware of the Ansett proposal on about February 21, when a preliminary discussion occurred at the Eximbank Board meeting. A specific Eximbank proposal was then circulated to the NAC agencies on February 26 to offer financing for 12 Boeing 767s, 4 Boeing 727s, and 9 Boeing 737s. That proposal involved direct credits and guarantees totaling almost $600 million, of which the largest component ($480 million) would have been a loan at 8 per cent to finance 85 per cent of the cost of the 767s. After consultation with their counterparts at Treasury, two Federal Reserve staff members (Messrs. David Dod and Jan Karcz) gave me an oral briefing on that proposal immediately before I was scheduled to discuss the case with Eximbank Chairman Moore on the afternoon of Wednesday, February 27. The three of us then met with Mr. Moore in my office for about 15 minutes.

During our meeting Mr. Moore presented a history of the competitive situation regarding Ansett and the other domestic Australian airline and discussed the Airbus financing offers that had been accepted by the other airline and had been extended to Ansett. Since Airbus had offered firm low-interest financing to Ansett for only 4 Airbus A-300s, he felt that Eximbank could limit its offer to only 5 767s (which would provide a comparable amount of seats) rather than the 12 that had been contemplated in the Eximbank staff memorandum.

Prior to the meeting with Mr. Moore, my main concern in connection with the Ansett credit had been its very large amount measured in relation to

the resources of Eximbank and to the amounts that had already been committed to the aircraft sector. This concern, however, was alleviated by his proposal to reduce the size of the offer.

I also expressed to Mr. Moore some reservations relating to the interest rate, in comparison with market interest rates. The large increases in market interest rates that had occurred in February implied that the subsidy element on Eximbank's usual interest rates had increased substantially. However, we were informed that the Ansett case involved very strong head-to-head competition between Airbus and the 767 and that the European credit agencies had already offered Ansett financing for 85 per cent of costs at about 8 per cent interest. Since the National Advisory Council agencies had agreed in April 1979 that Eximbank should give high priority to matching such financial offers in cases of direct Airbus competition against medium-range, fuel-efficient U.S. models, I told Mr. Moore that I would agree to his revised proposal. To the best of my recollection, I then or later discussed with Mr. Moore my concerns about the evolution of interest rates. I said that different interest-rate levels had developed in different currencies and that this made adherence to an international interest-rate consensus with equal rates in different currencies very difficult.

Enclosed are copies of the pages of a February 20 memorandum on the Ansett case that were revised by Eximbank and circulated to the NAC agencies on February 26. This memo was the only written record upon which Federal Reserve analysis of the Ansett case was based. We do not have in our files the unrevised portion of the February 20 memo.

It has not been unusual for Mr. Moore to discuss with me large individual loans that could have substantial policy or budgetary implications for Eximbank. Over the 2-1/2 years of my association with Mr. Moore, we have had several such discussions by telephone as well as in meetings involving our counterparts at other agencies and in breakfast meetings at Eximbank and at the Federal Reserve.

I have received a Freedom of Information Act request from CBS News that encloses a copy of your letter in response to which this letter is being written. CBS requests from me the same material that was requested in your letter. By law I must respond to the request by April 11, 1980. I will plan to supply CBS News with a copy of this letter and the enclosure in a few days.

Sincerely yours,

Henry Wallich

Henry C. Wallich

Enclosure

cc: Senator Stevenson

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

OFFICE OF THE
GENERAL COUNSEL

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

March 28, 1980

Mr. Bruce Freed
5300 Dirksen Senate Office
Building
Washington, D.C. 20510

Re: Ansett Transport Industries

Dear Bruce:

In accordance with the request contained in the letter dated March 21, 1980 from Senators Proxmire and Stevenson, enclosed are the following items:

1) Two tapes of Eximbank Board meetings of February 26 and 28, 1980 and a transcript of each.

2) Copies of Memoranda to Board dated February 20, 1980. There are two revisions, one dated 2/26/80 and the other 2/28/80 (see bottom right corner of first page).

3) Two Preliminary Commitment letters dated March 17, 1980 and one Letter of Interest of the same date.

I have marked a few sections of the Transcript and Board memos which I believe contain confidentially commercial or financial information.

We intend to deliver the remaining documents as requested by April 4.

Sincerely,

Warren W. Glick
General Counsel

Enclosures

Item No. 12 of February 26, 1980 Agenda

AUSTRALIA - (P.C. No. 80-0-4738) - ANSETT

Mr. Peacock: Mr. Chairman, I would like to point out that the agenda item mentions 12 Boeing 767 aircraft and there are an additional 4 Boeing 727s and 9 Boeing 737s. I would just like to clear up the mistake.

Mr. Moore: Now what should it be?

Mrs. Kahliff: It's right on there.

Mr. Peacock: It is right on the memo.

Mr. Moore: It's OK on the memo item?

Mr. Peacock: Yes sir. It's only the agenda item inadvertently omitted a couple of categories. If this memo has some rough spots in it I'm sorry, we had to put it together in about 24 hours.

Mr. Moore: I understand.

Mr. Peacock: I would just like to clear away some underbrush here so we can get to what I conceive to be the principal issues. You will notice that we do not have current financials on Ansett. However,I understand from the Treasurer out there that it is continuing to be profitable and I mention this by way of saying that we don't believe that creditworthiness is a consideration here. Ansett is a long, old, valued client of ours and carries the guarantee of the Government of Australia. So, in spite of the lack

of financials we do not believe that creditworthiness is a question. We see this purely as a question of competition and as a very difficult situation for Eximbank, being put to the wall on a competitive deal. I would like to say that I think the negotiating tactics of Boeing and Ansett should make us very wary of this deal. First of all, it's inconceivable to me that an old customer of ours like this could have been contemplating an 800 million dollar purchase without having given the Asia Division any kind of inkling about this.

Mr. Moore: But David, I think that's unfair in the circumstances, because during the whole calendar year 1979, Ansett was the subject of substantial takeover bids and it was paralyzed as far as making any decisions. TransAustralia Airlines, during that same period, saw their opportunity and bought the Airbus without discussing it at all with the American lines. Sir Reginal Ansett, who was in control of Ansett Airlines until the last day of December, I think, but anyway towards the end of that month, had firmly decided based on the long standing policy that you always have the same equipment in those two airlines wasn't going to discuss the case with anybody but Airbus. And he has had his offer from Airbus on exactly the same terms as TAA had in the middle of last year with an option to expire the first of March of this year. And the transfer of ownership only occurred in favor of Rupert Murdoch and the Thomas Transportation System at the end of December and only in a Board meeting in January

did they out vote Sir Reginal even to discuss a possibility of inviting anything else so I think that anybody, Boeing called me as soon as they had wind of it in January. But they don't know what it's going to be but it's going to be big and important. So, I really do think it's important not to hold any hard feelings against either Boeing or Ansett. I think it's also important to have that background because it shows the importance in Australia of the 8% offer as compared to 9-1/4. And I'm hoping at this point only to make that point and not to disagree with you about it.

Mr. Peacock: All right. We have not had a chance to exchange cables with Airbus or with the Airbus financing authorities but we do in fact have a written Airbus offer which is one of the appendices. In addition to the Airbus offer as presented which is the basket of European currencies which we have shown on page 2, and which carries a blended rate of 7.99 or say 8 percent, Mr. Duff has discovered that there is a dollar offer outstanding also which Ansett or Boeing neglected to mention to us.

Mr. Moore: No, it's right in the letter. This is 40% cover in dollars offered at 9-1/4%. That's in the letter from Boeing giving us the details of the offers. Informally, in the meeting they indicated that they thought they could press Airbus to an entire dollar offer at 9-1/4...

Mr. Peacock: Maybe I could ask Mr. Duff to...

Mr. Duff: In connection with the Brittania deal we'd developed a discussion

unsolicited to inquire on this transaction whether in fact it was true as alleged that we were going to 12 years. The story was out that we were going to do that. And I indicated that the case hadn't even gone to the Board but I was certain subject to the Board's final good judgement that the Board would not do that except to match. But I took the occasion to ask him some of the details of financing. He said he wasn't close to it. He had just been commissioned to ask that question but he would go back and enquire of his clients, the Airbus people,

and they came back and reported the basket of currencies offered is as set forth in the letter and he also reported that they were making a offer which he said was on the same terms, full cover, for 9-1/2% in dollars and I queried him, I was puzzled that it was 9-1/2 rather than 9-1/4 since the dollar rate of the basket was only 9-1/4 but he said that they confirmed that it was 9-1/2.

Mr. Moore: That was different from my understanding.

Mr. Duff: The one other fact that he mentioned that they were quite concerned about was whether Boeing's offer covered what he called plants and hangers. He said that the Airbus offer covered the air frame and the installed engines only. I was noncommital in response to that. Those were the three facts that he reported on.

Mr. Peacock: Now, we have decided that the number of possible combinations are so numerous here, that what we would present to the Board, were what we conceived to be the parameters within which we

might do this deal. And I made a sort of a score sheet for myself, which I put on as appendix B where you can see the layout of the three different kinds of aircraft, the dollar amounts and the two columns, in the first instance, there are what's labeled our policy amounts which I might say were stretched to the outermost limits according to the budget presentations; namely, that on the 12 Boeing 767's we were saying that we could go out as far as 63.75% and on the 727s out as far as 63.75%. You will see that if we followed our aircraft policy, the total loan amount would be $446,000,000, there would be a guarantee on the 737s of 41 million so that your total loan funds there would be 446 and the request which I have presented as the other parameter is a straight 85% which amounts to 656.8 million and the difference between the outermost policy loan and the request is 210 million, just to show you what we're getting at here. I think I won't drag out what I stated in the memorandum here but for whatever it's worth we in the Asia Division,

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And they had had an offer in dollars for 80% of the cost of the aircraft only. That is to say with no engines or spares. It was at a stated interest rate of 9.15%, insurance included, all in dollars fixed and there was a 0.375 commitment fee and a 0.375 management fee one time front end. That sounds a lot more attractive than it is, the 9.15, because we assumed that the

engines and the spares in [redacted] case were the same proportion as ours since we didn't have the facts, which happened to be 80.7%. And when you do a calculation there they were financing the engines from the State Bank at LIBOR plus one and the blended rate was LIBOR at 14.5. There turned out to be 11.2, so that we have to, we are presenting this orally as a kind of thing that we think Airbus thinks is equivalent. They were also offering the package of currencies.

Mr. Moore: David, I have to disagree there. I think there was a different competitive situation. You have an extraordinarily fine offer to Ansett that I don't believe Airbus would make today. But it dates back to the offer to TransAustralia which was a year ago probably. I think they ordered in the middle of the year and in the situation in Australia the Airbus has simply been told that they are going to have exactly the same offer as TransAustralia and they told TransAustralia they are not going to give Ansett a thing better. So that you're just locked in to something that just, that the competitive situation is different [redacted]

Mr. Peacock: That might well be...look at it.

Mr. Moore: The best comparison here would be, this is what I argued to Rupert Murdoch that since the Airbus offer expressed a 40% offer in dollars at, I thought, 9-1/4, that was what we were talking about last Thursday, I think.

Mr. Peacock: Wasn't that 40% in Deutche marks?

Mr. Moore: No, 40% in dollars. They had two different offers. One was the basket, 40% Deutche marks, 40% Francs, and 20% dollars as mentioned. And then there was an alternative of 40% cover only in dollars at 9-1/4. And those were the alternatives. I reasoned from that that Airbus was arguing that the dollar equivalent was 9-1/4 and I didn't depart from that in the argument with them. They rejected it on the grounds that they had studied the relationships historically and as they predict them in the next 12 or 15 years the Australian dollar to the Deutche mark to American dollars and they felt that they had that we had to look at the 7.95 blended rate of the package rather than the 9-1/4. I can't believe in the thing even at that. I think it's political too in that they're not going to take an offer that's got a stated rate of interest that's higher than TAA had because they would be afraid they would be uncompetitive.

Mr. Peacock: Right, I think I can wind up by saying we have a major sale in the offing to a creditworthy buyer. It's a question of what the Board would like to do. We have the package of currencies as stated on page 2. In addition to which we think we have some information that Airbus offered 9-1/2 and in dollars. With the details unknown as to fees and whether or not engines were included. We know that Ansett alleges an oral offer from Airbus to lengthen the terms to 12 years. [redacted] that's not the way it is, that Airbus would hold to ten except to match. And there we are.

Mrs. Kahliff: They'll try to get us to go to 12 first.

Mr. Moore: Yes, I think they're jockeying both sides on that and I would imagine the Airbus salesman has done the usual rigmarole saying that we won't give it to you in writing but if you buy we'll see that you get twelve years. Mr. de St. Phalle.

Mr. de St. Phalle: Mr. Chairman, as I analyse the situation you're really putting 12 Boeing 767s against 12 Airbuses. And yet in the package we're financing a number of 727s and a number of 737s. I'm not sure that they should be all part and parcel of one package and treated the same way. They are going to have to buy, if I understand what Ansett is all about, they are going to have to buy the 737s anyway.

Mr. Moore: No.

Mr. de St. Phalle: And I think this is, just a minute, it seems to me that this is the typical case where we should have some sort of a package deal where you get a better rate if you buy the 67s which is a really competitive item in terms of what you would get in financing on the 727s and 737s. But it seems to me extraordinary that we would finance all of the 737s and all of the 727s at an 8% rate.

Mr. Moore: TAA and Ansett from the beginning of their operations have had exactly the same equipment delivered the same days. They fly within 5 minutes of each other on every route. I think every route. Right now the fleets are exactly the same. They've got

maybe 12 DC-9s and 12 727s. And they're exactly the same number on a given day TAA will have Airbus two years in advance of 767s. So the big decision before the Board of Ansett is whether to continue the past policy of having exactly the same equipment. Airbus has told them that if they act by March the first, they well provide them the same number of Aibuses that they agreed to provide for TAA taking them out of somebody else's order, probably Air France, because this is an unusually early delivery schedule. If they'll act that soon they will be then the same ones the same day so there is some sort of deal to deal with 737s and 727s and DC-9s. Now, if Rupert Murdoch and the new stockholders decide that for the first time in the history of Australia they are going to have real competition between the lines, then for a period of two years the competition will be narrow-bodied against wide-bodied. And they have to have the additional planes in order to match the capacity of the Airbus delivered to TAA. At the end of that time they will be phasing out some or all of the 727s and DC-9s and having just the 767s competing with the Airbus, probably with different schedules. Now, I agree that there is some jockeying going on here because they are putting it in a package, but I'm convinced that whether we like it or not it's an all or nothing situation. We cover this whole thing, 85% cover at 8%, or there's just no decision. Now we may decide not to do that because it's too painful, but I don't think we should fool ourselves that there's any way to jockey this package

into less than presented to the Board. There will be a decision, it's going to be a highly controversial decision. The new owners are at least flirting with the idea of going to competition for the first time. Sir Reginal Ansett, who's still Chairman of the Board, but doesn't have controlling vote believes absolutely, firmly, that in this circumstance you're foolish to take any risk. They have always divided the market fifty-fifty. You can't tell what's going to happen it could be 60-40 and you could have the 40 side. The engineers by and large think the Boeing equipment has the edge. The marketing people are unanimous behind Sir Reginal because they're used to that approach. So you've got a terribly close decision and they have really put it to us on the basis that you just move anything away from the Airbus offer as we construe it, meaning 7.95% and that's the same way we view dollar rate that there would be just no issue before the Board. I don't think it's as good as 50-50 at this point but there is some chance.

Mr. de St. Phalle: I'm not arguing about that John, but the staff is presenting us a case where we're being asked to match the purchase of 25 airplanes as against the purchase of 12 airplanes. Something in that just doesn't make sense to me.

Mr. Moore: What is the number of Airbus that TAA ordered?

Mr. Peacock: The amount covered by the financing order here is 4 Airbus.

Mrs. Kahliff: Four?

Mr. Moore: Four Airbus. But what's the amount they're working towards?

Mr. de St. Phalle: When you say the purchase of the above Boeing or purchase of 12 Airbus A-300 B4.

Mr. Peacock: It's a little confusing because the letter from Boeing says that they're considering 12 Airbuses.

Mr. Moore: OK, it's 12.

Mr. de St. Phalle: So you're talking about 12 versus 25.

Mr. Peacock: Here they say "is under consideration by Ansett are two fleet alternatives, one provides for the acquisition of 12 Airbus A-300 B4 aircraft. The other a fleet of Boeing aircraft" etc., etc. and then when we get down to the financing offer which is appended as the last appendix, I believe, I think that actually covers 4.

Mrs. Kahliff: Why would it only cover 4?

Mr. Peacock: I don't know.

Mr. Heidrich: That's all they have on order, 4 firm Airbuses right now.

Mr....: I don't think, well...

Mr. de St. Phalle: That reinforces what I....the comment I was making.

Mr. Moore: The financing offer will cover 12 or whatever TAA bought. What did TAA buy? Four plus options on eight more.

Mr. Heidrich: I think that's the way I think they're going to do it. First delivery is October 1981 on the first 4.

Mr. de St. Phalle: Would Airbus Industrie give the same rate on the additional 8?

Mr. Moore: Yes.

Mr. de St. Phalle: They would?

Mr. Moore: 8-1/2.

Mr. Heidrich: I haven't seen that offer, Mr. de St. Phalle, so I can't comment on it but I think that this offer was made for...

Mr. Moore: John, did you discuss that with Airbus, John?

Mr. Duff: I did not, however, we can go back to them. I really think though, my guess is that because there are 4 firm orders that Airbus is willing to lock in a price rate on those 4 but at this stage is unwilling to lock in a rate on the 8 that are delivered in the future.

Mrs. Kahliff: Well, that's why I asked that...

Mr. Moore: Well, I did not ask that question firmly. My impressions are entirely otherwise, so, Ed Houston did you happen...

Mr. Houston: Well, to pick up your word, Mr. Chairman, the impression, I cannot assert that TAA-Airbus offer was for 12 but surely it was my impression that that was the case.

Mrs. Kahliff: Then why didn't they say so in the memo?

Mr. Moore: You didn't attach the copy of the letter from Boeing. Has anyone got it here?

Mr. Peacock: Yes sir.

Mr. Moore: Just see what that one says.

Mr. Peacock: "We are informed that Airbus is offering very attractive financing terms to Ansett for the purchase of 12 A-300 B4 aircraft."

Mr. Moore: That's why we had...

Mr. Peacock: "We understand the Airbus offer gives Ansett a choice between two hard currency loans each for ten year terms. One, a 40% participation in the later maturities for an interest rate of 6-1/2%" and I believe in the conversation that that was identified as in Duetche marks.

Mr. Moore: Yes.

Mr. Peacock: "Two, an 85% participation at an interest rate of 7.95%." And I believe that was identified in the conversation as in the basket of currencies.

Mr. Moore: You were correct and I was wrong in an earlier statement I had made it was 40% cover Duetche mark cover, but do they probably...

Mr. Peacock: And then Mr. Duff has uncovered what we think is a third offer, all dollars, 9-1/2, I don't know the details.

Mrs. Kahliff: For 85%?

Mr. Duff: That's what it says.

Mr. Moore: I don't think they're impressed with that much because I think they're going to, the one they think of as the real offer is the basket of currencies.

Mr. Peacock: Either that or they're whipsawing us in negotiations.

Mr. Heidrich: When we met with Ansett in Melbourne on the 15th of February, we met Executive General Manager who has been around a long, long time, who I guess was here negotiating the first deal and ... .those two gentlemen when we were there, and Sir Reginal also and then a fellow who is their financial fellow. And they did indicate to us that they were really up against it to try and get some aircraft that would be competitive to this October 1981 introduction of the Airbus by TAA. But it was only 4 that they were really concerned about and I walked away if someone pressed me I would say that is what they have on firm order and will be delivering the 4 aircraft or maybe this 8 that would be on option.

Mr. Moore: Oh yes, I think that's probably right.

Mrs. Kahliff: But we're really talking about 4 or are we talking about 12. I'm confused.

Mr. Moore: I think we're talking about 12 but I think we need to do some more work or just to call the people. Now the people you're meeting with were Sir Reginal's people. Correct?

Mr. Heidrich: No. They're, let's call them if you will the savvy...

Mr. Moore: Didn't I hear you say they were old time people there?

Mr. Heidrich: They've been with Ansett for a long, long while, as a matter of fact, they remembered Mr. Sauer and his negotiations with them...

Mr. Moore: The people who came to see me were the representatives of the new owners and there the Ansett people are very firmly set on buying the Airbus. So, that I...

Mr. Heidrich: I did not get that impression. I got the impression that they wanted an opportunity to buy the Boeing airplanes. This was Cooper and Franklin conveying this to me and they felt that it was for the first time an opportunity to sort of break away from this parallel policy that they had. They also thought that they would have an opportunity to maybe fly more frequencies because the capacity factor of the Airbus would be higher therefore they could maybe schedule a flight and later have a second flight...

Mr. Moore: That was what I was saying, except, I don't think that we can spend any more time now and know any more than we as to whether it's 4 firm plus 8 option. What I suggest is that we find out the actual facts as fast as we can by telephoning either the Thomas representative or Rupert Murdoch in New York. Because I think Rupert is back with his... Or calling Melbourne and that can be done around 4 this afternoon. Let's just be sure, because I think that's a very important fact here and we've got to put up or shut up this week....in anyway we can. I'm sorry I did not think to explore that one definitely on Thursday.

Mr. de St. Phalle: I think if there are only 4 then we've got a totally new ball game but let's assume that we have 8 or that we have 12 at the same price, in other words the same commitment for those under option. I still go back then in my original point which is that in one case they're talking about purchasing 12 aircraft and the other one they're talking about purchasing 25 aircraft. And we're giving them the same deal for the additional 13 which are 727s and 737s. My question is why do we need to do that because essentially we're matching 767s and Airbuses and I have no trouble with the 12 Airbuses. In saying, OK, let's finance the 767s at the competitive rate, but I do have a problem with these additional 13 aircraft and I think there that what we ought to do is to say our standard package is so much, now if you buy the 767s in addition to the other Boeing aircraft we will give you a better rate on the whole package. But I don't see that we need to go down to the 8% on the other aircraft.

Mrs. Kahliff: I have a different question. I'm still confused about whether we're talking about the basket of currencies or the dollar? Are they 85% at...

Mr. Peacock: No, Mrs. Kahliff, I think as I said we believe that Ansett has 3 offers and they have said that they have no interest in the 40% Duetche mark at 6.5. They failed to mention the dollar offer and they made quite a statement that they believe that the Australian dollar is going to continue to be strong or stronger than

it is now and that they have great confidence that since they're paying off a basket of European currencies with Australian dollars that they state, whether for bargaining purposes or not, that they just don't care. We've got to match the interest rate and that they don't buy the argument that paying off in dollars is an easier proposition than paying off in the basket.

Mr. Moore: In fact I predict they're...in the reverse in the next 12 or 14 years and I believe they believe that and I think it's a non-offer to go above 8. Now you raised a different question which is entirely valid.

Mr. de St. Phalle: I have no problem with the 8 provided that the 12 aircraft that we're dealing with on the airbus side but I raise the question on the additional 13.

Mr. Moore: Yes, you're dealing with 200 million approximately, Thibaut, as '81 deliveries and 2 737s in '82 so it's 176 plus about 20, or $200 million out of a 600 or 800 million dollar package. Is it a question whether you pull back 42.5% on 4 727's and do... plus 30 on a 737. Is that what we are doing?

Mr. de St. Phalle: It's laid out in Appendix B.

Mrs. Kahliff: Page one in the appendix.

Mr. de St. Phalle: They're talking about a 137 million plus 69 million.

Mr. Moore: So it's the extra 69 million that you raised a question about?

Mr. de St. Phalle: No. I'm raising the question on the 13 planes which is a 69 plus 137.

Mr. Moore: I think you're using full value rather than the comparative financing aren't you or are you?

Mr. de St. Phalle: I'm using the purchase price, full purchase price... talking about I would do the 8% deal on 85% of 566.

Mr. Moore: That's 481.

Mrs. Kahliff: That's right.

Mr. de St. Phalle: Well, other than that that has been proposed which is 656.

Mr. Moore: What would you do with the 737s and 727s? Our policy on 727s is 42.5% direct loan cover. 737s is 30% direct loan cover, plus a guarantee.

Mrs. Kahliff: I don't think we need to do a thing right now. I don't think...

Mr. Moore: You will just pass the deal. I was just trying to explore something that might be explainable to them and might be accepted. But I was just trying to get a number, Thibaut, David's (Peacock) kind of confused us here because he's used an average assumption that we will wind up with 63-3/4%.

Mr. Peacock: Well, that is out of the aircraft policies.

Mr. Moore: No, it's an average assumption for budget purposes. The aircraft policy on starting point is 42.5% for Boeing 727s and 30% for 737s.

Mr. Peacock: Correct, and then it goes on to say that in highly competitive cases we may have to do better and...

Mr. Moore: The average figure we rather assume for budget purposes 63.75.

Mr. Peacock: Right.

Mr. Moore: So, that in this circumstance the aircraft policy is 481 million 483 for the 767s, because it is a very competitive case. The question is should we treat the 727s and 737s as very competitive and I just wanted to get the numbers, Thibaut, because it would just take a second here.

Mr. Moore: I make the amount of the direct loan that we do on 737s 41 million one.

Mr. de St. Phalle: That's correct.

Mr. Moore: And on 727s...

Mr. de St. Phalle: No, it's less than that it's...

Mrs. Kahliff: 41 million...

Mr. Peacock: What is it? You want what percentage?

Mr. de St. Phalle: You have 30% of 137. Correct?

Mr. Moore: You just didn't put the 30% in. So the 41 is right. Will someone quickly tell me what 42.5 percent is of 69 million?

Mr. Hughes: Mr. Chairman, the total would be 566 million 700 approximately of loan. If you assume 85% of the 566...

Mr. Moore: Can you give the break down on the 727s at 42 and 1/2 percent?

Mr. Hughes: 727s at 42-1/2%?

Mr. Peacock: $29.3675 million.

Mr. Moore: Yes, that's right.

Mr. Hughes: Twenty-nine three six seven five.

Mr. Moore: 29 and 41. That's 70 million of loan out of 69 and 36.

Mr. de St. Phalle: So, you're talking about 5-15ths of 656.

Mrs. Kahliff: If we went with that lending policy.

Mr. de St. Phalle: OK.

Mrs. Kahliff: On the 13.

Mr. de St. Phalle: Yes.

Mrs. Kahliff: Why couldn't we do that David (Peacock)?

Mr. de St. Phalle: I thought it was a very good policy.

Mrs. Kahliff: Why couldn't we offer the...

Mr. Moore: It's a 100 million more loan, around that, if we go 85%.

Mrs. Kahliff: Well, offer... the competitive ones to meet competition but give our rate for the 13.

Mr. Peacock: That's what we're here for is that kind of guidance. You'll notice that we are, I say we're presenting the parameters and...

Mr. de St. Phalle: If they need the 13 anyway which let's suspect they do, otherwise why...

Mr. Moore: No, they don't. You see the deliveries are tied into when they can get the Airbuses they need and the deliveries they've taken these are the alternatives to the Airbuses that the other line

will have. See, the other line for a period of time will use Airbuses plus the present fleet. They will have to pick up 727s and 737s to equal the 4 Airbuses presumably that TAA will get in October of 1981. The alternative for them is 4 Airbuses in October of '81. So, from their viewpoint for a period of time these are directly competitive. And in the final analysis I guess both of them reduced their fleets of narrow-bodied. Did you hear that George (Heidrich)?

Mr. Heidrich: I think the information I walked away from Ansett with was that the DC-9s would be phased out and be replaced by the 737s.

Mr. Moore: But they would continue to use them even though they have Airbus or 767s?

Mr. de St. Phalle: They are going to have to phase them out anyway, John. Because...

Mr. Heidrich: They won't end up with strictly an Airbus fleet or 767s.

Mr. Moore: Either one.

Mr. Heidrich: I think they're going to have additional airplanes because I think there are certain runs they have that just won't be have enough population for.

Mr. Moore: But after they receive the 767s after 2 to 3 and 4 years out, they will be phasing down on the planes that we are asked to finance here. I think that's a fair conclusion as to most or some of it anyway because they would be...

Mr. de St. Phalle: I don't see why because they're really faced with a choice of 12 Airbuses or 12 767s. The choice of additional planes is there anyway.

Mr. Moore: No, that's wrong, Thibaut. That's because of the delivery schedule. The Airbuses are available beginning October of '81, the 767s the earliest availability date is '82, a year later and the number that they will be delivered of Airbus subsequently will be faster than the 767s so in the interim they have to have a narrow-bodied alternative to the additional planes that the other airline has. So, it's important at this time that we be directly competitive with the Airbuses the way the airline looks at it. I don't think after they have received delivery of the full 767 fleet, if they go that route, they will then be directly competitive. So, that I think what you get to is a directly competitive feature for a period of 2 to 4 years. In terms of the decision they'll make ... I think its more politics than it is... if you can give it this way. It's whether offering a 100 million less will get us the possibility of the deal and I would feel safer in covering the full 100 million but I would be... If you were going to do, put it this way, if you were going to offer the full cover at 9-1/2 or a 100 million less in all of what you do cover is at 8, and I think we have a better chance at the second route which was where you were headed I think.

Mr. de St. Phalle: Well, if an airline decides to buy 25 airplanes, they're certainly not going to be satisfied to buy 12 from somebody

else. I still say regardless of this time factor of delivery, we're talking about a deal which is different here than the proposal of Airbus. They're still going to have to have short range aircraft to replace their DC-9s. And they're getting a very favorable deal from Eximbank that they might not get otherwise.

Mr. Moore: Are they going to replace their DC-9s anyway?

Mrs. Kahliff: He said they are going to phase them out.

Mr. Moore: I think they are going to phase them out rather than replace them.

Mr. Heidrich: Well, they will replace them with 737s.

Mrs. Kahliff: They have to replace them with something if they phase them out.

Mr. Heidrich: I don't think they are going to end up just with Airbus or 767s.

Mr. Moore: I don't either.

Mr. de St. Phalle: They can't replace a DC-9 with an Airbus that's for sure.

Mr. Moore: But for a period of 2 to 3 years they're going to be operating DC-9s, 737s and 727s in direct competition with Airbus, offering frequency as distinguished from wide-bodied planes. So, that I can agree with you that there is a difference in this part of the fleet they're buying, but how you analyze this probably will not be regarded as a sufficient offer they will just automatically go to Airbus and take that other...

Mr. Houston: Mr. Chairman, it strikes me that we're getting ourselves tangled up in pushing different types of aircraft around here and so on and so forth and perhaps not looking at the broader picture quite enough. Here we have for many years had the 2 domestic airlines operating as we know on an even handed basis under the umbrella of the two airline policy and so on and so forth and, at the moment, those two lines together have 48 U.S. built aircraft on board in each of the 2 airlines. One of those airlines is in the market for U.S. aircraft and I would strongly suppose that TAA will not in the future buy any more U.S. aircraft. So, what we are looking at is the question of trying to retain half of the Australian domestic market. One which I would believe in the future will be a rapidly growing market and I don't want to sound cavalier about a 100 million dollars even though we deal in large numbers here, are we not sort of losing sight of what to me is the very central issue here. Are you going to try to hold on to the half of the market that now remains available to you, and is there undue risk in trying at this time to economize on the 100 million dollars that we have identified here as the quote saving by applying the strict policy rather than going the 85%. In short, is it a good odds bet. I think the Board is agreed tacitly, at least, to offer what has been requested with respect to the 767s, I believe I draw that conclusion.

Mr. Moore: Yes, after all that, I think that's right.

Mr. Houston: Therefore, we are talking about the other 13 27s and 37s.

Mr. Moore: That's 100 million dollars of loan value.

Mr. Houston: And have narrowed the issue to the 100 million dollars. So I say ask yourself do you want to save the 100 million dollars authority or do you want to try to assure your grip on the remaining one-half of an important market.

Mrs. Kahliff: Is it not true that even if we did that, we do not have the assurance we are going to get it.

Mr. Moore: Oh, absolutely. This is going to be a toss up...

Mrs. Kahliff: And another question I want to know...

Mr. Moore: All I can tell you is that it is absolutely certain you won't get it, there is not going to be much of a discussion at all if we're at either at 9-1/2 and maybe if we do not give the full cover that's asked.

Mrs. Kahliff: Another thing I want to ask, is TAA a government airline or is it a private airline?

Mr. Moore: 100% government owned and Ansett is 100% private...

Mrs. Kahliff: And Ansett is 100% private...

Mr. Moore: Under the dual policy, the government guarantees all obligations of both airlines.

Mr. Houston: As remarked, Ansett has through the years under the direction of Sir Reginald Ansett has rocked along in a very comfortable position under the umbrella of the 2 airline policy.

They didn't have to worry too much,to compete too hard or be too anything - they were going to get half - and that period seems to be over under the new organization.

Mrs. Kahliff: I can't believe that Rupert Murdoch is going to be satisfied with half.

Mr. Moore: Well, that's the issue, that's the puzzle.

Mrs. Kahliff: Because he is a really...

Mr. Moore: You could go 60-40 and which side are you going to be.

Mrs. Kahliff: Well, I think that he is very, very aggressive and I can't imagine him sitting there saying that we're going to rock along with...

Mr. Moore: It's the only reason we have a chance, he wants to consider it.

Mrs. Kahliff: Because he's something else.

Mr. Moore: Thibaut, I think he's right. I need to report...

Mr. Houston: He's said very plainly that he's not going to rock along.

Mr. Moore: I need to report one additional thing. I discussed in depth how much we have to cover out of this year's loan authority and it really would be the amount in the '81 deliveries and the 2 other narrow-bodies.

Mrs. Kahliff: 4 '81s plus 6...

Mr. Moore: We might have to cover... No, just '81 deliveries... this year and all of the balance they'll ride PCs in the subsequent

years and like year's program. So that in the terms of saving budget it is this year's budget that since the joint conference committee yesterday approved our budget at the 5 billion dollar level which is substantially the Administration request, coupled with the ability to defer this down the next 4 years of our budget. I think that all things considered we ought to support the other 100 million also in this one. I know it's a close and a difficult decision.

Mr. de St. Phalle: Murdoch is one of the brightest men that I have ever run across. He is perfectly well aware of the fact that he is not in good shape to be asked to repay 40% in DM's equally aware of the fact that he thinks as most Australians do, and he is probably right, that the Australian dollar is going to increase in value but he's got a much better deal if he's paying a 100% back in dollars than if he's paying 60% back in so called weak currencies and 40% back in D marks, and he is perfectly well aware that he is capable of making that distinction. So I think we...

Mr. Moore: Very bright man and I am persuaded otherwise in the way you've done this.

Mr. de St. Phalle: I think that the deal we are offering at 8% versus the combination at 8% is a good competitive transaction. And I am really having a lot of trouble over these additional 13 planes because I think they are going to have to buy other Boeing aircraft

anyway and we're giving them a good package. If you want to raise the package somewhat on the smaller planes, make it a little more attractive I would go along with that, but I really don't see why we have to do the 13 737s and 727s at 8%...

Mrs. Kahliff: Did they ask for 25 versus 12? Or does anybody know?

Mr. Moore: Yes, they presented us this entire package.

Mr. Peacock: Yes.

Mr. de St. Phalle: Murdoch is a really shrewd negotiator and I don't blame him for doing that but I think that we ought to exercise control...

Mr. Heidrich: Mr. Chairman, could I make a comment on the interest rate question. I am somewhat disturbed at this 8% because the financial people that we met with - we talked about our scales depending on the deliveries here of somewhere between 8-1/2 and 8-3/4 and they thought that was a very reasonable interest rate in U.S. dollars. In addition, the market in Australia had one of the top rated companies come to the market with a ten year bond and it went out at 12%. So that's the prevailing scene in Australia. I think that I would agree with your comment or Murdoch's comment that maybe the Australian dollar will harden vis a vis ours and be a strong currency - they're enjoying rather a big boom over there now but it still seems to me that if it strengthens against the Deutche mark or keeps pace with it, it's a relative situation between what the Deutche mark and the dollar, U.S. dollar are going to do, not what the Australian dollar is going to do.

Mr. Moore: No, we have no way of knowing the answer to that.

Mr. Heidrich: And I feel that we're mixing apples and oranges to come up with 7.95 and the French franc at 8-3/4 and there is 9-1/4 dollar component here. If we went in at a median point at 8 and 5/8 let's say, that's a very good package.

Mr. Moore: A good package, I think they will turn it down.

Mr. Heidrich: I don't think they will.

Mr. Moore: I would rather go at 8 and back off on some cover along

Thibaut's line, from what I've heard. Now of course backing off cover at the present time is going to run the rate through the ceiling on those narrow-bodied planes.

Mr. Sauer: Isn't the alternative to keep the cover, whatever you figure, but not to do the 13 at 8. That's the point I was making. I think... touched at all on what Mr. Houston said that 100 million dollars all right but the issue might be what rate you are going to charge on that 100 million plus. That is what rate you going to charge on the 13. The 8% is done for the competitive reason, but I thought Mr. de St. Phalle's question embraced the question what rate you are going to charge on the additional 13. Not only whether you put up the money but what rate you are going to charge. This as I understood the presentation was 8% for both the 13 and the 12 but isn't the question on the table as to whether you can split the two and charge a higher rate on the 13.

Mr. Peacock: I need to ask a question and maybe I'll just demonstrate my ignorance, but I thought the 727s were competitive with the Airbus as well as the 767s. So the question is, why won't the 4 727s with the 9 737s which seems to be the trend.

Mr. de St. Phalle: No. What I was thinking about was to do the 42 and 1/2 percent on the 727s as is our policy and do 30% on the 737s.

Mr. Moore: That backs 100 million dollars down on the cover.

Mr. de St. Phalle: That's backs a 100 million dollars down. At this point which is on the noncompetitive airplanes should we consider charging what Airbus would have charged if it was a dollar transaction, i.e. 9-1/2%. Well, I think I would rather do it the other way.

Mr. Sauer: Well, I wasn't going that high, I was thinking more of George's (Heidrich) suggestion about scale of 8-5/8.

Mr. Moore: The scale on the deliveries of the narrow-bodied's are 8-3/8 and 8-1/2.

Mrs. Kahliff: Now, this offer that John (Duff) knows about or has found out about is on all 25 aircraft?

Mr. Duff: No, ma'am.

Mr. Moore: It's the 12. The 12 Airbus. We've got to clarify that. Let's assume for the moment that it is 12 Airbus.

Mr. Peacock: I think it's 4.

Mr. Moore: I know it's 4 but I think they've got options on same... of our conversation. I think we would find that very rapidly confirmed.

Mr. Sauer: I wasn't suggesting anthing like 9 plus, Thibaut, it was more scale rather than 8.

Mr. Heidrich: Mr. Chairman, another point I should make, is that when we, this thing is really tied in with the Treasury and the whole presentation, I think, that we got into over there and we laid out our scale rates, talked to Bert Craft, the loan counsel people and they went into the aircraft financing thing. And it seems to me if we committed at 8 the Duetche mark deal and they'll come back and say, well the next electricity deal, or the locomotives they are talking about buying in New South Wales or what have you. It may mean matching the Japanese deal at 7-1/2 and they'll expect that. And it seems to me there is a distinction between currencies and the rates here that one can get in the various currencies.

Mr. Moore: This is a case I think we need to make an all out effort and I think we need to do it on the cover. Now if there's one other aspect to the Airbus offer, there is a commitment fee of a 1/2 a point which is substantially equivalent to what our practice is on top of that there is a one time half a point for putting a commission or whatever it's called, so that if we went at 8 we are ignoring as to the respect of the 5 basis points, a one time 50 basis points. I just don't know what it equates to.

Mr. Peacock: I've done that, sir.

Mr. Moore: What is it?

Mr. Peacock: Page 2, that's how you get from 7.95 to 7.99. You see I've taken off the management fee.

Mr. Moore: So, 8 comes very close within one basis point...

Mr. Peacock: That's why we took in...

Mr. Moore: Then the commitment fees...

Mr. Peacock: And the commitment fees that are on top are a wash between both offers.

Mr. de St. Phalle: I really think, John, that Peacock has done a very good job here. As far as the 12 versus the 12 this is a very good, fair deal and I am sure that if you calculate the Duetche mark participation as he said it, Murdoch is perfectly capable of realizing that our offer is a better one than...

Mr. Moore: What offer?

Mrs. Kahliff: Twelve to twelve.

Mr. de St. Phalle: 12 planes at 8%. I think that is a solid offer and I think that we ought to get it. So really the only question is what do we do about the other 13?

Mr. Moore: Then you're hitting him with having a 100 million dollars to cover at the time when the rates in the private market are 17% this year.

Mr. de St. Phalle: He's going to have a problem in buying additional planes anyway. If you want to sweeten it, I will go

along with that to say that we will go beyond our cover that we would normally apply for the 13 planes if you buy - accepts our offer for the 12. So, we would cover let's say in the case of the 737s, instead of 30%, 40%, instead of 42.5, 50. That's to sweeten the pot to make a tie - in sale...

Mr. Moore: I would certainly think that everything, anything we do on 737s and 727s has to be tied to buying the 767s.

Mr. de St. Phalle: So, I would present it that way.

Mr. Moore: So, you would come up another 10 million dollars out of a 100?

Mr. de St. Phalle: But I hate to go beyond that. I really don't want to...

Mr. Moore: All right. I've simply got to leave, so I can't argue with you any longer. Let's write it up that way, at 8% on that amount of cover and try to explain it that way and send it, this is for referral to the NAC. And I'm trying to make appointments to see Bergsten and Henry Wallich because I'm sure that they will come back screaming and hollering for 10% interest and I have got to let them understand the background.

Mr. Peacock: All right now, the 4 Boeing 727s are going to be a 50% loan at what interest rate?

Mr.....: At scale.

Mr. Peacock: All right. It's all 1981, so we can do 8-3/8 scale. All right. And the 9 Boeing 737s are to be...

Mr. Moore: 40%, that's at whatever their scale is, 8-3/8 or 8-1/2.

Mr. Peacock: That's scale.

Mr. Moore: Did you say 50% cover on the 727s?

Mr. Peacock: That's what I heard.

Mr. de St. Phalle: 50% on the 727s...

Mrs. Kahliff: If they buy the planes.

Mr. Moore: Oh, yes, all of it's tied together.

Mr. Peacock: And this is all or nothing?

Mr. Moore: Yes, plus we need to firm up, as soon as we can, that they do have an offer on the same financing terms for 8 Airbus on option. I think they do, but we need to know that and we just need to call. The simplest thing may be to call those others, perhaps there may be somebody in the New York office who can tell us today. All right, are we in agreement on that, to send it to the NAC?

Mrs. Kahliff: Yes.

Mr. de St. Phalle: Yes.

Transcript of Minutes from Tapes

Item No. 16 in February 28, 1980 Agenda

AUSTRALIA - (PC No. 80-0-4738) - ANSETT -

Mr. Moore: We will take up Item No. 17 next, excuse me, it's Item No. 16, in case Mr. de Saint Phalle has to leave at 12 o'clock.

David Peacock: Mr. Chairman - you asked us to determine whether the Airbus offer covered four or 12 aircraft because there was a discrepancy. I am satisfied from three sources that the Airbus offer covers only four. John Duff has checked [illegible] and they say four.

I got a call yesterday afteroon at 4:40 p.m. from Mr. Kummerfeld of Murdoch's group and Mr. Murdoch was in the room. They said they have only a commitment on the first four A300's for delivery by mid-1983, and Mr. Murdoch, however, feels confident that they would get the same financing on further orders of A310's.

Mr. Moore: We also have a telex that came in just before the Board meeting from Boeing which confirms the same thing and takes that comment and extends it, saying that he is sure that before we get through with the final purchase that Ansett will require that we agree to match the same terms. In any event we have more time in the future to see if we can arrive at a deal on the subsequent aircraft with Airbus. We are going to be in an interesting position if we should win this business for U.S., which is somewhat unlikely I think, that we'll have to watch two cases that no longer can be competitive because they've already selected the aircraft, but you've the delicate situation of the relations between two airlines that have to have exactly the same financing. It's going to be an interesting situation.

Mr. Peacock: We did not get any information about what TAA got other than that they think it's four or five.

Mr. Moore: Mr. Duff, I think I was under the impression that it was exactly the same, four firm -- eight on best terms available at the time orally stated.

Mr. Duff: Right.

Mr. Moore: Mr. Hamilton do you have a report for us.

Mr. Hamilton: The NAC has reviewed this on the presumption that we are talking about 12 767's and has no objection.

Mr. Moore: Mr. Lang -

Mr. Lang: Mr. Chairman, a correction on that, our presumption was four.

Mr. Moore: Because I had come over and I got the call the minute before I went in to have the meeting with them. I'm sorry.

Mr. Lang: The second comment we'd like to make is certainly yield to the Board's better judgment on this comparative question of the interest rate, but just wanted to reiterate that we would have hoped that matching the dollar rate at 9.25% would be certainly acceptable to all logical and reasoned human beings, but we hear what you're saying-- that the decision maker in this case is playing Mexican standoff with us and wants an 8% rate. We can't, obviously, not being participants in those conversations, we can't and don't feel it appropriate to even try and second guess you on this.

Mr. Stingel: Mr. Chairman - on the interest rate figure. I have seen some figures that show that every 1/4 of 1% is worth $6.6 million of subsidy on this thing. I was wondering if there is any way we can get this even up to 8-1/4% for the 12 aircraft.

Mr. Moore: Let me make a comment right here which indirectly addresses both, if you look at the cover page of what's in front of you, our financed portion if we had done 12, which was written up two days ago, on the 767's would be $481 million, and the combination of $34 and $54 or $88 - $89 million for the narrow bodies.

Mr. Peacock: Mr. Chairman.

Mr. Moore: Let me just follow through my thought, you can correct figures later if I'm wrong. On that basis, if you looked at it from Ansett's point of view looking for 85% cover on all planes discussed, the combined blended rate was about 9% to 9-1/4% depending on how much you assumed from private markets and, excuse me, how much the interest rate would be during this period. When you shrink this package to $124 million for 767's plus $88 milion at the higher rates, I'm sure that the blended costs of the whole package if you're looking at 85% of the whole thing is probably 10%, so that in that sense, how true the nose-to-nose rate we're suggesting is 8%. In that sense, we're not going all the way down.

Mr. Peacock: Mr. Chairman - I've had a chance to do a little arithmetic here and the total U.S. goods and services here are $772.7 million, the total loans before you are $570.9 million, which is 73.9% of the package. The guarantee is $27 million, which is 3.6% of the package , and the private loans are $58.5 million, which is 7.6%. I have done the proper computer run on the two - on the 727's, and the blended rate assuming LIBOR at 14 is 9.86%, assuming the present what I hope abberation of 17 is 10.57%. I have the other rates if you care to have them. On the 737's the blended rate assuming LIBOR at 14 is 10.5% and the blended rate at 17 is 10.91% and, or course, the 767's go at about 8.2%.

Mr. de Saint Phalle: Mr. Chairman.

Mr. Moore: yes Mr. de Saint Phalle.

Mr. de Saint Phalle: I have a feeling that this case is getting more confusing rather than less so, unless we presented it in two separate packages, and I would like to suggest that we have package A on the 767's and on that I would propose that we have four at 8% - the other eight at let's say 9-1/2% or 9-1/4% with a proviso that if the French come back and offer a 12 Airbus package we willmatch or reduce our rate to whatever their rate is for the other eight. And then, with the other 727's and 737's we offer our standard package with a proviso that if all of the planes are purchased, then we will on give the 727's and 737's this more favorable participation in terms of direct credit financing from Eximbank.

Mr. Moore: Well, let me take your idea and express it the way I see it, which is essentially the same, but may be a little more precise. I would propose (1) Preliminary Commitment which covers only 727's and 737's on our standard basis offering terms, (2) a second Preliminary Commitment that takes the entire package, but limits it to four 767's and express exactly what we decide today, and (3) a third document which would be a letter of interest covering eight 767's which is conditioned on exercise of the second document and states that we will give our best financing offer, but in any event will match any foreign offer. And just leave it that vaguely, it seems to me that we accomplish the same thing.

Mr. Stingel: John, one more thing, maybe I didn't catch, if they then buy all of them, then this package will apply to the 727's and 737's as well -- is what I thought I heard.

Mr. Moore: They would then take Preliminary Commitment No. 2 and the Letter of Interest, and discard Preliminary Commitment No. 1.

Mrs. Kahliff: Where do the hangars come in to this?

Mr. Stingel: They are not in here.

Mrs. Kahliff: They are not in here. O.K. good.

Mr. Heidrich: Mr. Chairman, may I make a comment. Ken Telesca just got back and we went back and referred to the notes of the meeting that we had back in Melbourne on February 15. They told us, and this was on a confidential basis, because they knew Murdock was in Seattle and negotiating with Boeing as to what they might come up with, and the 737's and the 727's number are exactly what we have here. On the 767's they came up with five, the rationale being that they need five airplanes of 767 size to have the same capacity as four Airbuses. Namely that the Airbus has 250 seats and 767's had 200 seats, roughly. And so they were thinking about five and they realized that they would have one additional 767 to use as a swing plane and increase the frequencies.

Mr. Moore: Therefore, let us on Preliminary Commitment No. 2 write it up for four planes, but say you may add to this package on the same terms any additional 767's which you order firmly and not on option. Wouldn't that handle that.

Mr. Heidrich: I suppose it would, because I think that they in order to have the same number of seats and then in view of the parallel policy, they would anticipate buying five airplanes.

Mr. Moore: You wanted to make another comment.

Mr. Heidrich: The comment that I would like to make is,t I know the interest rate thing has been kicked around, but the same financial officers we were talking to, we discussed 8-1/2 and 8-3/4 on our package not knowing what the terms are going to be because they were rather vague. It seems to me that the fellow that talks about an 8% dollar rate is either financially naive or thinks we are.

Mr. Moore: The latter.

Mr. Heidrich: If he wants the 8%, I don't see why we wouldn't denominate the thing in deutch marks.

Mr. Moore: I don't care for that risk, thank you.

Mr. Heidrich: (continued) and offer 8-3/4% on U.S. dollars and see which one he takes.

Mr. Moore: I am not about to enter into a subsidized rate on deutch marks. That's double murder for us, I think.

Mr. de Saint Phalle: If we do what you are now suggesting, they'll come back and will take both packages and they'll get all or the 767's at 8%, even though the Airbus hasn't offered anything probably at this ruling.

Mr. Moore: We're not offering anything additional. Oh you mean they will make a firm order for all of them.

Mr. Stingel: I would rather

Mr. Moore: Let's only refer to a fifth plane then, sorry.

Mr. de Saint Phalle: Fifth plane, otherwise it's not.

Mrs. Kahliff: Yes I think so too, cause they'll do it, and you'll be sitting there with it.

Mr. Moore: Yes that would count, would'nt it.

Mr. Stingel: I would also like to suggest that the payments begin after delivery, six months after delivery of each airplane, rather than these rather confusing schedules outlined in here since we have so many combinations and I find out from John McDonnell that it wouldn't cause any problems in keeping the records.

Mr. Moore: It saves us a little money, doesn't it.

Mr. Stingel: It saves us a little money too.

Mr. Moore: And it is exactly comparable to the Airbus also. So we thought even though it looks a little more complicated the way you set it up, it will save us money and they can't possibly object.

Mr. Peacock: I have no interest in Mr. McDonnell's area, I've had to break these into year's categories in order to do things like figuring scale rates for the presentation.

Mr. Moore: And when we would authorize the final credits and things like that, I presume.

Mr. Peacock: Yes that's right.

Mr. Moore: Are we all in favor now.

Yes Yes Yes

Mr. Moore: Item No. 16 is approved on that basis.

Mr. Peacock: Can I review what I think I heard, sir?

Mr. Moore: No.

February 20, 1980

PRELIMINARY COMMITMENT MEMORANDUM TO THE BOARD OF DIRECTORS

Asia Division: P.C. No. 80-0-4738

Country: Australia

Applicant: The Boeing Company

Borrower: Ansett Transport Industries (Operations) Proprietary Limited (Ansett)

Guarantor: Government of Australia (GOA)

Products: 12 Boeing 767 aircraft, 2 for delivery in 1982, 4 in 1983, 4 in 1984 and 2 in 1985; 4 Boeing 727-200 aircraft for delivery in 1981; 9 Boeing 737-200 aircraft, 7 for delivery in 1981, 2 in 1982. (Please see Appendix B).

Requested Financing Plan: Total Cost of U.S. Goods and Services: $772,770,000

To be financed as follows: 15% Cash Payment $115,915,500
85% Exim Loan @ 8.0% 656,854,500

			Total Term In Years	Scale Rate
1981 deliveries	$176.2 million	(21.2%)	10.8	8-3/8%
1982 "	125.2 "	(16.2%)	11.8	8-1/2%
1983 "	188.6 "	(25.0%)	12.8	8-5/8%
1984 "	188.6 "	(25.0%)	13.8	8-3/4%
1985 "	94.3 "	(12.6%)	14.8	8-3/4%

Commitment Fee: 0.5% P.C. Expiry Date: December 31, 1980

Repayment: 20 semiannual installments in 5 schedules, one for each year's deliveries beginning 6 months from midpoint of deliveries in each year but not later than December 31 for each of the 5 years.

Summary: Boeing met with Chairman Moore and members of the staff on February 19, 1980 and informed us for the first time that Ansett was in the final stages of a major decision between 2 fleet alternatives; purchase of the above Boeing aircraft, or purchase of 12 Airbus A300B4 aircraft with alleged very favorable financing. Eximbank is asked to provide financing as outlined above to match the alleged Airbus financing which is said to be a critical element of the decision.

Summary:
(con't)

Reasonable assurance of repayment is provided through Ansett's profitable operations, Eximbank's good experience with Ansett on existing credits, and the guarantee of the Government of Australia.

Human rights and political and economic conditions in Australia do not pose obstacles to the proposed transaction. Eximbank's exposure in Australia as of January 31, 1980 was $236.1 million.

Recommendation: Request for Board guidance.

Board Action:

Foreign Competition:

Ansett has provided us with a copy of the Airbus offer of financing. (Please see Appendix C.) It provides for a 15% cash payment with 85% direct loans to be disbursed and repaid over 10 years pari passu as follows:

40% in French francs	@ 8.75%
40% in DM	@ 6.50%
20% in U.S. $	@ 9.25%

There is to be a management fee with the amount to be paid by the borrower not to exceed 0.5% "flat" which we assume to mean "one time - front end". Any excess will be absorbed by Airbus.

There is to be a commitment fee of 0.5% on undisbursed funds, the same as ours.

Ansett alleges an oral offer from Airbus to lengthen the repayment to 12 years if necessary. (Please see Appendix D.)

Ignoring the commitment fee which is the same in both cases, the blended rate of the Airbus financing is therefore as follows:

	40	X 8.75%	= 3.50
	40	X 6.50%	= 2.60
	20	X 9.25%	= 1.85
	100		7.95
Minus	0.5%	mgt. fee	
	99.5	÷	7.95 = 7.99% blended rate

A large, though intangible, element in comparability is the relative exchange rates of the various currencies over the life of the loans. We have been requested to match the Airbus financing without considering this intangible element and have therefore presented 8.0% as the requested Eximbank interest rate.

Economic Impact:

The proposed export sale of $772.8 million will have a favorable effect on the U.S. economy. It will help Boeing Company and its subcontractors maintain operations and employment and will result in later purchases of spare parts and probably more aircraft. No unfavorable effects on the U.S. economy or U.S. airlines are seen.

GS 701-0 -80 -17

Financial Evaluation:

Ansett is a wholly owned subsidiary of Ansett Transport Industries, Ltd. (ATI), a privately owned company incorporated in 1937 and engaged in a wide variety of activities including airline operations, bus service, flight operations, hotel and tourist resorts, manufacturing and television.

Ansett grew by acquiring smaller airlines in Australia and the surrounding islands during the late 1950's and 1960's. In 1957 Ansett acquired Australian National Airways (ANA) which was the first large domestic airline in Australia. In order to prevent ANA from monopolizing the market, the Government of Australia (GOA) established Trans Australia Airlines (TAA) in 1946 to compete with ANA. The competition hurt ANA, and in 1952, in order to save ANA, the GOA gave ANA the same benefits as TAA - carrying mail, usage by government employees and GOA guarantees of commercial loans. These measures were not sufficient to help ANA, and with some political pressure, its management decided to sell the airline to Ansett which had grown during this period by undercutting the fares of both ANA and TAA. Today, Ansett and TAA compete for the domestic market and the GOA stands ready to guarantee the loans of both companies.

In early 1979, the parent company, ATI, suffered a significant extraordinary loss through the writeoff of its investment in an Australian finance company which it had acquired 18 months previously. This did not affect the airline or any of the other operations of the parent. However, following the substantial decline in the stock market price of its shares as a result of the announcement of this extraordinary loss, a long drawn out takeover battle developed for the company which finally resulted in the joint acquisition of the company by two independent Australian groups: The News Corporation, Ltd., a communications company headed by Mr. Rupert Murdoch, which also has substantial interests in the U.S. (New York Post/New York Magazine, both San Antonio' daily newspapers, etc.) and Thomas Nationwide Transport, Ltd., headed by Sir Peter Abeles, a multi-national transport group which also has interests in the U.S. and Canada (Trans-Freight Lines, Inc., a trans-Atlantic container shipping company, etc.). The final steps in these transactions are in the process of being completed at the present time. As a result, Mr. Murdoch and Sir Peter Abeles were appointed joint Managing Directors of ATI in December, 1979. Each Australian group will own 50% of ATI.

Financial Evaluation: (con't)

The latest financial statements available are the audited financial statements for the fiscal year ending 7/1/78 and unaudited statements for the 6 months ending 12/31/78. Statements for the fiscal year ending 7/1/79 were requested on 1/28/80.

Financial Condition

As of December 31, 1978, Ansett had total assets of $340.4 million, total liabilities of $280.6 million, and net worth of $59.8 million. The current ratio was 0.89:1, the total liabilities/net worth relationship was 82/18, and contingent liabilities amounted to $47.8 million. For the six months ending 12/30/78, Ansett grossed $296.9 million in revenues and earned $7.1 million after taxes. Cash flow for six months was $18.3 million and the debt service coverage was 1.57x. (See Appendix A, page 1.)

Eximbank Experience

Eximbank experience with Ansett goes back a number of years and has been satisfactory. As of December 31, 1979 Eximbank exposure ($000) was as follows:

Credit/Gtee.	Authorized	Repaid	Exposure	Maturity
3534	14,925	2,929	11,995	5-15-84
4832	677	542	135	2-10-80
5444	6,200	-0-	6,200	5-10-85
FG-5445	2,067	-0-	2,067	5-01-81
6525	4,500	-0-	4,500	12-04-87
6594	10,386	-0-	10,386	9-08-88
6662	12,090	-0-	12,090	11-05-89
Supplier Credits	8,978	7,015	1,963	various
Totals	59,823	10,486	49,336	

Status of Payments

Ansett is current on all payments.

Conclusion

Ansett appears undercapitalized and somewhat illiquid, however, its highly leveraged financial structure and rather tight working capital position have not affected the airline's continued capability of meeting its obligations to Eximbank under existing credits. Operations are profitable.

The financial condition of Ansett, strengthened by the guarantee of the Government of Australia, provides a reasonable assurance of repayment.

Engineering Evaluation:

Ansett Airlines of Australia (Ansett) is considering the purchase of twelve (12) 767's, four (4) 727's and nine (9) 737's. The 767 aircraft are scheduled for delivery (2) in November 1982, (2) in January 1983, (2) fourth quarter 1983, and one each quarter thereafter. The 727 aircraft are scheduled for delivery one each in June, July, August and September 1981. The 737 aircraft are scheduled for delivery (7) during 1981 and (2) during 1982. Total costs of the transaction are placed at $832,100,000 with eligible Exim costs of $772,770,000 as identified below:

Item	Cost	%
(12) 767's ($44,947/aircraft)	$539,370,000 *	86.2
(6) spare engines & QEC kits	21,400,000	3.4
Airframe & engine spare parts	46,010,000	7.4
Ground support equipt.	13,380,000	2.1
Flight crew training	5,620,000	0.9
Subtotal	$625,780,000	100
(4) Advanced 727-200's ($16,049/aircraft)	$64,195,000	92.9
(2) Spare engines & QEC kits	2,745,000	4.0
Airframe & engine spare parts	2,160,000	3.1
Subtotal	$69,100,000	100
(9) Advanced 737-200 aircraft ($12,730/aircraft)	$114,570,000	83.3
(5) Spare engines & QEC kits	7,185,000	5.2
Airframe and engine spare parts	10,450,000	7.6
Ground support equipt.	515,000	0.4
Flight crew training	4,500,000	3.5
Subtotal	$137,220,000	100
Total Boeing Equipment Package	$832,100,000	
* Less non U.S. costs	-$59,330,000	
U.S. Costs	$772,770,000	

(The non- U.S. costs are estimated by Exim based upon a previous 767 transaction.)

Spares and support purchases total $113,965,000 or 13.7% of the transaction cost (15.9% of the aircraft cost). Costs appear reasonable and there exists no technical objection to this transaction.

Environmental Consideration: The transaction does not involve a specific physical project and thus, would not be subject to Eximbank's environmental procedures. Moreover, all new aircraft manufactured in the United States are subject to Federal Aviation Authority Environmental standards, and before an aircraft can be exported, an FAA Airworthiness Export Certificate must be obtained which contains environmental requirements.

Country Summary: Momentum picked up in the basically strong Australian economy during Fiscal Year 1979 (July 1 - June 30), after a period of relatively poor performance. The Government's austerity program produced a real economic growth rate of 4.2 percent, an inflation rate of 8 percent (down from a high of 14 percent) an unemployment rate of 6 percent, and a modest balance of payment surplus of $148 million for the year. International reserves currently total $5.1 billion, increased partially by the soaring price of gold, and represent about four months of imports. However, in recent months, the problems of inflation and unemployment are threatening to reemerge, and further restrictive policies have been implemented this current fiscal year to check this reversal in trend which may reduce the rate of real economic growth to 2.5 percent.

Australia has borrowed heavily during the past few years to finance balance of payments deficits. Nevertheless, relative to the nation's GNP of $104 billion, the total amount of external public debt is moderate at $5.5 billion, and the debt service ratio of about 5 percent is well within the country's capacity to service. Confidence in the country remains high, buoyed by the recent economic gains and the country's minerals and energy development prospects, especially in the aluminum smelting, coal, and natural gas areas, augur well for the economy. In spite of present economic concerns and the relative uncompetitiveness of much of the country's industrial sector the outlook for the economy is favorable. Approval of this transaction is accordingly recommended. Human rights conditions pose no difficulty to this transaction going forward. Relative to the strength of the Australian economy, Eximbank is underexposed in this market.

Eximbank Exposure: Eximbank exposure as of January 31, 1980 is:

	(Millions)
Short-term FCIA insurance	$59.9
Medium-term FCIA insurance and bank guarantees	19.0
Long-term loans and financial guarantees	157.1
CFF and Relending Loans	.1
TOTAL	$236.1

State Department Comments: No objections on political or human rights grounds.

Conclusion: Eximbank is here requested to match or better Airbus competition on a major sale by Boeing without considering the effects of foreign exchange fluctuations over the life of the loan. The competition has not been confirmed through OECD channels due to lack of time but seems established by copy of the Airbus offer. Ansett, backed by the guarantee of the Government of Australia, provides reasonable assurance of repayment.

An Eximbank offer of financing following our aircraft policy is clearly uncompetitive. The Board is presented with a financing package matching the Airbus offer, not considering exchange rate fluctuations, as requested by Boeing.

Recommendation: Board guidance is requested.

Loan Officer: David W.K. Peacock, Jr.
Engineer : Robert Hughes
Economist : Howard S. Turk
Counsel : Robert J. McKinsey

Concur:

Charles E. Houston
Vice President - Asia Division

Date Logged In : 2/20/80
Review Required: NAC
Energy Related : No
Project Code : 713
Program Code : A $656,854,500
Supplier : The Boeing Company, Seattle, Washington

ANSETT AIRLINES

	($ Millions)				Deliveries				
	Purchase Price	"Policy" Loan	G'tee	Request(85%)	(Number of Aircraft - % of Purchase Price)				
					1981	1982	1983	1984	1985
12 Boeing 767's (competitive with Airbus)	566.450	361.112 (63.75%)	-----	481.483		(2) 16.7%	(4) 33.3%	(4) 33.3%	(2) 16.7%
4 Boeing 727-200's (competitive with Airbus)	69.100	44.051 (63.75%)	-----	58.735	(4) 100%				
9 Boeing 737-200's (short range - not competitive)	137.220	41.166	41.166	116.637	(7) 77.8%	(2) 22.2%			
	772.770	446.329	41.166	656.855					
Requested loan funds less "policy" loan funds				210.526					

	Estimated $ Value of Purchases				
	1981	1982	1983	1984	1985
12 Boeing 767's	- 0 -	94.597	188.628	188.628	94.597
4 Boeing 727-200's	69.100				
9 Boeing 737-200's	106.757	30.463			
	176.192	125.189	188.556	188.556	94.277
% of Total Purchase	22.8%	16.2%	24.4%	24.4%	12.2%

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AIRBUS PARIS

FROM : AIRBUS INDUSTRIE PARIS - P TAMBOSI

TO : MR MURDOCH
JOINT CHIEF EXECUTIVE
ANSETT TRANSPORT INDUSTRIES LTD
C/O NEWS INTERNATIONAL
LONDON

CC : SIR PETER ABELES
JOINT CHIEF EXECUTIVE
ANSETT TRANSPORT INDUSTRIES LTD
MELBOURNE

AI/C MR WARDE
AI/C/C MR MARTINEZ
AI/C/S MR TANSLEY

AI/C/F NO 5015 PT/FP PARIS FEBRUARY 11 1980

RE : SALES FINANCING FOR ANSETT

REFERRING TO OUR DISCUSSION IN TOULOUSE ON FEBRUARY 8TH, PLEASE FIND IN THE FOLLOWING THE MODIFIED VERSION OF OUR SALES FINANCING PROPOSAL :

QUOTE

1- SUBJECT TO THE APPROVAL OF AIRBUS INDUSTRIE'S COMPETENT AUTHORITIES, THE FOLLOWING FINANCING CONDITIONS AND TERMS COULD BE OFFERED TO ANSETT FOR THE PURCHASE OF FOUR (4) A300 TO BE DELIVERED BEFORE MID 1983.

1.1 PURPOSE AND AMOUNT

THE LOANS WILL FINANCE EIGHTY FIVE (85) PERCENT MAXIMUM OF THE DELIVERY PRICE OF EACH FIRMLY ORDERED AIRCRAFT

1.2 CURRENCIES

THE LOANS SHALL BE MADE AVAILABLE IN THE FOLLOWING CURRENCIES :

- FORTY (40) PERCENT SHALL BE DENOMINATED IN FRENCH FRANCS (''FF LOAN'')
- FORTY (40) PERCENT SHALL BE DENOMINATED IN DEUTSCHE MARK (''DM LOAN'')
- TWENTY (20) PERCENT SHALL BE DENOMINATED IN US DOLLARS (''UK LOAN'')

THE LOANS SHALL BE MADE AVAILABLE ON A PARIPASSU BASIS AND BE REPAID ACCORDING TO THE SAME SCHEDULE IN THEIR RESPECTIVE CURRENCY.

A) THE DRAWDOWNS SHALL BE EFFECTED UPON DELIVERY OF EACH AIRCRAFT AND SHALL NOT EXCEED EIGHTY FIVE (85) PERCENT OF THEIR PRICE

B) SHOULD THE BUYER DECIDE TO TAKE ADVANTAGE OF THE PRESENT FINANCING, THE SELLER WILL AGREE TO RECIEVE THE PAYMENT OF THE PORTION OF THE AIRCRAFT PRICE FINANCED UNDER THE LOANS IN THE CURRENCY OF SAID LOANS, SUCH PAYMENTS BEING EFFECTED ON THE BASIS OF THE RATE OF EXCHANGE OF THESE CURRENCIES WITH THE US DOLLAR WHICH SHALL BE QUOTED IN THE PARIS EXCHANGE MARKET FOR THE FRENCH FRANC AND IN THE FRANKFURT EXCHANGE MARKET FOR THE DEUTSCHE MARK LOAN ON THE LAST BUSINESS DAY BEFORE DELIVERY OF THE RELATED AIRCRAFT

1.4 DURATION AND REPAYMENT

THE LOANS WILL BE GRANTED FOR A PERIOD OF TEN (10) YEARS. EACH DRAWDOWN SHALL BE REPAID IN TWENTY (20) EQUAL CONSECUTIVE SEMI-ANNUAL INSTALMENTS OF PRINCIPAL THE FIRST ONE BEING DUE SIX (6) MONTHS AFTER DELIVERY OF THE RELATED AIRCRAFT.

1.5 INTEREST

A) INTEREST SHALL BE PAYABLE SEMI-ANNUALLY IN ARREARS TOGETHER WITH THE INSTALMENTS OF PRINCIPAL

B) THE ANNUAL INTEREST RATES SHALL BE CALCULATED ON THE BASIS OF THE FOLLOWING NOMINAL RATES :

FF	8.75 @
DM	6.50 @
DOLLAR	9.25 @

THE PAYMENT OF ALL SUMS DUE BY ANSETT UNDER THE LOANS SHALL BE SECURED BY AN UNCONDITIONAL GUARANTEE OF THE GOVERNMENT OF AUSTRALIA

1.7 FEES

THE BUYER SHALL NEGOTIATE DIRECTLY WITH THE BANKS THE USUAL BANKING FEES CUSTOMARY IN SUCH TRANSACTION.

NEVERTHELESS, THE SELLER SHALL SEE TO IT THAT THE MANAGEMENT FEE PAYABLE UPON EXECUTION OF THE LOAN AGREEMENT WILL NOT EXCEDD 0.50@ FLAT OF THE AMOUNT OF FINANCING COMMITTED AND THAT THE COMMITMENT FEE WILL NOT EXCEED 0.5 @ P.A. PAYABLE SEMI-ANNUALLY IN ADVANCE OF THE UNUSED PORTION OF THE LOANS

1.8 MISCELLANEOUS

THE COST OF LEGAL AND OUT OF POCKET EXPENSES IF ANY, SHALL BE BORNE BY ANSETT. ALL CORPORATE AND GOVERNMENTAL APPROVALS NECESSARY PRIOR THE PERFORMANCE OF ANSETT'S OBLIGATIONS UNDER THESE LOANS, SHALL BE OBTAINED SO THAT THE PAYMENT OF ALL AMOUNTS DUE TO THE LENDERS CAN BE EFFECTED WITHOUT DELAY AND DEDUCTION OF ANY EXISTING OR FUTURE WITHHOLDING TAXES, CHARGES, LEVIES OR OTHER DUTIES WHATSOEVER INCLUDING INCOME TAX : IF, HOWEVER, ANY SUCH DEDUCTION HAS TO BE MADE, ANSETT SHALL REIMBURSE OR COMPENSATE THE LENDERS AND GET ALL NECESSARY APPROVALS FOR THIS PURPOSE SO THAT THE LENDERS DO NOT SUFFER IN ANY WAY THE IMPOSITION OF SUCH TAXES CHARGES, DUTIES , LEVIES

SHOULD ANSETT DECIDE TO TAKE ADVANTAGE OF THIS FINANCING, THEY WILL HAVE TO INFORM AIRBUS INDUSTRIE WITHIN TWO (2) MONTHS FROM SIGNATURE.. OOOOOOOOOSSSFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFF OF THE PURCHASE AGREEMENT, AFTER WHICH DATE AIRBUS INDUSTRIE WILL NOT ANY LONGER BE COMMITTED WITH REGARD TO THIS FINANCING.

THE BANKS SHALL THEN SUBMIT TO ANSETT A DRAFT OF A CREDIT AGREEMENT TO BE SIGNED WITH THEM, NOT LATER THAN OCTOBER 31, 1980. AIRBUS INDUSTRIE WILL ASSIST, IF NEED BE, ANSETT AND THE BANKS DURING THE ESTABLISHMENT OF THE CREDIT AGREEMENT.

UNQUOTE

WE ARE STILL WORKING ON THE DM QUESTION AND WILL SEND YOU A TX ON THIS SUBJECT BY WEDNESDAY NOON.

BEST PERSONAL REGARDS

P TAMBOS
22897 NEWSUN G
AIRBUS PARIS

ANSETT TRANSPORT INDUSTRIES LIMITED
(Incorporated in Victoria)

REGISTERED OFFICE: 489 SWANSTON STREET, MELBOURNE, AUSTRALIA
Telephone 345 3144 Telex AA30085. Telegrams and Cables 'ANSETT' MELBOURNE, P.O. Box 362F, Melbourne, 3001.

RECEIVED
FEB 21 1980

February 20, 1980.

Hon. John Moore,
Chairman,
Export-Import Bank of the United States,
811 Vermont Avenue, N.W.
WASHINGTON. D.C. 20571.

Dear Mr Moore,

Thank you very much for taking time to see us yesterday to discuss the Boeing request for a preliminary commitment to finance the equipment package for Ansett Airlines of Australia. I appreciate your expressed interest in providing terms which match those offered by Airbus, since your ability to do so will be critically important to any decision we may make to purchase Boeing equipment.

As you consider your offer, I would like to emphasize that we truly believe that a matching competitive interest rate would be 7.95%, as offered by Airbus, even if the loan is entirely in U.S. dollars. As we explained in the meeting, we have great confidence in the strength of the Australian dollar against all hard currencies in the next decade, including the Deutsche mark and the French franc. This confidence is based on excellent prospects for energy self-sufficiency and increasingly valuable mineral exports supporting a very strong balance of payments position.

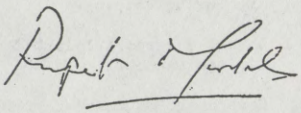
Cont/d....

Subsidiary Companies and Divisions
ANSETT TRANSPORT INDUSTRIES (OPERATIONS) PTY. LTD. • (OPERATING AS ANSETT AIRLINES OF AUSTRALIA & ANSETT AIRLINES OF NEW SOUTH WALES
ANSETT AIRLINES OF SOUTH AUSTRALIA • ANSETT FREIGHT EXPRESS • AVIATION ENGINEERING SUPPLIES • N.I.C. INSTRUMENT COMPANY
ANSETT PIONEER • MILDURA BUS LINES • BARRIER REEF ISLANDS • MACROBERTSON MILLER AIRLINE SERVICES • ANSETT MOTORS
PROVINCIAL MOTORS • ANSETT TELEVISION FILMS • ANSETT GENERAL AVIATION • ANSAIR • WRIDGWAYS • ALBURY BORDER TRANSPORT)
TRANSPORT INDUSTRIES INSURANCE COMPANY LTD. • ANSETT HOTELS PTY. LTD. • ANSETT NIUGINI ENTERPRISES LTD.
UNIVERSAL TELECASTERS QLD. LTD. • AUSTARAMA TELEVISION PTY. LTD. • ANSETT BREWARRANA HOLDINGS PTY. LTD.
SIST CONSTRUCTIONS PTY. LTD.

I would also like to emphasize our concern that the loan term be 12 years, which we believe to be available from Airbus.

Thanks again for your interest and concern in achieving a satisfactory financing package to support the Boeing sale.

Sincerely,



(Rupert Murdoch).

February 20, 1980

PRELIMINARY COMMITMENT MEMORANDUM TO THE BOARD OF DIRECTORS

Asia Division: P.C. No. 80-0-4738

Country: Australia

Applicant: The Boeing Company

Borrower: Ansett Transport Industries (Operations) Proprietary Limited (Ansett)

Guarantor: Government of Australi (GOA)

Products: 12 Boeing 767 aircraft, 2 for delivery in 1982, 4 in 1983, 4 in 1984 and 2 in 1985; 4 Boeing 727-200 aircraft for delivery in 1981; 9 Boeing 737-200 aircraft, 7 for delivery in 1981, 2 in 1982. (Please see Appendix B).

Recommended Financing Plan:

12 Boeing 767's Total Cost of U.S. Goods & Services: $566,450,000
To be financed as follows:

15% Cash Payment	84,967,500
85% Exim Loan @ 8.0%	481,482,500

4 Boeing 727's Total Cost of U.S. Goods & Services: $ 69,100,000
To be financed as follows:

15% Cash Payment	$ 10,365,000
50% Exim Loan @ 8.375% (scale)	34,550,000
35% Private Loan w/o Exim G'tee	24,185,000

9 Boeing 737's Total Cost of U.S. Goods & Services: $137,220,000
To be financed as follows:

15% Cash Payment	20,583,000
40% Exim Loan @ 8.4% (weighted scale)	54,888,000
20% Private Loan g'teed by Exim	27,444,000
25% Private Loan w/o Exim g'tee	34,305,000

	Total Term In Years	Scale Rate
1981 deliveries	10.8	8-3/8%
1982 "	11.8	8-1/2%
1983 "	12.8	8-5/8%
1984 "	13.8	8-3/4%
1985 "	14.8	8-3/4%

Commitment Fee: 0.5% P.C. Expiry Date: December 31, 1980
Guarantee Fee: 0.5%
Disbursement: pari passu
Guarantee Commitment Fee: 0.125%

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Item #12
Agenda of 2/26/80
Australia
P.C. #80-0-4738

Repayment: 20 semiannual installments in 5 schedules, one for each year's deliveries beginning 6 months from midpoint of deliveries in each year but not later than December 31 for each of the 5 years. Where applicable private loans without Exim guarantee to be repaid first, private loans with Exim guarantee next, and Exim loan last.

Summary: Boeing met with Chairman Moore and members of the staff on February 19, 1980 and informed us for the first time that Ansett was in the final stages of a major decision between 2 fleet alternatives; purchase of the above Boeing aircraft, or purchase of 12 Airbus A300B4 aircraft with alleged very favorable financing. Eximbank is asked to provide financing as outlined above to match the alleged Airbus financing which is said to be a critical element of the decision.

Reasonable assurance of repayment is provided through Ansett's profitable operations, Eximbank's good experience with Ansett on existing credits, and the guarantee of the Government of Australia.

Human rights and political and economic conditions in Australia do not pose obstacles to the proposed transaction. Eximbank's exposure in Australia as of January 31, 1980 was $236.1 million.

Recommendation: Approval of financing package as outlined provided Ansett undertakes to purchase all the Boeing aircraft enumerated.

Board Action:

Foreign Competition:

Ansett has provided us with a copy of the Airbus offer of financing. (Please see Appendix C.) It provides for a 15% cash payment with 85% direct loans to be disbursed and repaid over 10 years pari passu as follows:

40% in French francs	@ 8.75%
40% in DM	@ 6.50%
20% in U.S. $	@ 9.25%

There is to be a management fee with the amount to be paid by the borrower not to exceed 0.5% "flat" which we assume to mean "one time - front end". Any excess will be absorbed by Airbus.

There is to be a commitment fee of 0.5% on undisbursed funds, the same as ours.

Ansett alleges an oral offer from Airbus to lengthen the repayment to 12 years if necessary. (Please see Appendix D.)

Ignoring the commitment fee which is the same in both cases, the blended rate of the Airbus financing is therefore as follows:

40	X 8.75%	=	3.50
40	X 6.50%	=	2.60
20	X 9.25%	=	1.85
100			7.95
Minus 0.5%	mgt. fee		
99.5	÷	7.95	= 7.99% blended rate

A large, though intangible, element in comparability is the relative exchange rates of the various currencies over the life of the loans. We have been requested to match the Airbus financing without considering this intangible element and have therefore presented 8.0% as the requested Eximbank interest rate.

Economic Impact:

The proposed export sale of $772.8 million will have a favorable effect on the U.S. economy. It will help Boeing Company and its subcontractors maintain operations and employment and will result in later purchases of spare parts and probably more aircraft. No unfavorable effects on the U.S. economy or U.S. airlines are seen.

Financial Evaluation:

Ansett is a wholly owned subsidiary of Ansett Transport Industries, Ltd. (ATI), a privately owned company incorporated in 1937 and engaged in a wide variety of activities including airline operations, bus service, flight operations, hotel and tourist resorts, manufacturing and television.

Ansett grew by acquiring smaller airlines in Australia and the surrounding islands during the late 1950's and 1960's. In 1957 Ansett acquired Australian National Airways (ANA) which was the first large domestic airline in Australia. In order to prevent ANA from monopolizing the market, the Government of Australia (GOA) established Trans Australia Airlines (TAA) in 1946 to compete with ANA. The competition hurt ANA, and in 1952, in order to save ANA, the GOA gave ANA the same benefits as TAA - carrying mail, usage by government employees and GOA guarantees of commercial loans. These measures were not sufficient to help ANA, and with some political pressure, its management decided to sell the airline to Ansett which had grown during this period by undercutting the fares of both ANA and TAA. Today, Ansett and TAA compete for the domestic market and the GOA stands ready to guarantee the loans of both companies.

In early 1979, the parent company, ATI, suffered a significant extraordinary loss through the writeoff of its investment in an Australian finance company which it had acquired 18 months previously. This did not affect the airline or any of the other operations of the parent. However, following the substantial decline in the stock market price of its shares as a result of the announcement of this extraordinary loss, a long drawn out takeover battle developed for the company which finally resulted in the joint acquisition of the company by two independent Australian groups: The News Corporation, Ltd., a communications company headed by Mr. Rupert Murdoch, which also has substantial interests in the U.S. (New York Post/New York Magazine, both San Antonio' daily newspapers, etc.) and Thomas Nationwide Transport, Ltd., headed by Sir Peter Abeles, a multi-national transport group which also has interests in the U.S. and Canada (Trans-Freight Lines, Inc., a trans-Atlantic container shipping company, etc.). The final steps in these transactions are in the process of being completed at the present time. As a result, Mr. Murdoch and Sir Peter Abeles were appointed joint Managing Directors of ATI in December, 1979. Each Australian group will own 50% of ATI.

Engineering Evaluation:

Ansett Airlines of Australia (Ansett) is considering the purchase of twelve (12) 767's, four (4) 727's and nine (9) 737's. The 767 aircraft are scheduled for delivery (2) in November 1982, (2) in January 1983, (2) fourth quarter 1983, and one each quarter thereafter. The 727 aircraft are scheduled for delivery one each in June, July, August and September 1981. The 737 aircraft are scheduled for delivery (7) during 1981 and (2) during 1982. Total costs of the transaction are placed at $832,100,000 with eligible Exim costs of $772,770,000

Environmental Consideration:

The transaction does not involve a specific physical project and thus, would not be subject to Eximbank's environmental procedures. Moreover, all new aircraft manufactured in the United States are subject to Federal Aviation Authority Environmental standards, and before an aircraft can be exported, an FAA Airworthiness Export Certificate must be obtained which contains environmental requirements.

Country Summary:

Momentum picked up in the basically strong Australian economy during Fiscal Year 1979 (July 1 - June 30), after a period of relatively poor performance. The Government's austerity program produced a real economic growth rate of 4.2 percent, an inflation rate of 8 percent (down from a high of 14 percent) an unemployment rate of 6 percent, and a modest balance of payment surplus of $148 million for the year. International reserves currently total $5.1 billion, increased partially by the soaring price of gold, and represent about four months of imports. However, in recent months, the problems of inflation and unemployment are threatening to reemerge, and further restrictive policies have been implemented this current fiscal year to check this reversal in trend which may reduce the rate of real economic growth to 2.5 percent.

Australia has borrowed heavily during the past few years to finance balance of payments deficits. Nevertheless, relative to the nation's GNP of $104 billion, the total amount of external public debt is moderate at $5.5 billion, and the debt service ratio of about 5 percent is well within the country's capacity to service. Confidence in the country remains high, buoyed by the recent economic gains and the country's minerals and energy development prospects, especially in the aluminum smelting, coal, and natural gas areas, augur well for the economy. In spite of present economic concerns and the relative uncompetitiveness of much of the country's industrial sector the outlook for the economy is favorable. Approval of this transaction is accordingly recommended. Human rights conditions pose no difficulty to this transaction going forward. Relative to the strength of the Australian economy, Eximbank is underexposed in this market.

Eximbank Exposure:

Eximbank exposure as of January 31, 1980 is:

	(Millions)
Short-term FCIA insurance	$59.9
Medium-term FCIA insurance and bank guarantees	19.0
Long-term loans and financial guarantees	157.1
CFF and Relending Loans	.1
TOTAL	$236.1

State Department Comments:

No objections on political or human rights grounds.

Conclusion:

Eximbank is here requested to match or better Airbus competition on a major sale by Boeing without considering the effects of foreign exchange fluctuations over the life of the loan. The competition has not been confirmed through OECD channels due to lack of time but seems established by copy of the Airbus offer. Ansett, backed by the guarantee of the Government of Australia, provides reasonable assurance of repayment.

An Eximbank offer of financing following our aircraft policy is clearly uncompetitive. The Board is presented with a financing package matching the Airbus offer, not considering exchange rate fluctuations, as requested by Boeing.

Recommendation:

Approval of financing package as outlined (on page one) provided Ansett undertakes to purchase all the Boeing aircraft enumerated.

Loan Officer: David W.K. Peacock, Jr.
Engineer : Robert Hughes
Economist : Howard S. Turk
Counsel : Robert J. McKinsey

Concur:

Charles E. Houston
Vice President - Asia Division

Date Logged In : 2/20/80
Review Required: NAC
Energy Related : No
Project Code : 713
Program Code : A $570,920,500
Supplier : The Boeing Company, Seattle, Washington

REVISED
Item #12
Agenda of 2/26/80
Australia
P.C. #80-0-4738

	7/2/77	7/1/78	Six Mos. Ending 12/31/78	$US000*
Cash	9,740	6,823	25,803	29,157
Prepayments	1,059	695	2,894	3,270
Accounts Receivable[1]	54,631	68,475	71,935	81,286
Inventories	12,930	14,548	18,481	20,884
Current Assets	78,360	90,541	119,113	134,597
Invest. in subs. & other cos.	1,191	7,368	10,463**	11,823
Loans Receivable	6,361	5,900	2,494	2,819
Program Rights[2]	12,084	14,271	17,243	19,484
Net Fixed Assets[3]	154,179	156,647	151,436	171,124
Deferred Assets	51	462	493	557
Total Assets	252,226	275,189	301,242	340,404
Bank Overdrafts	8,418	8,012	9,080	10,260
Accounts Payable[4]	64,945	75,206	92,783	104,845
Current Loan Maturities	11,936	16,937	8,363	9,450
Payable to subs. & other cos.	4,585	4,407	4,398	4,970
Provision for taxes	7,378	9,139	14,507	16,393
Provision for Retirement, Overhaul, etc.	2,539	6,233	4,730	5,345
Current Liabilities	99,801	119,934	133,861	151,263
Other Provisions	11,663	13,833	14,709	16,221
Long-term Debt	94,187	78,094	84,458	95,438
Deferred Income tax	11,373	14,376	15,256	17,239
Total Liabilities	217,024	226,237	248,284	280,564
Paid-in Capital	3,000	3,000	3,000	3,390
Unappropriated Profits	9,649	19,611	21,352	24,128
General Reserves	3,400	3,400	3,400	3,842
Reval'n & Repacement Reserves	19,153	22,941	25,206	28,483
Net Worth	35,202	48,952	52,958	59,843
Totals	252,226	275,189	301,242	340,404
Current Ratio	0.70:1	0.75:1	0.89:1	0.89:1
Total Liabilities/Net Worth	86/14	82/18	82/18	82/18
Contingent Liabilities	48,216	44,920	42,273	47,768
Capital Commitments[5]	29,172	55,437	N/P	N/P
Total Revenues	410,166	476,732	262,755	296,913
Operating Profit after tax	13,335	13,591	7,580	8,565
Net Prof. after extraordinary Items	7,049	13,917	6,296	7,114
Depreciation	20,650	22,390	9,908	11,196
Cash Flow	27,699	36,307	16,204	18,310
Plus Interest	9,701	9,322	5,198	5,874
Cash Available for Debt Service	37,400	45,629	21,402	24,184
Interest	9,701	9,322	5,198	5,874
Loan Repayments (estimated)	12,154	11,935	8,469	9,570
Debt Service	21,855	21,257	13,667	15,444
Debt Service Coverage	1.71x	2.15x	1.57x	1.57x

* Converted at $A1.00 = $US1.13

** A$10.0 million represents preference share investment in Associated Securities Limited which is under receivership. Auditors recommended showing this loss as an extraordinary item for six months ending 12-31-79. Ansett Directors have decided to show full loss of A$10.0 million in accounts for the year ended June 30, 1979.

Ansett Transport Industries (Operations) Proprietary Limited

Footnotes

1. Due within two years or less.

2. Ansett is also actively engaged in television program production and distribution.

3. This includes revaluations in 1965 and 1977 against which depreciation has been taken.

4. This also includes revenues collected for which transportation passage is due and which amounted to $A16,882,000 ($US 19,076,660) at 7-1-78 and $A22,917,000 ($US 25,896,210) at 12-31-78.

5. Most of this represents $A50,708,000 ($US 57,300,040) in contractual commitments to purchase aircraft.

ANSETT AIRLINES

	($ Millions)				Deliveries				
	Purchase Price	"Policy" Loan	G'tee	Request(85%)	(Number of Aircraft - % of Purchase Price)				
					1981	1982	1983	1984	1985
Boeing 767's competitive with Airbus)	566.450	361.112 (63.75%)	-----	481.483		(2) 16.7%	(4) 33.3%	(4) 33.3%	(2) 16.7%
Boeing 727-200's (competitive with Airbus)	69.100	44.051 (63.75%)	-----	58.735	(4) 100%				
Boeing 737-200's (short range - not competitive)	137.220	41.166	41.166	116.637	(7) 77.8%	(2) 22.2%			
	772.770	446.329	41.166	656.855					
equested loan funds less "policy" loan funds				210.526					

	Estimated $ Value of Purchases				
	1981	1982	1983	1984	1985
12 Boeing 767's	- 0 -	94.597	188.628	188.628	94.597
4 Boeing 727-200's	69.100				
9 Boeing 737-200's	106.757	30.463			
	176.192	125.189	188.556	188.556	94.277
% of Total Purchase	22.8%	16.2%	24.4%	24.4%	12.2%

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22897 NEWSUN G

AIRBUS PARIS

FROM : AIRBUS INDUSTRIE PARIS - P TAMBOSI

TO : MR MURDOCH

JOINT CHIEF EXECUTIVE

ANSETT TRANSPORT INDUSTRIES LTD

C/O NEWS INTERNATIONAL

LONDON

CC : SIR PETER ABELES

JOINT CHIEF EXECUTIVE

ANSETT TRANSPORT INDUSTRIES LTD

MELBOURNE

AI/C MR WARDE

AI/C/C MR MARTINEZ

AI/C/S MR TANSLEY

AI/C/F NO 5015 PT/FP PARIS FEBRUARY 11 1980

RE : SALES FINANCING FOR ANSETT

REFERRING TO OUR DISCUSSION IN TOULOUSE ON FEBRUARY 8TH, PLEASE FIND IN THE FOLLOWING THE MODIFIED VERSION OF OUR SALES FINANCING PROPOSAL :

QUOTE

1- SUBJECT TO THE APPROVAL OF AIRBUS INDUSTRIE'S COMPETENT AUTHORITIES, THE FOLLOWING FINANCING CONDITIONS AND TERMS COULD BE OFFERED TO ANSETT FOR THE PURCHASE OF FOUR (4) A300 TO BE DELIVERED BEFORE MID 1983.

1.1 PURPOSE AND AMOUNT

THE LOANS WILL FINANCE EIGHTY FIVE (85) PERCENT MAXIMUM OF THE DELIVERY PRICE OF EACH FIRMLY ORDERED AIRCRAFT

1.2 CURRENCIES

THE LOANS SHALL BE MADE AVAILABLE IN THE FOLLOWING CURRENCIES :

- FORTY (40) PERCENT SHALL BE DENOMINATED IN FRENCH FRANCS (''FF LOAN'')
- FORTY (40) PERCENT SHALL BE DENOMINATED IN DEUTSCHE MARK (''DM LOAN'')
- TWENTY (20) PERCENT SHALL BE DENOMINATED IN US DOLLARS (''UK LOAN'')

THE LOANS SHALL BE MADE AVAILABLE ON A PARIPASSU BASIS AND BE REPAID ACCORDING TO THE SAME SCHEDULE IN THEIR RESPECTIVE CURRENCY.

A) THE DRAWDOWNS SHALL BE EFFECTED UPON DELIVERY OF EACH AIRCRAFT AND SHALL NOT EXCEED EIGHTY FIVE (85) PERCENT OF THEIR PRICE

B) SHOULD THE BUYER DECIDE TO TAKE ADVANTAGE OF THE PRESENT FINANCING, THE SELLER WILL AGREE TO RECIEVE THE PAYMENT OF THE PORTION OF THE AIRCRAFT PRICE FINANCED UNDER THE LOANS IN THE CURRENCY OF SAID LOANS, SUCH PAYMENTS BEING EFFECTED ON THE BASIS OF THE RATE OF EXCHANGE OF THESE CURRENCIES WITH THE US DOLLAR WHICH SHALL BE QUOTED IN THE PARIS EXCHANGE MARKET FOR THE FRENCH FRANC AND IN THE FRANKFURT EXCHANGE MARKET FOR THE DEUTSCHE MARK LOAN ON THE LAST BUSINESS DAY BEFORE DELIVERY OF THE RELATED AIRCRAFT

1.4 DURATION AND REPAYMENT

THE LOANS WILL BE GRANTED FOR A PERIOD OF TEN (10) YEARS. EACH DRAWDOWN SHALL BE REPAID IN TWENTY (20) EQUAL CONSECUTIVE SEMI-ANNUAL INSTALMENTS OF PRINCIPAL THE FIRST ONE BEING DUE SIX (6) MONTHS AFTER DELIVERY OF THE RELATED AIRCRAFT.

1.5 INTEREST

A) INTEREST SHALL BE PAYABLE SEMI-ANNUALLY IN ARREARS TOGETHER WITH THE INSTALMENTS OF PRINCIPAL

B) THE ANNUAL INTEREST RATES SHALL BE CALCULATED ON THE BASIS OF THE FOLLOWING NOMINAL RATES :

FF	8.75 %
DM	6.50 %
DOLLAR	9.25 %

[illegible] SECURED BY AN UNCONDITIONAL GUARANTEE OF THE GOVERNMENT OF AUSTRALIA

1.7 FEES

THE BUYER SHALL NEGOTIATE DIRECTLY WITH THE BANKS THE USUAL BANKING FEES CUSTOMARY IN SUCH TRANSACTION.

NEVERTHELESS, THE SELLER SHALL SEE TO IT THAT THE MANAGEMENT FEE PAYABLE UPON EXECUTION OF THE LOAN AGREEMENT WILL NOT EXCEDD 0.50% FLAT OF THE AMOUNT OF FINANCING COMMITTED AND THAT THE COMMITMENT FEE WILL NOT EXCEED 0.5 % P.A. PAYABLE SEMI-ANNUALLY IN ADVANCE OF THE UNUSED PORTION OF THE LOANS

1.8 MISCELLANEOUS

THE COST OF LEGAL AND OUT OF POCKET EXPENSES IF ANY, SHALL BE BORNE BY ANSETT. ALL CORPORATE AND GOVERNMENTAL APPROVALS NECESSARY PRIOR THE PERFORMANCE OF ANSETT'S OBLIGATIONS UNDER THESE LOANS, SHALL BE OBTAINED SO THAT THE PAYMENT OF ALL AMOUNTS DUE TO THE LENDERS CAN BE EFFECTED WITHOUT DELAY AND DEDUCTION OF ANY EXISTING OR FUTURE WITHHOLDING TAXES, CHARGES, LEVIES OR OTHER DUTIES WHATSOEVER INCLUDING INCOME TAX : IF, HOWEVER, ANY SUCH DEDUCTION HAS TO BE MADE, ANSETT SHALL REIMBURSE OR COMPENSATE THE LENDERS AND GET ALL NECESSARY APPROVALS FOR THIS PURPOSE SO THAT THE LENDERS DO NOT SUFFER IN ANY WAY THE IMPOSITION OF SUCH TAXES CHARGES, DUTIES , LEVIES

SHOULD ANSETT DECIDE TO TAKE ADVANTAGE OF THIS FINANCING, THEY WILL HAVE TO INFORM AIRBUS INDUSTRIE WITHIN TWO (2) MONTHS FROM SIGNATURE OF THE PURCHASE AGREEMENT, AFTER WHICH DATE AIRBUS INDUSTRIE WILL NOT ANY LONGER BE COMMITTED WITH REGARD TO THIS FINANCING.

THE BANKS SHALL THEN SUBMIT TO ANSETT A DRAFT OF A CREDIT AGREEMENT TO BE SIGNED WITH THEM, NOT LATER THAN OCTOBER 31, 1980. AIRBUS INDUSTRIE WILL ASSIST, IF NEED BE, ANSETT AND THE BANKS DURING THE ESTABLISHMENT OF THE CREDIT AGREEMENT.

UNQUOTE

WE ARE STILL WORKING ON THE DM QUESTION AND WILL SEND YOU A TX ON THIS SUBJECT BY WEDNESDAY NOON.

BEST PERSONAL REGARDS

P TAMBOS

22897 NEWSUN G

AIRBUS PARIS

February 20, 1980

PRELIMINARY COMMITMENT MEMORANDUM TO THE BOARD OF DIRECTORS

Asia Division: P.C. No. 80-0-4738
P.C. No. 80-0-4745
L.I. No. 0-0218

Country: Australia

Applicant: The Boeing Company

Borrower: Ansett Transport Industries (Operations) Proprietary Limited (Ansett)

Guarantor: Government of Australia (GOA)

P.C. No. 80-0-4738

Products: 5 Boeing 767 aircraft, 2 for delivery in 1982, 3 in 1983; 4 Boeing 727-200 aircraft for delivery in 1981; 9 Boeing 737-200 aircraft, 7 for delivery in 1981, 2 in 1982 (Please see Appendix B.)

Recommended Financing Plan:

5 Boeing 767's Total Cost of U.S. Goods & Services: $236,020,833
To be financed as follows:

15% Cash Payment	35,403,125
85% Exim Loan @ 8.0%	200,617,708

4 Boeing 727's Total Cost of U.S. Goods & Services: $ 69,100,000
To be financed as follows:

15% Cash Payment	$ 10,365,000
50% Exim Loan @ 8.375% (scale)	34,550,000
35% Private Loan w/o Exim G'tee	24,185,000

9 Boeing 737's Total Cost of U.S. Goods & Services: $137,220,000
To be financed as follows:

15% Cash Payment	20,583,000
40% Exim Loan @ 8.4% (weighted scale)	54,888,000
20% Private Loan g'teed by Exim	27,444,000
25% Private Loan w/o Exim g'tee	34,305,000

Ansett must undertake to purchase all the above Boeing aircraft in order to receive the above financing package. (5 Boeing 767's were chosen on the basis of seating capacity to match the 4 Airbus for which there was a firm offer of financing).

2nd REVISION
Item #16
Agenda of 2/28/80
Australia
P.C. No. 80-0-4738

P.C. No. 80-0-4745 (Alternate financing plan)

Products: 4 Boeing 727-200 aircraft for delivery in 1981; 9 Boeing 737-200 aircraft, 7 for delivery in 1981, 2 in 1982. (Please see Appendix B).

4 Boeing 727's Total Cost of U.S. Goods & Services: $69,100,000
To be financed as follows:

15% Cash Payment	10,365,000
42.5% Exim Loan @ 8.375% (scale)	29,367,500
42.5% Private Loan w/o Exim G'tee	29,367,500

9 Boeing 737's Total Cost of U.S. Goods & Services: $137,220,000
To be financed as follows:

15% Cash Payment	20,583,000
30% Exim Loan @8.4% (weighted scale) . . .	41,166,000
30% Private Loan G'teed by Exim	41,166,000
25% Private Loan w/o Exim G'tee	34,305,000

Ansett does not have to purchase any other aircraft (Boeing 767's) to receive this alternative financing package. Ansett could also purchase either the 727's or the 737's or a portion thereof and receive this alternative financing package.

L.I. No. 0-0218

Products: 7 Boeing 767 aircraft for delivery 1 in 1983, 4 in 1984 and 2 in 1985. (Please see Appendix B.)

Total Cost of U.S. Goods & Services: $330,429,167

This Letter of Interest would indicate Eximbank's interest in financing the remaining 7 Boeing 767 aircraft for which application for a P.C. was made, but which were not included in P.C. No. 80-0-4738 above.

All Aircraft:

	Total Term In Years	Scale Rate
1981 deliveries	10.8	8-3/8%
1982 "	11.8	8-1/2%
1983 "	12.8	8-5/8%
1984 "	13.8	8-3/4%
1985 "	14.8	8-3/4%

Commitment Fee: 0.5% P.C. Expiry Date: December 31, 1980
Guarantee Fee: 0.5%
Disbursement: pari passu
Guarantee Commitment Fee: 0.125%

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Repayment: One note for each aircraft to be repaid in 20 semiannual installments beginning six months from disbursement for each aircraft with related spares, ground support equipment and training costs.

Summary: Boeing met with Chairman Moore and members of the staff on February 19, 1980 and informed us for the first time that Ansett was in the final stages of a major decision between 2 fleet alternatives; purchase of the above Boeing aircraft, or purchase of 12 Airbus A300B4 aircraft with alleged very favorable financing. Eximbank is asked to provide financing as outlined above to match the alleged Airbus financing which is said to be a critical element of the decision.

Reasonable assurance of repayment is provided through Ansett's profitable operations, Eximbank's good experience with Ansett on existing credits, and the guarantee of the Government of Australia.

Human rights and political and economic conditions in Australia do not pose obstacles to the proposed transaction. Eximbank's exposure in Australia as of January 31, 1980 was $236.1 million.

Recommendation: Approval of financing package as outlined above.

Board Action:

2nd REVISION
Item #16
Agenda of 2/28/80
Australia
P.C. No. 80-0-4738

February 20, 1980

PRELIMINARY COMMITMENT MEMORANDUM TO THE BOARD OF DIRECTORS

Asia Division: P.C. No. 80-0-4738

Country: Australia

Applicant: The Boeing Company

Borrower: Ansett Transport Industries (Operations) Proprietary Limited (Ansett)

Guarantor: Government of Australia (GOA)

Products: 12 Boeing 767 aircraft, 2 for delivery in 1982, 4 in 1983, 4 in 1984 and 2 in 1985; 4 Boeing 727-200 aircraft for delivery in 1981; 9 Boeing 737-200 aircraft, 7 for delivery in 1981, 2 in 1982. (Please see Appendix B).

Recommended Financing Plan:

12 Boeing 767's Total Cost of U.S. Goods & Services: $566,450,000
To be financed as follows:

15% Cash Payment	84,967,500
85% Exim Loan @ 8.0%	481,482,500

4 Boeing 727's Total Cost of U.S. Goods & Services: $ 69,100,000
To be financed as follows:

15% Cash Payment	$ 10,365,000
50% Exim Loan @ 8.375% (scale)	34,550,000
35% Private Loan w/o Exim G'tee	24,185,000

9 Boeing 737's Total Cost of U.S. Goods & Services: $137,220,000
To be financed as follows:

15% Cash Payment	20,583,000
40% Exim Loan @ 8.4% (weighted scale)	54,888,000
20% Private Loan g'teed by Exim	27,444,000
25% Private Loan w/o Exim g'tee	34,305,000

	Total Term In Years	Scale Rate
1981 deliveries	10.8	8-3/8%
1982 "	11.8	8-1/2%
1983 "	12.8	8-5/8%
1984 "	13.8	8-3/4%
1985 "	14.8	8-3/4%

Commitment Fee: 0.5% P.C. Expiry Date: December 31, 1980

Cost of Financing: Interest rates on various Exim loans - as stated above
Estimated rate for Exim G'teed loans (PEFCO) 14%
Estimated rate for private loans . 6 months LIBOR + 0.5%

The 6 month LIBOR rate on March 4, 1980 was 17.5%

Estimated blended rates on various financing packages above with LIBOR as stated below is:

P.C. No. 80-0-4738

5 Boeing 767's:
Rate on Exim loan including fee 8.12%

4 Boeing 727's:

LIBOR			
10%	Blended rate	. . . . .	8.94%
12%	"	. . . . .	9.40%
14%	"	. . . . .	9.86%
16%	"	. . . . .	10.33%
17%	"	. . . . .	10.57%

9 Boeing 737's:

LIBOR			
10%	Blended rate	. . . . .	9.97%
12%	"	. . . . .	10.24%
14%	"	. . . . .	10.50%
16%	"	. . . . .	10.77%
17%	"	. . . . .	10.91%

P.C. No. 80-0-4745 (Alternate financing plan)

4 Boeing 727's:

LIBOR			
10%	Blended rate	. . . . .	9.13%
12%	"	. . . . .	9.75%
14%	"	. . . . .	10.41%
16%	"	. . . . .	11.06%
17%	"	. . . . .	11.39%

9 Boeing 737's:

LIBOR			
10%	Blended rate	. . . . .	10.76%
12%	"	. . . . .	11.02%
14%	"	. . . . .	11.30%
16%	"	. . . . .	11.57%
17%	"	. . . . .	11.71%

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P.C. No. 80-0-473

State Department Comments: No objections on political or human rights grounds.

Conclusion: Eximbank is here requested to match or better Airbus competition on a major sale by Boeing without considering the effects of foreign exchange fluctuations over the life of the loan. The competition has not been confirmed through OECD channels due to lack of time but seems established by copy of the Airbus offer. Ansett, backed by the guarantee of the Government of Australia, provides reasonable assurance of repayment.

An Eximbank offer of financing following our aircraft policy is clearly uncompetitive. The Board is presented with a financing package matching the Airbus offer, not considering exchange rate fluctuations, as requested by Boeing. The Board, with NAC concurrence, approved the revised financing packages and revised repayment terms as outlined on pages 1 through 3 on February 28, 1980.

Recommendation: Approval of revised financing packages as outlined (on pages one through three).

Loan Officer: David W.K. Peacock, Jr.
Engineer : Robert Hughes
Economist : Howard S. Turk
Counsel : Robert J. McKinsey

Concur:

Charles E. Houston
Vice President - Asia Division

Date Logged In : 2/20/80
Review Required: NAC
Energy Related : No
Project Code : 713
Program Code : A
Supplier : The Boeing Company, Seattle, Washington

2nd REVISION
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Australia
P.C. No. 80-0-4738

Repayment: 20 semiannual installments in 5 schedules, one for each year's deliveries beginning 6 months from midpoint of deliveries in each year but not later than December 31 for each of the 5 years. Where applicable private loans without Exim guarantee to be repaid first, private loans with Exim guarantee next, and Exim loan last.

Summary: Boeing met with Chairman Moore and members of the staff on February 19, 1980 and informed us for the first time that Ansett was in the final stages of a major decision between 2 fleet alternatives; purchase of the above Boeing aircraft, or purchase of 12 Airbus A300B4 aircraft with alleged very favorable financing. Eximbank is asked to provide financing as outlined above to match the alleged Airbus financing which is said to be a critical element of the decision.

Reasonable assurance of repayment is provided through Ansett's profitable operations, Eximbank's good experience with Ansett on existing credits, and the guarantee of the Government of Australia.

Human rights and political and economic conditions in Australia do not pose obstacles to the proposed transaction. Eximbank's exposure in Australia as of January 31, 1980 was $236.1 million.

Recommendation: Approval of financing package as outlined provided Ansett undertakes to purchase all the Boeing aircraft enumerated.

Board Action:

Foreign Competition:

Ansett has provided us with a copy of the Airbus offer of financing. (Please see Appendix C.) It provides for a 15% cash payment with 85% direct loans to be disbursed and repaid over 10 years pari passu as follows:

40% in French francs	@ 8.75%
40% in DM	@ 6.50%
20% in U.S. $	@ 9.25%

There is to be a management fee with the amount to be paid by the borrower not to exceed 0.5% "flat" which we assume to mean "one time - front end". Any excess will be absorbed by Airbus.

There is to be a commitment fee of 0.5% on undisbursed funds, the same as ours.

Ansett alleges an oral offer from Airbus to lengthen the repayment to 12 years if necessary. (Please see Appendix D.)

Ignoring the commitment fee which is the same in both cases, the blended rate of the Airbus financing is therefore as follows:

40	X 8.75%	=	3.50
40	X 6.50%	=	2.60
20	X 9.25%	=	1.85
100			7.95
Minus 0.5%	mgt. fee		
99.5	÷	7.95	= 7.99% blended rate

A large, though intangible, element in comparability is the relative exchange rates of the various currencies over the life of the loans. We have been requested to match the Airbus financing without considering this intangible element and have therefore presented 8.0% as the requested Eximbank interest rate.

Economic Impact:

The proposed export sale of $772.8 million will have a favorable effect on the U.S. economy. It will help Boeing Company and its subcontractors maintain operations and employment and will result in later purchases of spare parts and probably more aircraft. No unfavorable effects on the U.S. economy or U.S. airlines are seen.

Financial Evaluation:

Ansett is a wholly owned subsidiary of Ansett Transport Industries, Ltd. (ATI), a privately owned company incorporated in 1937 and engaged in a wide variety of activities including airline operations, bus service, flight operations, hotel and tourist resorts, manufacturing and television.

Ansett grew by acquiring smaller airlines in Australia and the surrounding islands during the late 1950's and 1960's. In 1957 Ansett acquired Australian National Airways (ANA) which was the first large domestic airline in Australia. In order to prevent ANA from monopolizing the market, the Government of Australia (GOA) established Trans Australia Airlines (TAA) in 1946 to compete with ANA. The competition hurt ANA, and in 1952, in order to save ANA, the GOA gave ANA the same benefits as TAA - carrying mail, usage by government employees and GOA guarantees of commercial loans. These measures were not sufficient to help ANA, and with some political pressure, its management decided to sell the airline to Ansett which had grown during this period by undercutting the fares of both ANA and TAA. Today, Ansett and TAA compete for the domestic market and the GOA stands ready to guarantee the loans of both companies.

In early 1979, the parent company, ATI, suffered a significant extraordinary loss through the writeoff of its investment in an Australian finance company which it had acquired 18 months previously. This did not affect the airline or any of the other operations of the parent. However, following the substantial decline in the stock market price of its shares as a result of the announcement of this extraordinary loss, a long drawn out takeover battle developed for the company which finally resulted in the joint acquisition of the company by two independent Australian groups: The News Corporation, Ltd., a communications company headed by Mr. Rupert Murdoch, which also has substantial interests in the U.S. (New York Post/New York Magazine, both San Antonio' daily newspapers, etc.) and Thomas Nationwide Transport, Ltd., headed by Sir Peter Abeles, a multi-national transport group which also has interests in the U.S. and Canada (Trans-Freight Lines, Inc., a trans-Atlantic container shipping company, etc.). The final steps in these transactions are in the process of being completed at the present time. As a result, Mr. Murdoch and Sir Peter Abeles were appointed joint Managing Directors of ATI in December, 1979. Each Australian group will own 50% of ATI.

Financial Evaluation: (con't)

The latest financial statements available are the audited financial statements for the fiscal year ending 7/1/78 and unaudited statements for the 6 months ending 12/31/78. Statements for the fiscal year ending 7/1/79 were requested on 1/28/30.

Financial Condition

As of December 31, 1978, Ansett had total assets of $340.4 million, total liabilities of $280.6 million, and net worth of $59.8 million. The current ratio was 0.89:1, the total liabilities/net worth relationship was 82/18, and contingent liabilities amounted to $47.8 million. For the six months ending 12/30/78, Ansett grossed $296.9 million in revenues and earned $7.1 million after taxes. Cash flow for six months was $18.3 million and the debt service coverage was 1.57x. (See Appendix A, page 1.)

Eximbank Experience

Eximbank experience with Ansett goes back a number of years and has been satisfactory. As of December 31, 1979 Eximbank exposure ($000) was as follows:

Credit/Gtee.	Authorized	Repaid	Exposure	Maturity
3534	14,925	2,929	11,995	5-15-84
4832	677	542	135	2-10-80
5444	6,200	-0-	6,200	5-10-85
FG-5445	2,067	-0-	2,067	5-01-81
6525	4,500	-0-	4,500	12-04-87
6594	10,386	-0-	10,386	9-08-88
6662	12,090	-0-	12,090	11-05-89
Supplier Credits	8,978	7,015	1,963	various
Totals	59,823	10,486	49,336	

Status of Payments

Ansett is current on all payments.

Conclusion

Ansett appears undercapitalized and somewhat illiquid, however, its highly leveraged financial structure and rather tight working capital position have not affected the airline's continued capability of meeting its obligations to Eximbank under existing credits. Operations are profitable.

The financial condition of Ansett, strengthened by the guarantee of the Government of Australia, provides a reasonable assurance of repayment.

Engineering Evaluation:

Ansett Airlines of Australia (Ansett) is considering the purchase of twelve (12) 767's, four (4) 727's and nine (9) 737's. The 767 aircraft are scheduled for delivery (2) in November 1982, (2) in January 1983, (2) fourth quarter 1983, and one each quarter thereafter. The 727 aircraft are scheduled for delivery one each in June, July, August and September 1981. The 737 aircraft are scheduled for delivery (7) during 1981 and (2) during 1982. Total costs of the transaction are placed at $832,100,000 with eligible Exim costs of $772,770,000 as identified below:

Item	Cost	%
(12) 767's ($44,947/aircraft)	$539,370,000 *	86.2
(6) spare engines & QEC kits	21,400,000	3.4
Airframe & engine spare parts	46,010,000	7.4
Ground support equipt.	13,380,000	2.1
Flight crew training	5,620,000	0.9
Subtotal	$625,780,000	100
(4) Advanced 727-200's ($16,049/aircraft)	$64,195,000	92.9
(2) Spare engines & QEC kits	2,745,000	4.0
Airframe & engine spare parts	2,160,000	3.1
Subtotal	$69,100,000	100
(9) Advanced 737-200 aircraft ($12,730/aircraft)	$114,570,000	83.3
(5) Spare engines & QEC kits	7,185,000	5.2
Airframe and engine spare parts	10,450,000	7.6
Ground support equipt.	515,000	0.4
Flight crew training	4,500,000	3.5
Subtotal	$137,220,000	100
Total Boeing Equipment Package	$832,100,000	
* Less non U.S. costs	-$59,330,000	
U.S. Costs	$772,770,000	

(The non- U.S. costs are estimated by Exim based upon a previous 767 transaction.)

Spares and support purchases total $113,965,000 or 13.7% of the transaction cost (15.9% of the aircraft cost). Costs appear reasonable and there exists no technical objection to this transaction.

Environmental Consideration: The transaction does not involve a specific physical project and thus, would not be subject to Eximbank's environmental procedures. Moreover, all new aircraft manufactured in the United States are subject to Federal Aviation Authority Environmental standards, and before an aircraft can be exported, an FAA Airworthiness Export Certificate must be obtained which contains environmental requirements.

Country Summary: Momentum picked up in the basically strong Australian economy during Fiscal Year 1979 (July 1 - June 30), after a period of relatively poor performance. The Government's austerity program produced a real economic growth rate of 4.2 percent, an inflation rate of 8 percent (down from a high of 14 percent) an unemployment rate of 6 percent, and a modest balance of payment surplus of $148 million for the year. International reserves currently total $5.1 billion, increased partially by the soaring price of gold, and represent about four months of imports. However, in recent months, the problems of inflation and unemployment are threatening to reemerge, and further restrictive policies have been implemented this current fiscal year to check this reversal in trend which may reduce the rate of real economic growth to 2.5 percent.

Australia has borrowed heavily during the past few years to finance balance of payments deficits. Nevertheless, relative to the nation's GNP of $104 billion, the total amount of external public debt is moderate at $5.5 billion, and the debt service ratio of about 5 percent is well within the country's capacity to service. Confidence in the country remains high, buoyed by the recent economic gains and the country's minerals and energy development prospects, especially in the aluminum smelting, coal, and natural gas areas, augur well for the economy. In spite of present economic conterns and the relative uncompetitiveness of much of the country's industrial sector the outlook for the economy is favorable. Approval of this transaction is accordingly recommended. Human rights conditions pose no difficulty to this transaction going forward. Relative to the strength of the Australian economy, Eximbank is underexposed in this market.

Eximbank Exposure: Eximbank exposure as of January 31, 1980 is:

	(Millions)
Short-term FCIA insurance	$59.9
Medium-term FCIA insurance and bank guarantees	19.0
Long-term loans and financial guarantees	157.1
CFF and Relending Loans	.1
TOTAL	$236.1

State Department Comments: No objections on political or human rights grounds.

Conclusion: Eximbank is here requested to match or better Airbus competition on a major sale by Boeing without considering the effects of foreign exchange fluctuations over the life of the loan. The competition has not been confirmed through OECD channels due to lack of time but seems established by copy of the Airbus offer. Ansett, backed by the guarantee of the Government of Australia, provides reasonable assurance of repayment.

An Eximbank offer of financing following our aircraft policy is clearly uncompetitive. The Board is presented with a financing package matching the Airbus offer, not considering exchange rate fluctuations, as requested by Boeing.

Recommendation: Approval of financing package as outlined (on page one) provided Ansett undertakes to purchase all the Boeing aircraft enumerated.

Loan Officer: David W.K. Peacock, Jr.
Engineer : Robert Hughes
Economist : Howard S. Turk
Counsel : Robert J. McKinsey

Concur:

_____
Charles E. Houston
Vice President - Asia Division

Date Logged In : 2/20/80
Review Required: NAC
Energy Related : No
Project Code : 713
Program Code : A $570,920,500
Supplier : The Boeing Company, Seattle, Washington

Ansett Transport Industries (Operations) Proprietary Limited
Audited Financial Statements
For Years Ending
$A000

Appendix A
Page 1 of 2

	7/2/77	7/1/78	Six Mos. Ending 12/31/78	$US000*
Cash	9,740	6,823	25,803	29,157
Prepayments	1,059	695	2,894	3,270
Accounts Receivable[1]	54,631	68,475	71,935	81,286
Inventories	12,930	14,548	18,481	20,884
Current Assets	78,360	90,541	119,113	134,597
Invest. in subs. & other cos.	1,191	7,368	10,463**	11,823
Loans Receivable	6,361	5,900	2,494	2,819
Program Rights[2]	12,084	14,271	17,243	19,484
Net Fixed Assets[3]	154,179	156,647	151,436	171,124
Deferred Assets	51	462	493	557
Total Assets	252,226	275,189	301,242	340,404
Bank Overdrafts	8,418	8,012	9,080	10,260
Accounts Payable[4]	64,945	75,206	92,783	104,845
Current Loan Maturities	11,936	16,937	8,363	9,450
Payable to subs. & other cos.	4,585	4,407	4,398	4,970
Provision for taxes	7,378	9,139	14,507	16,393
Provision for Retirement, Overhaul, etc.	2,539	6,233	4,730	5,345
Current Liabilities	99,801	119,934	133,861	151,263
Other Provisions	11,663	13,833	14,709	16,221
Long-term Debt	94,187	78,094	84,458	95,438
Deferred Income tax	11,373	14,376	15,256	17,239
Total Liabilities	217,024	226,237	248,284	280,564
Paid-in Capital	3,000	3,000	3,000	3,390
Unappropriated Profits	9,649	19,611	21,352	24,128.
General Reserves	3,400	3,400	3,400	3,842
Reval'n & Repacement Reserves	19,153	22,941	25,206	28,483
Net Worth	35,202	48,952	52,958	59,843
Totals	252,226	275,189	301,242	340,404
Current Ratio	0.70:1	0.75:1	0.89:1	0.89:1
Total Liabilities/Net Worth	86/14	82/18	82/18	82/18
Contingent Liabilities	48,216	44,920	42,273	47,768
Capital Commitments[5]	29,172	55,437	N/P	N/P
Total Revenues	410,166	476,732	262,755	296,913
Operating Profit after tax	13,335	13,591	7,580	8,565
Net Prof. after extraordinary Items	7,049	13,917	6,296	7,114
Depreciation	20,650	22,390	9,908	11,196
Cash Flow	27,699	36,307	16,204	18,310
Plus Interest	9,701	9,322	5,198	5,874
Cash Available for Debt Service	37,400	45,629	21,402	24,184
Interest	9,701	9,322	5,198	5,874
Loan Repayments (estimated)	12,154	11,935	8,469	9,570
Debt Service	21,855	21,257	13,667	15,444
Debt Service Coverage	1.71x	2.15x	1.57x	1.57x

* Converted at $A1.00 = $US1.13

** A$10.0 million represents preference share investment in Associated Securities Limite which is under receivership. Auditors recommended showing this loss as an extraordin item for six months ending 12-31-79. Ansett Directors have decided to show full loss of A$10.0 million in accounts for the year ended June 30, 1979.

Ansett Transport Industries (Operations) Proprietary Limited

Footnotes

1. Due within two years or less.

2. Ansett is also actively engaged in television program production and distribution.

3. This includes revaluations in 1965 and 1977 against which depreciation has been taken.

4. This also includes revenues collected for which transportation passage is due and which amounted to $A16,882,000 ($US 19,076,660) at 7-1-78 and $A22,917,000 ($US 25,896,210) at 12-31-78.

5. Most of this represents $A50,703,000 ($US 57,300,040) in contractual commitments to purchase aircraft.

ANSETT AIRLINES

	($ Millions)				Deliveries				
	Purchase Price	"Policy" Loan	G'tee	Request(85%)	(Number of Aircraft - % of Purchase Price)				
					1981	1982	1983	1984	1985
2 Boeing 767's (competitive with Airbus)	566.450	361.112 (63.75%)	-----	481.483		(2) 16.7%	(4) 33.3%	(4) 33.3%	(2) 16.7%
4 Boeing 727-200's (competitive with Airbus)	69.100	44.051 (63.75%)	-----	58.735	(4) 100%				
9 Boeing 737-200's (short range - not competitive)	137.220	41.166	41.166	116.637	(7) 77.8%	(2) 22.2%			
	772.770	446.329	41.166	656.855					
equested loan funds less 'policy" loan funds				210.526					

	Estimated $ Value of Purchases				
	1981	1982	1983	1984	1985
12 Boeing 767's	- 0 -	94.597	188.628	188.628	94.597
4 Boeing 727-200's	69.100				
9 Boeing 737-200's	106.757	30.463			
	176.192	125.189	188.556	188.556	94.277
% of Total Purchase	22.8%	16.2%	24.4%	24.4%	12.2%

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AIRBUS PARIS

FROM : AIRBUS INDUSTRIE PARIS - P TAMBOSI

TO : MR MURDOCH
JOINT CHIEF EXECUTIVE
ANSETT TRANSPORT INDUSTRIES LTD
C/O NEWS INTERNATIONAL
LONDON

CC : SIR PETER ABELES
JOINT CHIEF EXECUTIVE
ANSETT TRANSPORT INDUSTRIES LTD
MELBOURNE

AI/C MR WARDE
AI/C/C MR MARTINEZ
AI/C/S MR TANSLEY

AI/C/F NO 5015 PT/FP PARIS FEBRUARY 11 1980

RE : SALES FINANCING FOR ANSETT

DEAR MR MURDOCH

REFERRING TO OUR DISCUSSION IN TOULOUSE ON FEBRUARY 8TH, PLEASE FIND IN THE FOLLOWING THE MODIFIED VERSION OF OUR SALES FINANCING PROPOSAL :

QUOTE

1- SUBJECT TO THE APPROVAL OF AIRBUS INDUSTRIE'S COMPETENT AUTHORITIES, THE FOLLOWING FINANCING CONDITIONS AND TERMS COULD BE OFFERED TO ANSETT FOR THE PURCHASE OF FOUR (4) A300 TO BE DELIVERED BEFORE MID 1983.

1.1 PURPOSE AND AMOUNT

THE LOANS WILL FINANCE EIGHTY FIVE (85) PERCENT MAXIMUM OF THE DELIVERY PRICE OF EACH FIRMLY ORDERED AIRCRAFT

1.2 CURRENCIES

THE LOANS SHALL BE MADE AVAILABLE IN THE FOLLOWING CURRENCIES :

- FORTY (40) PERCENT SHALL BE DENOMINATED IN FRENCH FRANCS (''FF LOAN'')
- FORTY (40) PERCENT SHALL BE DENOMINATED IN DEUTSCHE MARK (''DM LOAN'')
- TWENTY (20) PERCENT SHALL BE DENOMINATED IN US DOLLARS (''UK LOAN'')

THE LOANS SHALL BE MADE AVAILABLE ON A PARIPASSU BASIS AND BE REPAID ACCORDING TO THE SAME SCHEDULE IN THEIR RESPECTIVE CURRENCY.

1.3 DRAWDOWNS

A) THE DRAWDOWNS SHALL BE EFFECTED UPON DELIVERY OF EACH AIRCRAFT AND SHALL NOT EXCEED EIGHTY FIVE (85) PERCENT OF THEIR PRICE

B) SHOULD THE BUYER DECIDE TO TAKE ADVANTAGE OF THE PRESENT FINANCING, THE SELLER WILL AGREE TO RECIEVE THE PAYMENT OF THE PORTION OF THE AIRCRAFT PRICE FINANCED UNDER THE LOANS IN THE CURRENCY OF SAID LOANS, SUCH PAYMENTS BEING EFFECTED ON THE BASIS OF THE RATE OF EXCHANGE OF THESE CURRENCIES WITH THE US DOLLAR WHICH SHALL BE QUOTED IN THE PARIS EXCHANGE MARKET FOR THE FRENCH FRANC AND IN THE FRANKFURT EXCHANGE MARKET FOR THE DEUTSCHE MARK LOAN ON THE LAST BUSINESS DAY BEFORE DELIVERY OF THE RELATED AIRCRAFT

1.4 DURATION AND REPAYMENT

THE LOANS WILL BE GRANTED FOR A PERIOD OF TEN (10) YEARS. EACH DRAWDOWN SHALL BE REPAID IN TWENTY (20) EQUAL CONSECUTIVE SEMI-ANNUAL INSTALMENTS OF PRINCIPAL THE FIRST ONE BEING DUE SIX (6) MONTHS AFTER DELIVERY OF THE RELATED AIRCRAFT.

1.5 INTEREST

A) INTEREST SHALL BE PAYABLE SEMI-ANNUALLY IN ARREARS TOGETHER WITH THE INSTALMENTS OF PRINCIPAL

B) THE ANNUAL INTEREST RATES SHALL BE CALCULATED ON THE BASIS OF THE FOLLOWING NOMINAL RATES :

THE PAYMENT OF ALL SUMS DUE BY ANSETT UNDER THE LOANS SHALL BE SECURED BY AN UNCONDITIONAL GUARANTEE OF THE GOVERNMENT OF AUSTRALIA

1.7 FEES

THE BUYER SHALL NEGOTIATE DIRECTLY WITH THE BANKS THE USUAL BANKING FEES CUSTOMARY IN SUCH TRANSACTION.

NEVERTHELESS, THE SELLER SHALL SEE TO IT THAT THE MANAGEMENT FEE PAYABLE UPON EXECUTION OF THE LOAN AGREEMENT WILL NOT EXCEED 0.50% FLAT OF THE AMOUNT OF FINANCING COMMITTED AND THAT THE COMMITMENT FEE WILL NOT EXCEED 0.5 % P.A. PAYABLE SEMI-ANNUALLY IN ADVANCE OF THE UNUSED PORTION OF THE LOANS

1.8 MISCELLANEOUS.

THE COST OF LEGAL AND OUT OF POCKET EXPENSES IF ANY, SHALL BE BORNE BY ANSETT. ALL CORPORATE AND GOVERNMENTAL APPROVALS NECESSARY PRIOR THE PERFORMANCE OF ANSETT'S OBLIGATIONS UNDER THESE LOANS, SHALL BE OBTAINED SO THAT THE PAYMENT OF ALL AMOUNTS DUE TO THE LENDERS CAN BE EFFECTED WITHOUT DELAY AND DEDUCTION OF ANY EXISTING OR FUTURE WITHHOLDING TAXES, CHARGES, LEVIES OR OTHER DUTIES WHATSOEVER INCLUDING INCOME TAX : IF, HOWEVER, ANY SUCH DEDUCTION HAS TO BE MADE, ANSETT SHALL REIMBURSE OR COMPENSATE THE LENDERS AND GET ALL NECESSARY APPROVALS FOR THIS PURPOSE SO THAT THE LENDERS DO NOT SUFFER IN ANY WAY THE IMPOSITION OF SUCH TAXES CHARGES, DUTIES , LEVIES

1.9 VALIDITY

SHOULD ANSETT DECIDE TO TAKE ADVANTAGE OF THIS FINANCING, THEY WILL HAVE TO INFORM AIRBUS INDUSTRIE WITHIN TWO (2) MONTHS FROM SIGNATURE.. OODOOOOOOOSSSFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFF OF THE PURCHASE AGREEMENT, AFTER WHICH DATE AIRBUS INDUSTRIE WILL NOT ANY LONGER BE COMMITTED WITH REGARD TO THIS FINANCING.

THE BANKS SHALL THEN SUBMIT TO ANSETT A DRAFT OF A CREDIT AGREEMENT TO BE SIGNED WITH THEM, NOT LATER THAN OCTOBER 31, 1980. AIRBUS INDUSTRIE WILL ASSIST, IF NEED BE, ANSETT AND THE BANKS DURING THE ESTABLISHMENT OF THE CREDIT AGREEMENT.

UNQUOTE

WE ARE STILL WORKING ON THE DM QUESTION AND WILL SEND YOU A TX ON THIS SUBJECT BY WEDNESDAY NOON.

BEST PERSONAL REGARDS

P TAMBOS
22897 NEWSUN G
AIRBUS PARIS

ANSETT TRANSPORT INDUSTRIES LIMITED
(Incorporated in Victoria)

REGISTERED OFFICE: 489 SWANSTON STREET, MELBOURNE, AUSTRALIA

Telephone 345 3144 Telex AA30085. Telegrams: ANSETT MELBOURNE, P.O. Box 362F, Melbourne, 3001.

RECEIVED
FEB 21 1980

February 20, 1980.

Hon. John Moore,
Chairman,
Export-Import Bank of the United States,
811 Vermont Avenue, N.W.
WASHINGTON. D.C. 20571.

Dear Mr Moore,

Thank you very much for taking time to see us yesterday to discuss the Boeing request for a preliminary commitment to finance the equipment package for Ansett Airlines of Australia. I appreciate your expressed interest in providing terms which match those offered by Airbus, since your ability to do so will be critically important to any decision we may make to purchase Boeing equipment.

As you consider your offer, I would like to emphasize that we truly believe that a matching competitive interest rate would be 7.95%, as offered by Airbus, even if the loan is entirely in U.S. dollars. As we explained in the meeting, we have great confidence in the strength of the Australian dollar against all hard currencies in the next decade, including the Deutsche mark and the French franc. This confidence is based on excellent prospects for energy self-sufficiency and increasingly valuable mineral exports supporting a very strong balance of payments position.

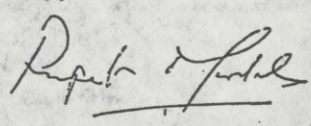
Cont/d....

Subsidiary Companies and Divisions
ANSETT TRANSPORT INDUSTRIES (OPERATIONS) PTY. LTD. • (OPERATING AS ANSETT AIRLINES OF AUSTRALIA • ANSETT AIRLINES OF NEW SOUTH WALES
ANSETT AIRLINES OF SOUTH AUSTRALIA • ANSETT FREIGHT EXPRESS • AVIATION ENGINEERING SUPPLIES • N.I.C. INSTRUMENT COMPANY
ANSETT PIONEER • MILDURA BUS LINES • BARRIER REEF ISLANDS • MACROBERTSON MILLER AIRLINE SERVICES • ANSETT MOTORS
PROVINCIAL MOTORS • ANSETT TELEVISION FILMS • ANSETT GENERAL AVIATION • ANSAIR • MIDCRAYS • ALBURY BORDER TRANSPORT
TRANSPORT INDUSTRIES INSURANCE COMPANY LTD • ANSETT HOTELS PTY. LTD • ANSETT HUGHES ENTERPRISES LTD
UNIVERSAL TELECASTERS QLD LTD • ALSTARAMA TELEVISION PTY. LTD • ANSETT-ALSTARAMA HOLDINGS PTY. LTD

I would also like to emphasize our concern that the loan term be 12 years, which we believe to be available from Airbus.

Thanks again for your interest and concern in achieving a satisfactory financing package to support the Boeing sale.

Sincerely,



(Rupert Murdoch).

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

March 17, 1980

The Boeing Company
P.O. Box 3707
Seattle, Washington 98124

Attention: Mr. J.B.L. Pierce, Treasurer

Re: Australia - Ansett Transport Industries (Operations) Proprietary Limited (Ansett)
7 Boeing 767 aircraft
Letter of Interest No. 0-0218

Gentlemen:

We have reviewed your request for a preliminary commitment submitted to Eximbank by your letter of February 15, 1980 to finance, among other purchases, the purchase by Ansett of 12 Boeing 767 aircraft with related spare engines, spare parts, ground support equipment, and flight crew training.

Eximbank is prepared to finance the first five Boeing 767 aircraft scheduled for delivery to Ansett, two for delivery in 1982 and three for delivery in 1983. This financing offer is described in our Preliminary Commitment No. 80-0-4738.

The Export-Import Bank of the United States is not prepared to make a specific offer of financing for the additional seven Boeing 767 aircraft scheduled for delivery, one in 1983, four in 1984, and two in 1985 at this time. Nevertheless, Eximbank is interested in supporting sales of U.S. built aircraft to Ansett and in this connection we would consider the financing offers which Airbus Industrie may make to Ansett or to Trans Australian Airlines for Airbus aircraft.

Very truly yours,

/s/ CHARLES E. HOUSTON

Charles E. Houston
Vice President - Asia Division

cc: Messrs. de Saint Phalle, Glick, Peacock, Hughes, Turk, Price, McKinsey, Telesca, Ms. Mayo, Ms. Harris, Department of State, U.S. Embassy, Canberra, Australia - Files

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

March 17, 1980

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

The Boeing Company
P.O. Box 3707
Seattle, Washington 98124

Attention: Mr. J.B.L. Pierce, Treasurer

Re: Australia - Ansett Transport Industries (Operations)
Proprietary Limited
4 Boeing 727 aircraft
9 Boeing 737 aircraft
Preliminary Commitment No. 80-0-4745 (Alternate financing plan)

Gentlemen:

We have received your request for a preliminary commitment submitted to Eximbank by your letter of February 15, 1980. Eximbank has offered to finance the purchase of 5 Boeing 767 aircraft, 4 Boeing 727 aircraft, and 9 Boeing 737 aircraft, as described in Preliminary Commitment No. 80-0-4738, one of the conditions of which is that Ansett must contract to purchase all the above Boeing aircraft.

As an alternative financing plan in the event Ansett decides not to contract to purchase all the above Boeing aircraft but does contract to purchase some or all of the above 4 Boeing 727 aircraft and 9 Boeing 737 aircraft, we are pleased to inform you that Eximbank will be prepared, upon receipt of a final loan application satisfactory to it, to assist Ansett Transport Industries (Operations) Proprietary Limited (Borrower) in financing the acquisition in the United States and exportation to Australia of U.S. goods and services for 13 aircraft (Items), the total costs of which (U.S. Costs) is estimated to be U.S. $206,320,000 as follows:

A. Four Boeing 727 aircraft with related spare engines and spare parts, at total estimated U.S. costs of $69,100,000.

1. Eximbank Credit. Eximbank will make a loan to the Borrower in an amount equal to the lesser of $29,367,500 or 42.5 percent of the U.S. costs of the aircraft (Eximbank Credit). The interest rate on amounts disbursed under the Eximbank Credit will be 8.375 percent per annum payable semiannually.

2. Private Financing. One or more lenders satisfactory to Eximbank will make loans to the Borrower in an amount equal to the lesser of $29,367,500 or 42.5 percent of the U.S. costs of the aircraft (Private Financing).

B. Nine Boeing 737 aircraft with related spare engines, spare parts, ground support equipment and flight crew training, at total estimated U.S. costs of $137,220,000.

1. Eximbank Credit. Eximbank will make a loan to the Borrower in an amount equal to the lesser of $41,166,000 or 30 percent of the U.S. costs of the aircraft (Eximbank Credit). The interest rate on amounts disbursed under the Eximbank Credit will be 8.4 percent per annum, payable semiannually.

2. Private Financing. One or more lenders satisfactory to Eximbank will make loans to the Borrower in an amount equal to the lesser of $75,471,000 or 55 percent of the U.S. costs of the aircraft (Private Financing).

3. Eximbank Guarantee.

(a) Amount. Eximbank will be prepared to guarantee repayment by the Borrower of a portion of the disbursements under the Private Financing in an amount equal to the lesser of $41,166,000 or 30 percent of the U.S. costs of the aircraft, repayable from a portion of the sixth installment, the seventh, eighth, ninth, tenth, eleventh, twelfth and a portion of the thirteenth installments of said Private Financing plus interest thereon at the lower of the rate agreed upon by the lender(s) and the Borrower, or at a rate equal at the date of default to the U.S. Treasury rate for maturities similar to the maturity for the unpaid balance of said Private Financing plus 1 percent.

(b) Guarantee Fee. A guarantee fee of 0.5 percent per annum will be charged on amounts disbursed and outstanding under the guaranteed portion of said Private Financing.

Eximbank's assistance, as above set forth, will be subject to the following terms and conditions:

1. Cash Payment. The Borrower shall make a cash payment of not less than 15 percent of the U.S. Costs.

2. Repayment. Disbursements for each aircraft under each of the Eximbank Credits and the Private Financings will be repayable in 20 equal, semiannual installments beginning on the date six months from final disbursement for each aircraft with related spares, ground support equipment and training costs. The Private Financings without an Eximbank guarantee (where applicable) will be repaid first, the Private Financing with an Eximbank guarantee (where applicable) next, and the Eximbank Credit last.

3. Security. Repayment of all Eximbank Credits and that portion of the Private Financings guaranteed by Eximbank will be unconditionally guaranteed by the Government of Australia.

4. Commitment Fees. The Borrower will pay to Eximbank commitment fees of 0.5 percent per annum on the undisbursed portion of each of the Eximbank Credits and 0.125 percent per annum on the undisbursed portion of that portion of the Private Financings guaranteed by Eximbank. These fees will commence to accrue 60 days after the date of approval of the Eximbank Credits, or on the date of signing of the Credit Agreement for the Eximbank Credits, whichever is earlier.

5. Disbursements. Disbursements of funds under the Eximbank Credits and the Private Financings will be made on a pari passu basis.

6. Supply Contracts. The contracts for the purchase and sale of the Items must be submitted to Eximbank prior to disbursements. Such contracts must be satisfactory to Eximbank and shall not contravene any applicable statute or public policy of the United States.

7. Ocean Transportation. All Items which are financed under the Eximbank Credit and the Private Financing and which are exported by ocean vessel must be transported from the United States in vessels of U.S. registry as required by Public Resolution No. 17 of the 73rd Congress of the United States, except to the extent that a waiver of this requirement is obtained from the U.S. Maritime Administration. Application for a waiver must be submitted to the Maritime Administration far enough in advance of the intended shipping date to enable it to process the application.

8. Expiration Date. This preliminary commitment will expire if a complete application for a credit is not received by Eximbank on or before December 31, 1980.

9. Application. Prior to the expiration of this preliminary commitment, the Borrower must submit an application to Eximbank demonstrating to the satisfaction of Eximbank the economic and financial soundness and technical feasibility of the transaction. Such application will include, among other things, the following:

(a) Projected balance sheets, profit and loss statements, and cash flow statements for a period of five years beginning with the current fiscal year, showing debt service ability with the amounts of principal repayments and interest payments listed. Assumptions should be clearly stated, as well as Borrower's planned major capital expenditures for the next five years and anticipated sources of financing for those expenditures.

(b) The financial plan for the purchase of the Items, including the source of funds for the cash payment and the Private Financing.

(c) Capital cost breakdown by major components and countries of origin.

(d) Acquisition list for U.S. procurement showing items to be purchased, names of suppliers, estimated costs, and shipping dates.

(e) Conformed copy of purchase contract.

(f) Such additional information as may reasonably be required to determine the creditworthiness of the proposal and the appropriateness of the terms and the conditions of the financing requested.

10. Other Terms and Conditions. Eximbank's assistance may include such other terms and conditions as Eximbank may deem necessary at the time of approval of a final commitment. Moreover, a final commitment is subject to review by the National Advisory Council on International Monetary and Financial Policies.

Should you have any questions concerning this preliminary commitment, please feel free to contact the Eximbank Loan Officer, David Peacock, telephone number (202) 566-8097, or the undersigned.

Sincerely yours,

Charles E. Houston

Charles E. Houston
Vice President - Asia Division

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

March 17, 1980

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

The Boeing Company
P.O. Box 3707
Seattle, Washington 98124

Attention: Mr. J.B.L. Pierce, Treasurer

Re: Australia - Ansett Transport Industries (Operations)
Proprietary Limited
5 Boeing 767 aircraft
4 Boeing 727 aircraft
9 Boeing 737 aircraft
Preliminary Commitment No. 80-0-4738

Gentlemen:

We have received your request for a preliminary commitment submitted to Eximbank by your letter of February 15, 1980.

We are pleased to inform you that Eximbank will be prepared, upon receipt of a final loan application satisfactory to it, to assist Ansett Transport Industries (Operations) Proprietary Limited (Borrower) in financing the acquisition in the United States and exportation to Australia of U.S. goods and services for 18 aircraft (Items), the total costs of which (U.S. Costs) is estimated to be U.S. $442,340,833 as follows:

A. 5 Boeing 767 aircraft with related spare engines, spare parts, ground support equipment, and flight crew training, at total estimated U.S. costs of $235,020,833.

1. Eximbank Credit. Eximbank will make a loan to the Borrower in an amount equal to the lesser of $200,617,708 or 85 percent of the U.S. costs of the aircraft (Eximbank Credit). The interest rate on amounts disbursed under the Eximbank Credit will be 8 percent per annum, payable semiannually.

B. Four Boeing 727 aircraft with related spare engines and spare parts, at total estimated U.S. costs of $69,100,000.

1. Eximbank Credit. Eximbank will make a loan to the Borrower in an amount equal to the lesser of $34,550,000 or 50 percent of the U.S. costs of the aircraft (Eximbank Credit). The interest rate on amounts disbursed under the Eximbank Credit will be 8.375 percent per annum payable semiannually.

2. Private Financing. One or more lenders satisfactory to Eximbank will make loans to the Borrower in an amount equal to the lesser of $24,185,000 or 35 percent of the U.S. costs of the aircraft (Private Financing).

C. Nine Boeing 737 aircraft with related spare engines, spare parts, ground support equipment and flight crew training, at total estimated U.S. costs of $137,220,000.

1. Eximbank Credit. Eximbank will make a loan to the Borrower in an amount equal to the lesser of $54,588,000 or 40 percent of the U.S. costs of the aircraft (Eximbank Credit). The interest rate on amounts disbursed under the Eximbank Credit will be 8.4 percent per annum, payable semiannually.

2. Private Financing. One or more lenders satisfactory to Eximbank will make loans to the Borrower in an amount equal to the lesser of $61,749,000 or 45 percent of the U.S. costs of the aircraft (Private Financing).

3. Eximbank Guarantee.

(a) Amount. Eximbank will be prepared to guarantee repayment by the Borrower of a portion of the disbursements under the Private Financing in an amount equal to the lesser of $27,444,000 or 20 percent of the U.S. costs of the aircraft, repayable from a portion of the sixth installment, the seventh, eighth, ninth, tenth, and a portion of the eleventh installments of said Private Financing plus interest thereon at the lower of the rate agreed upon by the lender(s) and the Borrower, or at a rate equal at the date of default to the U.S. Treasury rate for maturities similar to the maturity for the unpaid balance of said Private Financing plus 1 percent.

(b) Guarantee Fee. A guarantee fee of 0.5 percent per annum will be charged on amounts disbursed and outstanding under the guaranteed portion of said Private Financing.

Eximbank's assistance, as above set forth, will be subject to the following terms and conditions:

1. Number of Aircraft. The Borrower must contract to purchase all the Items.

2. Cash Payment. The Borrower shall make a cash payment of not less than 15 percent of the U.S. Costs.

3. Repayment. Disbursements for each aircraft under each of the Eximbank Credits and the Private Financings will be repayable in 20 equal, semiannual installments beginning on the date six months from final disbursement for each aircraft with related spares, ground support equipment and training costs. The Private Financings without an Eximbank guarantee (where applicable) will be repaid first, the Private Financing with an Eximbank guarantee (where applicable) next, and the Eximbank Credit last.

4. Security. Repayment of all Eximbank Credits and that portion of the Private Financings guaranteed by Eximbank will be unconditionally guaranteed by the Government of Australia.

5. Commitment Fees. The Borrower will pay to Eximbank commitment fees of 0.5 percent per annum on the undisbursed portion of each of the Eximbank Credits and 0.125 percent per annum on the undisbursed portion of that portion of the Private Financings guaranteed by Eximbank. These fees will commence to accrue 60 days after the date of approval of the Eximbank Credits, or on the date of signing of the Credit Agreement for the Eximbank Credits, whichever is earlier.

6. Disbursements. Disbursements of funds under the Eximbank Credits and the Private Financings will be made on a pari passu basis.

7. Supply Contracts. The contracts for the purchase and sale of the Items must be submitted to Eximbank prior to disbursements. Such contracts must be satisfactory to Eximbank and shall not contravene any applicable statute or public policy of the United States.

8. Ocean Transportation. All Items which are financed under the Eximbank Credits and the Private Financings and which are exported by ocean vessel must be transported from the United States in vessels of U.S. registry as required by Public Resolution No. 17 of the 73rd Congress of the United States, except to the extent that a waiver of this requirement is obtained from the U.S. Maritime Administration. Application for a waiver must be submitted to the Maritime Administration far enough in advance of the intended shipping date to enable it to process the application.

9. Expiration Date. This preliminary commitment will expire if a complete application for a credit is not received by Eximbank on or before December 31, 1980.

10. Application. Prior to the expiration of this preliminary commitment, the Borrower must submit an application to Eximbank demonstrating to the satisfaction of Eximbank the economic and financial soundness and technical feasibility of the transaction. Such application will include, among other things, the following:

(a) Projected balance sheets, profit and loss statements, and cash flow statements for a period of five years beginning with the current fiscal year, showing debt service ability with the amounts of principal repayments and interest payments listed. Assumptions should be clearly stated, as well as Borrower's planned major capital expenditures for the next five years and anticipated sources of financing for those expenditures.

(b) The financial plan for the purchase of the Items, including the source of funds for the cash payment and the Private Financing.

(c) Capital cost breakdown by major components and countries of origin.

(d) Acquisition list for U.S. procurement showing items to be purchased, names of suppliers, estimated costs, and shipping dates.

(e) Conformed copy of purchase contract.

(f) Such additional information as may reasonably be required to determine the creditworthiness of the proposal and the appropriateness of the terms and the conditions of the financing requested.

11. Other Terms and Conditions. Eximbank's assistance may include such other terms and conditions as Eximbank may deem necessary at the time of approval of a final commitment. Moreover, a final commitment is subject to review by the National Advisory Council on International Monetary and Financial Policies.

Should you have any questions concerning this preliminary commitment, please feel free to contact the Eximbank Loan Officer, David Peacock, telephone number (202) 566-8097, or the undersigned.

Sincerely yours,

Charles E. Houston

Charles E. Houston
Vice President - Asia Division

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

April 4, 1980

Dear Mr. Chairman:

In your letter of March 21, 1980, you and Senator Stevenson have requested information regarding the preliminary commitments and the letter of interest issued in connection with the sale of Boeing aircraft to Ansett Transport Industries. Your Committee is already in possession of the texts of the three letters, the memoranda prepared by the Eximbank Staff for the Board's consideration of the transaction, and the records of the Board meetings at which the transaction was considered.

In addition, a full chronology of the transaction containing dates, names and copies of the documents referred to in the chronology is attached to this letter (Enclosure A). The selection by the Board of both the interest rate of 8% and cover of 85% on the sale of the 767's to Ansett was based on the need to match a confirmed offer of financing for four Airbuses with 7.95% interest cost and 85% cover. That need is, I believe, fully documented in the background memoranda and records of the Board meetings and other materials, all of which have now been made available to you.

You have also asked a number of questions which relate to the transaction. First, you have requested an account of my meetings on February 27, 1980, first with C. Fred Bergsten, Assistant Secretary of Treasury, and then with Henry C. Wallich, Governor of the Federal Reserve Board. Normally, Eximbank officials meet with other government agencies to discuss particular transactions within the framework of NAC meetings. However, in view of the strong competition on the transaction and the need for the Board to act expeditiously, special meetings in advance with Treasury and the Federal Reserve enabled the NAC to review fully the transaction despite the time constraints.

I explained to both Mr. Bergsten and Mr. Wallich the urgency of the transaction and the longstanding policy of Trans-Australia Airlines (TAA) and Ansett Airlines to purchase the same aircraft. At the time Ansett was the subject of takeover bids during 1979, TAA had purchased the Airbus without asking for any competitive bids from other aircraft suppliers. Eximbank had, in fact, been informed as a routine matter by the U.S. Embassy in Australia of TAA's decision to purchase the Airbus. At the same time Airbus extended a similar offer to Sir Reginald Ansett, Chairman of the Board of Ansett Airlines.

I also passed on Mr. Rupert Murdoch's description of the position of members of the Ansett Board. Sir Reginald, who has had only one vote since the takeover of Ansett on December 31, 1979, apparently favored maintaining the policy of buying the same type of aircraft (Airbus) as those purchased by TAA. The rest of the Board was evenly divided between support for Sir Reginald's position and the possibility of enabling Ansett to offer narrow-bodied, frequent service to compete with the wide-bodied aircraft of TAA. Mr. Murdoch explained that the marketing people at Ansett favored purchase of the Airbus while the engineers preferred the Boeing 767. The final vote was expected to be close.

I also described the arguments made by the representative of Thomas Nationwide Transport (current owners with Murdoch of Ansett) that movements of the Australian dollar in parallel with the U.S. dollar and relative to the Deutschmark in the coming decade led him to conclude that it was necessary for Eximbank to offer 8%.

I told Treasury and the Federal Reserve that with respect to the 767's, it would be very hard for the Ansett Board to accept an interest rate higher than 8% and remain in competition with the 7.95% charged on the basket of currencies offered by Airbus because they have to justify business decisions to large constituencies of public stockholders. I also noted that the whole package of the offer, including Eximbank financing and private financing at current commercial rates, bore a weighted average interest of 9.3 percent to Ansett which I judged to be about competitive with the basket of currencies (Deutschmarks at 6 1/2 %, French francs at 8 3/4% and U.S. dollars at 9 1/4%).

In addition to briefing the Treasury and the Federal Reserve on my conversation with Ansett, I emphasized the point that the Bank needed the Treasury's and the Federal

Reserve's independent analysis of how high an interest rate Eximbank could charge and still be deemed competitive. I invited them to consider the matter and report through their representatives at our Board meeting on the following day. Both the Treasury and the Federal Reserve subsequently voted in favor of the transaction on February 28.

Second, in your letter you also requested the details of any communications between Eximbank and White House, State and Embassy officials. The only such communication was a telephone call I received on February 24, 1980, from Philip Alston, U.S. Ambassador to Australia. He had just been visited by the Boeing sales representative and briefed on the opportunity for Boeing to sell a fleet of airplanes to Ansett. He wanted to know from me how the matter stood, especially since Ansett needed an answer before March 1, 1980, when its option to acquire Airbus on the same delivery schedule as TAA would expire.

I explained that we had only met Mr. Murdoch and the others from Ansett during the preceding week, and that the case was being prepared as rapidly as possible for presentation to the Board at the upcoming Tuesday meeting. We were concerned over the rate of interest to offer and expected it to be an issue for the agencies of the NAC. While I could not anticipate the final decision of the Board, I did tell Ambassador Alston that he could tell the Boeing representatives that the transaction would be fully considered by the Eximbank Board and the NAC in time for a response to be given to Ansett before the deadline of March 1. I also promised to telephone him after the final Board action the following Thursday. On February 28, I telephoned Ambassador Alston to report the Board's decision on the transaction. I gave him the details of the preliminary commitments and the letter of interest that were to be issued to Ansett, but asked him not to release them until the Boeing-Seattle office had contacted the Boeing sales representative in Australia. I was sure that the sales representative would speak with Ambassador Alston shortly, and he would then be free to discuss the transaction.

Finally, you have asked questions regarding general Eximbank practices. First, the interest rates, percentages of cover and terms of financing offered by Eximbank for each medium-range aircraft sale for which a preliminary commitment or direct credit was issued since 1977 are set

forth in Enclosure B to this letter. Second, in December, 1979, Eximbank borrowed $950 million at a rate of 10.559% on a average term of five years, and in March, 1980, the Bank borrowed $124 million at a rate of 12.694% on a term of ten years and $714 million at a rate of 13.233% on an average term of five years. At the present time, the aggregate rate on all outstanding borrowings is 8.77%. Third, Eximbank does not borrow to fund a specific transaction; rather, the cost of funds for any disbursement for any transaction would simply be the aggregate cost of all borrowings the Bank has made as of the time of the disbursement.

I hope the information supplied to you and the Committee will answer all questions you may have regarding the subject transaction. If I can be of any further assistance, please do not hesitate to contact me or my staff.

Sincerely,

John L. Moore, Jr.

Enclosures

The Honorable
William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosure A

CHRONOLOGY*

Australia - Ansett Transport Industries
P. C. No. 80-0-4738

2/15/80 Mr. Heidrich (Deputy Vice President - Asia), Mr. Brois (Chief Engineer), Mr. Telesca (Loan Officer), Ms. Mayo (Economist) (all of Eximbank) met with Ansett staff in Australia (Appendix 1)

2/19/80 Mr. Murdoch (Ansett), Mr. Clifton-Bligh (Thomas Nationwide Transport and Mr. Kummerfeld (News America of Publishing, Inc.) and Mr. Pierce and Mr. Hong (both of Boeing) met with Chairman Moore and Mr. Houston (Eximbank Vice President - Asia) and presented the Boeing letter application (Appendix 2). (An account of the meeting is set forth in Appendix 3.)

2/19/80 An application was given to Mr. Peacock (Eximbank Loan Officer) by Mr. Houston with instructions to prepare the memorandum for the Board meeting on 2/26/80.

2/19/80 Mr. Peacock telephoned Ms. Cicala (Boeing), Mr. Donald Kummerfeld and Mr. Clifton-Bligh to request the latest financial statements on Ansett and up-to-date information on its corporate structure since the takeover.

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* All Board memoranda, tapes and transcripts have been supplied previously, as well as the two commitment letters and letters of interest.

2/21/80 Chairman Moore received a letter from Mr. Murdoch emphasizing the need for a matching 7.95% interest rate and 12-year repayment. A copy of the Airbus offer was attached. (Appendix 4)

2/20/80 and 2/21/80 Mr. Peacock received an up-to-date description of Ansett corporate structure from Mr. Kummerfeld's office. (Board Memoranda and Appendix 5)

2/22/80 Mr. Peacock received summary financial statements by telephone from Mr. Cooper (Ansett) in Australia on Ansett Airlines Group.

2/25/80 Ms. Barbara Bowie (State Department) signed the routine clearance on human rights.

2/25/80 The State Department gave political clearance.

2/25/80 Mr. Peacock received a cabled summary financial statement from Mr. Cooper. (Appendix 6)

2/20/80 to 2/25/80 Chairman Moore received and passed to Mr. Houston and Mr. Peacock a copy of an internal Boeing memorandum referring to a telephone call from Mr. Murdoch to Boeing emphasizing Mr. Murdoch's demand for a 7.9% interest rate and 12-year financing. (Appendix 7)

2/26/80 Boeing's request for financing was presented to the Eximbank Board of Directors for the first time. (First Board Memorandum and tape and transcript of tape

of 2/26/80) Messrs. Peacock and Hamilton (Eximbank) in the afternoon presented to the working level committee of the NAC the Board memorandum as revised by the Board at its meeting in the morning. (Second Board Memorandum and Appendix 8)

2/27/80 Mr. Kummerfeld, who said he was calling in Mr. Murdoch's presence, telephoned Mr. Peacock to say that Ansett had only a commitment on the first four Airbus 300's for delivery by mid-1983. Mr. Murdoch said he "felt confident" that Ansett would get the same financing on further orders of A-300's.

2/27/80 Chairman Moore met with Mr. Bergsten (Treasury) and Mr. Wallich (Federal Reserve). Mr. Peacock received a telephone call from Mr. Peters and Mr. Hong saying that Mr. Murdoch had told Chairman Moore he had to have an answer by 2/28/80 and reported that Boeing sales people said there was no reason to believe that Airbus would not give same financing on 12 Airbus as on first 4. Mr. Hong stated that the Airbus proposal Eximbank had (Appendix 2) addressed only the 4 aircraft to be delivered by October 1981 and that for the next 8 to 12 aircraft "they have a basic agreement with Mr. Ward (Airbus) but nothing in writing."

2/27/80 Mr. Peacock received a telephone call from Ms. Cicala to ask the status of the case and whether Eximbank needed additional information.

2/28/80 Chairman Moore received a cable from Mr. Pierce (Appendix 9)

2/28/80 Eximbank Board considered the case again as revised on 2/26/80 with advice from the NAC. (Second Board Memorandum and tape and transcript of tape 2/28/80). The Board's decision is reflected in a third Board memorandum (Third Board Memorandum).

2/29/80 Mr. Peacock described the Eximbank offer in detail in several telephone conversations with both Mr. Murdoch and Mr. Kummerfeld.

3/3/80 Mr. Houston received a letter from Mr. Pierce asking Mr. Houston to telephone Mr. Murdoch. (Appendix 10) Mr. Pierce also indicated that the Airbus offer had been extended for two weeks. In view of Mr. Peacock's previous conversations with Mr. Murdoch, Mr. Houston saw no need to telephone Mr. Murdoch.

3/17/80 A State Department cable was received from Melbourne advising of Mr. Murdoch's announcement that Ansett had decided to purchase Boeing aircraft (Appendix 11)

3/18/80 Two formal Preliminary Commitment letters and a Letter of Interest were sent to Boeing. (Preliminary Commitment Letters and Letter of Interest)

March 31, 1980

MEMORANDUM OF VISIT

Date: February 15, 1980

Place: Melbourne, Australia

Participants: Ansett Transport Industries Limited
Mr. Ralph L. Cooper, Executive General Manager
Mr. William Franklin, Secretary, Treasurer
Mr. Graham McMahon, Assistant General Manager of Airlines

Eximbank
George C. Heidrich
John A. Brois
Kenneth T. Telesca
Alice L. Mayo

Mr. Ralph Cooper welcomed the Exim team, recalled the pleasant association with Eximbank personnel over the years, and asked that the team convey special regards to Walter Sauer and Alan Beede.

The team was briefed on the chronology of Ansett's new ownership and the personal backgrounds of Sir Robert Murdoch and Sir Peter Abeles. The new corporate structure will not include any direct public shareholding, but rather two major shareholders, News Limited Australia and Thomas Nationwide Transport Limited, which are widely held companies. Sir Reginald Ansett has stepped down as managing director, and is expected to retire soon.

Mr. Cooper explained that he had just returned from overseas and that there is considerable pressure to purchase the Airbus in view of the fact that their competitor, TAA is buying Airbuses. He estimated that over the next 10 years Ansett needs at least 4 wide bodies plus other aircraft at a capital cost of $800 million. This would include 9 B-737s for 1981/82 deliveries, 4 B-727s for 1981 deliveries and 5 B-767s for 1982 deliveries,

with the possibility of more B-767s by 1985. According to Cooper, Ansett will be required to make a decision on the wide bodies (B-767 vs. Airbus) within several weeks, and financing will be crucial.

When the team pressed for details of the competitive financing offered from Airbus, the Ansett people declined to discuss specifics but identified the following three major factors:

(1) interest costs (Mr. Cooper rated this highest);

(2) percentage of support (Mr. McMahon rated this highest); and

(3) ground equipment support (Airbus offering non-consortium ground equipment support also).

The team explained Eximbank's aircraft policy, and indicated the Bank's interest in being very supportive of U.S. aircraft, particularly with respect to disbursing before the private bank and being repaid from the latter maturities. Mr. Heidrich indicated current scale interest rates in the neighborhood of 8-1/2% to 8-3/4% given the delivery periods assumed for the sake of discussion, but warned the Ansett people that interest rates are reviewed quarterly and could increase.

Mr. Cooper impressed upon us the urgency of Ansett's coming to a decision very soon and confided in the team that Mr. Murdoch was now in Seattle discussing with Boeing, the purchase of five (5) B-767s, nine (9) B-737s, and four (4) B-727s. The team invited Ansett to submit an application for a preliminary commitment, explaining the foregoing in detail and particularly documenting the competitive offer. Mr. Cooper indicated Ansett would prepare a P.C. application and present it to the team at the Sydney Airport on Friday, February 22, 1980, just prior to the team's return flight to the United States.

Note: The team did not receive an application prior to leaving Australia, nor was there any indication that Mr. Murdoch was presenting an application direct to Eximbank in Washington.

Kenneth T. Telesca
Loan Officer - Asia

cc: Directors, Glick, Sauer, Houston, Heidrich, Brois, Mayo, Telesca, Beede.

THE BOEING COMPANY

P. O. Box 3707
Seattle, Washington 98124

1-9501-S-1833
February 15, 1980

Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

PC-4738

ATTN: Mr. Charles E. Houston
Vice President - Asia

Ansett Airlines of Australia, Australia's largest privately-owned airline, is close to a decision on the purchase of a new type wide-bodied aircraft.

Under consideration by Ansett are two fleet alternatives. One provides for the acquisition of twelve (12) Airbus A300B4 aircraft; the other a fleet of Boeing aircraft consisting of twelve (12) 767s, four (4) 727s, and nine (9) 737s.

The investment by Ansett in the Boeing equipment package is estimated to be $832.1 million and consists of the following items:

(12) 767 aircraft (6) Spare engines & QEC kits Airframe & engine spare parts Ground support equipment Flight crew training Subtotal	[redacted] $625,780,000
(4) Advanced 727-200 aircraft (2) Spare engines & QEC kits Airframe & engine spare parts Subtotal	[redacted] $ 69,100,000

You will note that there are brackets around portions of the enclosed materials. These identify information which would constitute confidential business information within the purview of Exemption 4 of the Freedom of Information Act and would normally, therefore, be withheld from disclosure to the public by the Bank. We would appreciate it if you would handle the bracketed materials so as to avoid any adverse impact upon the suppliers of the information.

The 767 aircraft are scheduled for delivery (2) in November 1982, (2) in January 1983, (2) fourth quarter 1983, and one each quarter thereafter. The 727 aircraft are scheduled for delivery one each in June, July, August and September 1981. The 737 aircraft are scheduled for delivery (7) during 1981 and (2) during 1982.

Should Ansett decide on Boeing equipment, it is Ansett's plan in 1981 to add to their present jet fleet of (12) DC-9-30s and (12) 727-200s with (4) more of the 727-200s. This is necessary to counter the earlier deliveries available on the Airbus A300 prior to our deliveries of the 767 in November 1982. (Airbus has offered an initial A300 delivery position of October 1981.) Ansett would use the widebody aircraft to help satisfy the traffic demand and growth between its major market centers - Melbourne, Sydney, Brisbane, Adelaide and Perth. The 737 aircraft would be primarily used to satisfy the needs of their frequency-sensitive local eastern and other smaller routes.

We are informed that Airbus is offering very attractive financing terms to Ansett for the purchase of (12) A300B4 aircraft. We understand the Airbus offer gives Ansett a choice between two hard currency loans, each for 10 year terms: (1) a 40% participation in the latter maturities at an interest rate of 6 1/2%, or (2) an 85% participation at an interest rate of 7.95%.

Ansett has been conducting in-depth studies in their evaluation of the Airbus/Boeing fleet alternatives. The Airbus offer has made financing a critical factor in Ansett's equipment selection decision. For Boeing, this is an "all-or-nothing" proposition. If Ansett decides to purchase the Airbus, it is unlikely that Boeing will be able to sell any additional aircraft of any type to Ansett for at least the next five years. Moreover, Trans-Australia Airlines (TAA), Ansett's government-owned competitor, has already decided to purchase the A-300, again at very favorable financing terms. This has placed considerable pressure on Ansett to also purchase Airbus.

Therefore, The Boeing Company hereby requests that the Export-Import Bank provide a preliminary commitment to finance the Boeing equipment package on terms which favorably match those Airbus offered to Ansett.

All loans to be extended toward financing Ansett's purchase will be unconditionally guaranteed by the Commonwealth of Australia.

Yours very truly,

THE BOEING COMPANY

J. B. L. Pierce
Treasurer

BOEING

FILE COPY

February 19, 1980

Visitors

Mr. Rupert Murdoch
Managing Director, Ansett Transport Industries Limited

Mr. Donald Kummerfeld
President, News America Publishing, Inc.

Mr. L. Robert Clifton-Bligh, Finance Director - International
Thomas Nationwide Transport Limited

Mr. Jack Pierce
Treasurer, Boeing Company

Mr. Leslie K. Y. Hong, Vice President
Boeing International Corporation

Eximbank

Mr. John Moore, President and Chairman

Mr. Charles E. Houston, Vice President, Asia Division

After the usual pleasantries, Mr. Murdoch said that he represented one of the two groups that had acquired control of Ansett in late 1979. He then skteched the history of Australia's policy of maintaining two equal domestic airlines: Ansett, privately owned, and Trans Australia Airlines, owned by the Government of Australia. These two carriers had substantially identical fleets of aircraft, flew closely similar routes and schedules and both had available the guarantee of the Government of Australia to support their borrowings for aircraft purchases. Mr. Murdoch said that Sir Reginald Ansett had directed Ansett's operations in the framework of the "two airline policy." Now that control of Ansett had been acquired by his (Murdoch's) News Corporation Ltd. and by Thomas Nationwide Transport, Ansett would not necessarily continue to work within the framework of the "two airline policy," e.g., although Trans Australia had announced its commitment to purchase Airbus aircraft, Ansett was considering Boeing planes for its fleet expansion.

65-701 556

The Australian visitors then spoke of the purchase of control of Ansett. Mr. Kummerfeld sketched the operations of News Corporation Ltd., explaining that it had operations in a number of countries, including the U.S. where its holdings included the New York Post and newspapers in San Antonio, Texas.

Mr. Clifton-Bligh described Thomas Nationwide Transport's activities in trucking and shipping which include entities in the U.S., Canada, Latin America and Europe.

Discussion turned to the possible purchase of Boeing aircraft and Mr. Murdoch and Mr. Pierce outlined a possible procurement consisting of 12 Boeing 767s, 4 Boeing 727s and 9 Boeing 737s.

Mr. Murcoch said that he had received a financing proposal from Airbus Industrie to support an offer of A-300 aircraft. The principal features of the offer were:

1. Loans for 85% of the delivery price of each firmly ordered aircraft.
2. The loans to be in the following currencies at the interest rate stated:
   a. French francs 40% @ 8.75%
   b. Deutsche mark 40% @ 6.50%
   c. U.S. dollars 20% @ 9.25%
3. There would be a management fee not to exceed 0.5% "flat," and a commitment fee of 0.5% per annum on undisbursed funds.
4. Loans to be disbursed and repaid pari passu.

5. The loans to be repaid in 20 semiannual installments, the first being due 6 months after delivery of the related aircraft.

6. The loans would be guaranteed by the Government of Australia.

Mr. Murdoch said he hoped Eximbank would be able to offer a financing proposal in support of Boeing aircraft that would be competitive with the Airbus offer.

Mr. Moore pointed out that the Airbus offer included 40% Deutsche mark, a currency that had been rapidly appreciating against the dollar, and 40% French francs, a currency that had also appreciated against the dollar. He suggested that Ansett, in evaluating financing proposals, should give weight to the currencies involved and the possibility that U.S. dollar obligations might prove to be less burdensome than those denominated in Deutsche mark and French francs.

The Australian visitors disputed the suggestion, pointing out that Australia had large energy resources and many other resources as well; that they expected Australia to have a strong balance of payments position and a strong currency in coming years and that they were not concerned by Deutsche mark and French franc obligations.

Mr. Murdoch explained that the aircraft delivery dates in the Airbus offer were good only until February 29, 1980, and that it was, therefore, very important that he promptly receive an indication of Eximbank's position.

Mr. Pierce presented a letter requesting an Eximbank preliminary commitment and expressed a hope that Exim could respond promptly and favorably.

Mr. Moore said that the Bank did try to offer export financing support that was competitive, and that the Bank would proceed promptly to develop a position.

The meeting ended on that note.

ANSETT TRANSPORT INDUSTRIES LIMITED
(Incorporated in Victoria)

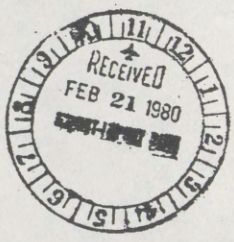
REGISTERED OFFICE: 489 SWANSTON STREET, MELBOURNE, AUSTRALIA

Telephone 345 3144 Telex AA30085. Telegrams and cables 'ANSETT' MELBOURNE, P.O. Box 362F, Melbourne, 3001.

February 20, 1980.

PC-4738

Hon. John Moore,
Chairman,
Export-Import Bank of the United States,
811 Vermont Avenue, N.W.
WASHINGTON. D.C. 20571.



Dear Mr Moore,

Thank you very much for taking time to see us yesterday to discuss the Boeing request for a preliminary commitment to finance the equipment package for Ansett Airlines of Australia. I appreciate your expressed interest in providing terms which match those offered by Airbus, since your ability to do so will be critically important to any decision we may make to purchase Boeing equipment.

As you consider your offer, I would like to emphasize that we truly believe that a matching competitive interest rate would be 7.95%, as offered by Airbus, even if the loan is entirely in U.S. dollars. As we explained in the meeting, we have great confidence in the strength of the Australian dollar against all hard currencies in the next decade, including the Deutsche mark and the French franc. This confidence is based on excellent prospects for energy self-sufficiency and increasingly valuable mineral exports supporting a very strong balance of payments position.

Cont/d....

Subsidiary Companies and Divisions

ANSETT TRANSPORT INDUSTRIES (OPERATIONS) PTY. LTD. • (OPERATING AS ANSETT AIRLINES OF AUSTRALIA • ANSETT AIRLINES OF NEW SOUTH WALES
ANSETT AIRLINES OF SOUTH AUSTRALIA • ANSETT FREIGHT EXPRESS • AVIATION ENGINEERING SUPPLIES • N.I.C. INSTRUMENT COMPANY
ANSETT-PIONEER • MILDURA BUS LINES • BARRIER REEF ISLANDS • MACROBERTSON MILLER AIRLINE SERVICES • ANSETT MOTORS
PROVINCIAL MOTORS • ANSETT TELEVISION FILMS • ANSETT GENERAL AVIATION • ANSAIR • WRIDGWAYS • ALBURY BORDER TRANSPORT)
TRANSPORT INDUSTRIES INSURANCE COMPANY LTD. • ANSETT HOTELS PTY. LTD. • ANSETT NIUGINI ENTERPRISES LTD.
UNIVERSAL TELECASTERS QLD. LTD. • AUSTARAMA TELEVISION PTY. LTD. • ANSETT BREWARRANA HOLDINGS PTY. LTD.
SIST CONSTRUCTIONS PTY. LTD.

FILE COPY

I would also like to emphasize our concern that the loan term be 12 years, which we believe to be available from Airbus.

Thanks again for your interest and concern in achieving a satisfactory financing package to support the Boeing sale.

Sincerely,

Rupert Murdoch

(Rupert Murdoch).

FILE COPY

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22897 NEWSUN G

AIRBUS PARIS

FROM : AIRBUS INDUSTRIE PARIS - P TAMBOSI

TO : MR MURDOCH

JOINT CHIEF EXECUTIVE

ANSETT TRANSPORT INDUSTRIES LTD

C/O NEWS INTERNATIONAL

LONDON

CC : SIR PETER ABELES

JOINT CHIEF EXECUTIVE

ANSETT TRANSPORT INDUSTRIES LTD

MELBOURNE

AI/C MR WARDE

AI/C/C MR MARTINEZ

AI/C/S MR TANSLEY

AI/C/F NO 5015 PT/FP PARIS FEBRUARY 11 1980

RE : SALES FINANCING FOR ANSETT

FILE

REFERRING TO OUR DISCUSSION IN TOULOUSE ON FEBRUARY 8TH, PLEASE FIND IN THE FOLLOWING THE MODIFIED VERSION OF OUR SALES FINANCING PROPOSAL :

QUOTE

1- SUBJECT TO THE APPROVAL OF AIRBUS INDUSTRIE'S COMPETENT AUTHORITIES, THE FOLLOWING FINANCING CONDITIONS AND TERMS COULD BE OFFERED TO ANSETT FOR THE PURCHASE OF FOUR (4) A300 TO BE DELIVERED BEFORE MID 1983.

1.1 PURPOSE AND AMOUNT

THE LOANS WILL FINANCE EIGHTY FIVE (85) PERCENT MAXIMUM OF THE DELIVERY PRICE OF EACH FIRMLY ORDERED AIRCRAFT

1.2 CURRENCIES

THE LOANS SHALL BE MADE AVAILABLE IN THE FOLLOWING CURRENCIES :

- FORTY (40) PERCENT SHALL BE DENOMINATED IN FRENCH FRANCS (''FF LOAN'')
- FORTY (40) PERCENT SHALL BE DENOMINATED IN DEUTSCHE MARK (''DM LOAN'')
- TWENTY (20) PERCENT SHALL BE DENOMINATED IN US DOLLARS (''UK LOAN'')

THE LOANS SHALL BE MADE AVAILABLE ON A PARIPASSU BASIS AND BE REPAID ACCORDING TO THE SAME SCHEDULE IN THEIR RESPECTIVE CURRENCY.

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1.3 DRAWDOWNS

A) THE DRAWDOWNS SHALL BE EFFECTED UPON DELIVERY OF EACH AIRCRAFT AND SHALL NOT EXCEED EIGHTY FIVE (85) PERCENT OF THEIR PRICE

B) SHOULD THE BUYER DECIDE TO TAKE ADVANTAGE OF THE PRESENT FINANCING, THE SELLER WILL AGREE TO RECIEVE THE PAYMENT OF THE PORTION OF THE AIRCRAFT PRICE FINANCED UNDER THE LOANS IN THE CURRENCY OF SAID LOANS, SUCH PAYMENTS BEING EFFECTED ON THE BASIS OF THE RATE OF EXCHANGE OF THESE CURRENCIES WITH THE US DOLLAR WHICH SHALL BE QUOTED IN THE PARIS EXCHANGE MARKET FOR THE FRENCH FRANC AND IN THE FRANKFURT EXCHANGE MARKET FOR THE DEUTSCHE MARK LOAN ON THE LAST BUSINESS DAY BEFORE DELIVERY OF THE RELATED AIRCRAFT

1.4 DURATION AND REPAYMENT

THE LOANS WILL BE GRANTED FOR A PERIOD OF TEN (10) YEARS. EACH DRAWDOWN SHALL BE REPAID IN TWENTY (20) EQUAL CONSECUTIVE SEMI-ANNUAL INSTALMENTS OF PRINCIPAL THE FIRST ONE BEING DUE SIX (6) MONTHS AFTER DELIVERY OF THE RELATED AIRCRAFT.

1.5 INTEREST

A) INTEREST SHALL BE PAYABLE SEMI-ANNUALLY IN ARREARS TOGETHER WITH THE INSTALMENTS OF PRINCIPAL

B) THE ANNUAL INTEREST RATES SHALL BE CALCULATED ON THE BASIS OF THE FOLLOWING NOMINAL RATES :

FF 8.75 @
DM 6.50 @
DOLLAR 9.25 @

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THE PAYMENT OF ALL SUMS DUE BY ANSETT UNDER THE LOANS SHALL BE SECURED BY AN UNCONDITIONAL GUARANTEE OF THE GOVERNMENT OF AUSTRALIA

1.7 FEES

THE BUYER SHALL NEGOTIATE DIRECTLY WITH THE BANKS THE USUAL BANKING FEES CUSTOMARY IN SUCH TRANSACTION.

NEVERTHELESS, THE SELLER SHALL SEE TO IT THAT THE MANAGEMENT FEE PAYABLE UPON EXECUTION OF THE LOAN AGREEMENT WILL NOT EXCEDD 0.50@ FLAT OF THE AMOUNT OF FINANCING COMMITTED AND THAT THE COMMITMENT FEE WILL NOT EXCEED 0.5 @ P.A. PAYABLE SEMI-ANNUALLY IN ADVANCE OF THE UNUSED PORTION OF THE LOANS

1.8 MISCELLANEOUS

THE COST OF LEGAL AND OUT OF POCKET EXPENSES IF ANY, SHALL BE BORNE BY ANSETT. ALL CORPORATE AND GOVERNMENTAL APPROVALS NECESSARY PRIOR THE PERFORMANCE OF ANSETT'S OBLIGATIONS UNDER THESE LOANS, SHALL BE OBTAINED SO THAT THE PAYMENT OF ALL AMOUNTS DUE TO THE LENDERS CAN BE EFFECTED WITHOUT DELAY AND DEDUCTION OF ANY EXISTING OR FUTURE WITHHOLDING TAXES, CHARGES, LEVIES OR OTHER DUTIES WHATSOEVER INCLUDING INCOME TAX : IF, HOWEVER, ANY SUCH DEDUCTION HAS TO BE MADE, ANSETT SHALL REIMBURSE OR COMPENSATE THE LENDERS AND GET ALL NECESSARY APPROVALS FOR THIS PURPOSE SO THAT THE LENDERS DO NOT SUFFER IN ANY WAY THE IMPOSITION OF SUCH TAXES CHARGES, DUTIES , LEVIES

FILE COPY

SHOULD ANSETT DECIDE TO TAKE ADVANTAGE OF THIS FINANCING, THEY WILL HAVE TO INFORM AIRBUS INDUSTRIE WITHIN TWO (2) MONTHS FROM SIGNATURE.. OOOOOOOOOSSSFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFFF OF THE PURCHASE AGREEMENT, AFTER WHICH DATE AIRBUS INDUSTRIE WILL NOT ANY LONGER BE COMMITTED WITH REGARD TO THIS FINANCING.

THE BANKS SHALL THEN SUBMIT TO ANSETT A DRAFT OF A CREDIT AGREEMENT TO BE SIGNED WITH THEM, NOT LATER THAN OCTOBER 31, 1980. AIRBUS INDUSTRIE WILL ASSIST, IF NEED BE, ANSETT AND THE BANKS DURING THE ESTABLISHMENT OF THE CREDIT AGREEMENT.

UNQUOTE

WE ARE STILL WORKING ON THE DM QUESTION AND WILL SEND YOU A TX ON THIS SUBJECT BY WEDNESDAY NOON.

BEST PERSONAL REGARDS

P TAMBOS
22897 NEWSUN G
AIRBUS PARIS

FILE COPY

5

ANSETT TRANSPORT INDUSTRIES LIMITED
(Incorporated in Victoria)

REGISTERED OFFICE: 489 SWANSTON STREET, MELBOURNE, AUSTRALIA
Telephone 345 3144 Telex AA30085. Telegrams and cables 'ANSETT' MELBOURNE, P.O. Box 362F, Melbourne, 3001.

(This would be a continuation of a narrative already in the Export-Import Bank file.)

In early 1979 the parent company, ATI, suffered a significant extraordinary loss through the write-off of its investment in an Australian finance company, which it had acquired 18 months previously. This did not affect the airline or any of the other operations of the parent. However, following the substantial decline in the stock market price of its shares as a result of the announcement of this extraordinary loss, a long, drawn out take-over battle developed for the company which finally resulted in the joint acquisition of the company by two independent Australian groups: The News Corporation, Ltd., a communications company headed by Mr. Rupert Murdoch, which also has substantial interests in the U.S. (New York Post/New York Magazine, both San Antonio daily newspapers, etc.), and Thomas Nationwide Transport, Ltd., headed by Sir Peter Abeles, a multi-national transport group which also has interests in the U.S, and Canada (Transfreight Lines, Inc., a transatlantic container shipping company, etc.). The final steps in these transactions are in the process of being completed at the present time. As a result, Mr. Murdoch and Sir Peter Abeles were appointed joint Managing Directors of ATI in December 1979.

Subsidiary Companies and Divisions
ANSETT TRANSPORT INDUSTRIES (OPERATIONS) PTY. LTD. ● (OPERATING AS ANSETT AIRLINES OF AUSTRALIA ● ANSETT AIRLINES OF NEW SOUTH WALES ANSETT AIRLINES OF SOUTH AUSTRALIA ● ANSETT FREIGHT EXPRESS ● AVIATION ENGINEERING SUPPLIES ● N.I.C. INSTRUMENT COMPANY ANSETT-PIONEER ● MILDURA BUS LINES ● BARRIER REEF ISLANDS ● MACROBERTSON MILLER AIRLINE SERVICES ● ANSETT MOTORS PROVINCIAL MOTORS ● ANSETT TELEVISION FILMS ● ANSETT GENERAL AVIATION ● ANSAIR ● WRIDGWAYS ● ALBURY BORDER TRANSPORT) TRANSPORT INDUSTRIES INSURANCE COMPANY LTD. ● ANSETT HOTELS PTY. LTD. ● ANSETT NIUGINI ENTERPRISES LTD. UNIVERSAL TELECASTERS QLD. LTD. ● AUSTARAMA TELEVISION PTY. LTD. ● ANSETT BREWARRANA HOLDINGS PTY. LTD. SIST CONSTRUCTIONS PTY. LTD.

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RCA FEB 24 1818Z
EXIBANK WSH

ANSETTS AA30085

ZML013

Peacock

RECEIVED
FEB 25 1980
EXPORT-IMPORT BANK

PC 80-0-4738

ATTENTION MR DAVID PEACOCK

FURTHER TO OUR LETTER DATED FEBRUARY 22 AND OUR CONVERSATION, HAVE REALISED THE MESSAGE I RECEIVED WHICH WAS TO PHONE YOU THE BALANCE SHEET FIGURES FOR THE AIRLINE GROUP OF DIVISIONS ONLY IS NOT THE COMPLETE BORROWING COMPANY ATI(OPERATIONS) P/L AS THAT COMPANY INCLUDES A NUMBER OF NON AVIATION OPERATING DIVISIONS. THEREFORE I NOW QUOTE YOU THE BALANCE SHEET FIGURES FOR ATI(OPERATIONS) P/L JUNE 30 1979 AND WILL FORWARD THE RELATIVE AUDITED STATEMENTS IN TONIGHTS MAIL.
FOLLOWING FIGURES IN THOUSANDS OF AUSTRALIAN DOLLARS.

SIGNED COOPER AIRWAYS

NNNN
ANSETTS AA30085Z
EXIBANK WSH
O

February 20, 1980

Pc 80-0-4738

To: H. W. Haynes

cc: E. H. Boullioun
L. K. Y. Hong
D. A. Jaeger
S. T. Lowry
R. P. Norton
J. B. Pierce
O. M. Roatman
R. W. Welch
T. A. Wilson

Subject: XM/Ansett

In Tex's absence I took a call from Rupert Murdoch who wanted to convey his concern about XM being responsive to their financing requirements. He said that he made it quite clear in his meeting with XM (attended by Pierce and Hong) that they would have to meet the Airbus offer of 7.9% (mixed currency) and 12 years.

He said he doesn't accept XM's translation of 7.9% mixed currency to 9.4% U.S. currency and our deal is dead unless it's 8% or less.

He will be in London Thursday, back in New York Friday night and asked that we stay in touch with him.

C.F.W.

Clarence F. Wilde

JANE H. CICALA
MANAGER

INTERNATIONAL AFFAIRS
WASHINGTON OFFICE
Tel. (703) 558-9649

BOEING COMMERCIAL AIRPLANE CO.
1700 N. Moore St., Rosslyn, VA 22209

National Advisory Council
On International Monetary and Financial Policies

Subject: Export-Import Bank - Proposed Preliminary Commitment for $570,920,500 Direct Credits and a $27,444,000 Financial Guarant-- Australia

Action:

The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of the following preliminary commitment for direct credits and a financial guarantee:

To:	The Boeing Company
Direct Credits:	
Amounts:	(a) $481,482,500 (U.S. costs $566,450,000) (b) $ 34,550,000 (U.S. costs $ 69,100,000) (c) $ 54,888,000 (U.S. costs $137,220,000)
Financial Guarantee:	(c) $ 27,444,000
Borrower:	Ansett Transport Industries (Operations) Proprietary Limited
Guarantor:	Government of Australia
Purpose:	To assist in financing: (a) 12 Boeing 767 aircraft (deliveries of 2 in 1982, 4 in 1983, 4 in 1984 and 2 in 1985) (b) 4 Boeing 727-200 aircraft (delivery in 1981) (c) 9 Boeing 737-200 aircraft (deliveries of 7 in 1981 and 2 in 1982)
Terms:	
Maturity:	Five schedules each of 20 semiannual installments beginning six months from midpoint of deliveries each year but not later than December 31 for each of the five years. Where applicable, private loans without Eximbank guarantee to be repaid first, private loans with Eximbank guarantee next, and Eximbank loans last

Terms: (Continued).

Commitment Fee: (a,b,&c) 0.5 percent per annum

Other Facts: Cash payment: (a) $84,967,500
(b) $10,365,000
(c) $20,583,000

Private loan without Eximbank guarantee:
(b) $24,185,000
(c) $34,305,000
Financing package approval contingent on the purchase of all the Boeing aircraft

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on February 28, 1980.

Robert S. Watson
Secretary

References:
Eximbank P.C. 80-0-4738
Staff Committee Minutes 80-9

WU INFOMASTER 4-002010M059 02/28/80
ICS BOESEBB SEA
ZCZC013 PAT-RENTON WN FEB 28, 1980
TLX 89461 EXIBANK WSH

BT

EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVE. N.W.
WASHINGTON D.C. 20571

TO - JOHN L MOORE JR.
PRESIDENT AND CHAIRMAN

CC/ ED HOUSTON
DAVE PEACOCK

SUBJECT - ANSETT

IT IS MY UNDERSTANDING THAT THERE IS SOME CONFUSION REGARDING THE NUMBER OF A300 AIRCRAFT THAT WILL BE INCLUDED IN THE AIRBUS INDUSTRIE FINANCING OFFER TO THE SUBJECT AIRLINE. THE AIRBUS FINANCING PROPOSAL WHICH EXIMBANK HAS IN ITS POSSESSION ONLY ADDRESSES THE FOUR A300 AIRCRAFT FOR WHICH SPECIFIC DELIVERY POSITIONS HAVE BEEN IDENTIFIED. WE UNDERSTAND THAT AIRBUS CAN HOLD THE PARTICULAR POSITIONS ONLY UNTIL FEBRUARY 29 1980 AND THAT ANSETT MUST FIRMLY COMMIT ON OR BEFORE THIS DATE TO AVOID THE POSSIBILITY OF LOSING THE POSITIONS TO ANOTHER AIRLINE. THE FINANCING PROPOSAL IN YOUR POSSESSION WAS STRUCTURED TO ADDRESS ONLY THOSE FOUR AIRCRAFT WHICH MUST BE FIRMLY COMMED TO BY FEBRUARY 29. THE FOLLOW-ON AIRCRAFT /ANTICIPATED TO BE BETWEEN 8 AND 12 A300S AND/OR A310S/ WILL BE ADDRESSED AT A LATER DATE SINCE THE TIME FOR SELECTING THESE SPECIFIC AIRCRAFT TYPES /A300S OR A310S/ AND THE RELATED DELIVERY DATES IS NOT AS CRITICAL.

ANSETT ADVISES US CMA HOWEVER THAT IT FULLY EXPECTS THAT THE FINANCING TERMS AND CONDITIONS RELATING TO THE FOLLOW-ON AIRCRAFT WILL BE EXACTLY THE SAME AS THAT PROPOSED FOR THE FIRST FOUR AIRCRAFT. MOREOVER CMA MY GUESS WOULD BE THAT ANSETT WOULD MAKE THIS A CONDITION PRIOR TO SIGNING THE FIRM CONTRACT FOR THE FIRST FOUR AIRCRAFT.

BEST REGARDS

THE BOEING COMPANY
J.B.L. PIERCE M/S 68-34

NNNN
0519 EST

Peacock

RECEIVED
FEB 28 1980
EXPORT-IMPORT BANK

THE BOEING COMPANY

SEATTLE, WASHINGTON 98124

J. E. LINDSAY
TREASURER

March 3, 1980

Dear Ed:

I reached John in New Orleans on Friday to review the Ansett situation. At that point, clarification of Exim's letter-of-interest beyond initial 5 767s was the subject matter. John expressed concern about his direct involvement with Murdoch while particular points were being clarified. Recalling the BCAL incident, I must confess there's value in keeping the Chairman clear of detail items thus avoiding his name being used to escalate Airbus response. Perhaps a later moment would be appropriate.

Events later on Friday confirmed that Ansett negotiations are reaching decisive levels, and that direct discussion between Ansett and a senior Exim officer is appropriate. I quote extracts from an internal memo prepared Friday afternoon by BCAC management covering areas of concern with Murdoch at conclusion of the the day

> "He (Murdoch) has had verbal assurance from Airbus within the last day they will finance ten A300/310 a/c for 85% at 7.95% p.a..Murdoch received verbal assurance Airbus would finance the spares & support equipment at same terms. Murdoch makes the point Airbus financing is for 85% of total package without exclusion of foreign content. He is concerned the letter-of-inter proposed by Exim for follow on 767s does not give him adequate assurance Exim will furnish substantially similar financing on such 7 aircraft. As a result of Murdoch's concern, he had requested and received an extension of Airbus' offer for an additional two weeks and requested Boeing to so same to give Ansett additional time to evaluate the two offers..."

It's clear a more intense Boeing-Airbus competitive environment may develop. We've cautioned BCAC to avoid activity which could escalat the competition since Airbus has far greater capability to respond at out-match us in export-financing commitment if they perceive this as the key swing-factor.

I am sure, Ed, some of the factors cited above hold greater weight than others. There may be areas of concern by Murdoch which can be ameliorated through clarification and reasonable assurance by Exim to support Ansett's requirements.

We would appreciate it if you would telephone Murdoch as soon as convenient upon receipt of this letter to evaluate the situation as senior loan officer. Such an in depth review and discussion of the Exim offer will, in itself, I believe, convey the necessary message of basic Exim support and it may permit the negotiations to proceed expeditiously before further escalation occurs prior to final commitment. We would appreciate your advising us later as to your evaluation of the situation.

Many thanks.

With Best Regards,

Frank

Mr. Charles E. Houston
Vice President - Asia Division
The Export-Import Bank of the United States
Washington, D.C.

CC:
The Honorable John L. Moore, Jr.
Chairman & President
The Export-Import Bank of the United States
Washington, D.C.

2/3

Top Priority Hand Deliver

UNCLASSIFIED

Department of State

INCOMING TELEGRAM

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PAGE 01 MELBOU 00419 170636Z

ACTION YNE-04 Houston

INFO OCT-01 EA-12 ADS-00 AID-07 CIAE-00 EB-08 FRB-01
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STATE FOR EXIMBANK

E.O. 12065: N/A
TAGS: ETRD EAIR AS
SUBJ: ANSETT IS GOING BOEING

REF: MELBOURNE 0368 AND PREVIOUS

1. AT A MARCH 17 PRESS CONFERENCE REPLETE WITH BAND AND BRIGHT LIGHTS, RUPERT MURDOCH ANNOUNCED ANSETT'S DECISION TO PURCHASE TWENTY ONE BOEING JET AIRCRAFT, WHICH TOGETHER WITH SPARES AND ANCILLARY EQUIPMENT, WILL COST 400 MILLION AUSTRALIAN DOLLARS. THE AIRCRAFT NOW ON ORDER ARE [redacted] ANSETT WILL IN ABOUT TWO YEARS TIME HAVE AN ALL BOEING JET FLEET WHEN ITS TWELVE DC-9'S ARE RETIRED FROM SERVICE. AFTER THE ANNOUNCEMENTS ANSETT AND BOEING EXECUTIVES SIGNED DOCUMENTS.

2. IN RESPONSE TO ONE OF THE QUESTIONS POSED AT THE CONCLUSION OF THE PRESS CONFERENCE REGARDING EXIM FINANCING FOR THIS PURCHASE, MURDOCH SAID THAT EXIM HAD OFFERED TERMS COMPETITIVE WITH THOSE OFFERED BY THE AIRBUS GROUP.

3. COPIES OF THE ANSETT PRESS RELEASE ARE BEING MAILED TO STATE (FOR EA/ANZ), COMMERCE AND EXIM BANK.
AYLWARD

UNCLASSIFIED

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

OFFICE OF THE
GENERAL COUNSEL

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

April 22, 1980

MEMORANDUM

TO: Bruce Freed
Senate Banking Committee

FROM: Warren W. Glick
General Counsel

RE: Ansett Airlines of Australia

Enclosed are the following:

(1) Letter dated April 18, 1980 from Mr. Moore to Mr. Proxmire stating that he had no communications relating to Ansett with the Democratic National Committee, the Carter campaign or King & Spalding.

(2) Memo dated February 12, 1980 which was dictated over the telephone by Jack Pierce to one of Mr. Moore's secretaries, requesting an appointment on February 19, 1980 for Boeing & Rupert Murdoch. Mr. Moore's secretary just found this memo in her work papers for filing and he asked me to send it to you.

(Dictated over the phone by Jack Pierce)

February 12, 1980

MEMORANDUM FOR JOHN MOORE

11:15 AM -

We would like to arrange a meeting with you next Tuesday, February 19, with Rupert Murdoch, Chief Executive of Ansett Airlines of Australia. (Mr. Murdoch is also publisher of the New York Post as well as other publications worldwide). The subject is the potential purchase of 12 B-767's, four B-727's, and nine B-737's versus 12 Airbus.

480,000
80,000
90
650,000

Mr. Murdoch would like to have the meeting prior to his luncheon with President Carter which is at 12:30 to 2:00 p.m. on Tuesday.

There is purported to be offered by Airbus their willingness to finance the A-300 at 6% interest. We will attempt to gain more detail prior to the meeting. This offer had been extended by Sir Peter Abeles during his visit with Airbus in Zurich. (Sir Abeles is a joint managing director of Ansett).

Would you please give me a call as soon as possible about scheduling the meeting on Tuesday.

Jack Pierce/fjs

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

April 18, 1980

Dear Mr. Chairman:

In response to Bruce Freed's inquiry, please be advised that I had no communications relating to the Ansett transaction with the Democratic National Committee, the Carter Campaign or King & Spalding.

Sincerely,

John L. Moore, Jr.

The Honorable
William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

CHRONOLOGY: ANSETT LOAN

June 6, 1979—Murdoch dines with McCleary, Rafshom.

1979 October 5: Airbus makes initial offer to TAA.

Late November-Early December: Murdoch and Abeles acquire Ansett Airlines, a privately-owned domestic Australian airline.

TAA and Ansett in the market to purchase new wide-bodied aircraft. (American Consul/Melbourne.)

December 7: TAA announces purchase of 4 Airbuses.

Final Airbus financing terms for TAA: basket of currencies (40 percent DM at 6.5 percent; 40 percent FF at 8.75 percent; 20 percent U.S. dollar at 9.25 percent), plus alternative full financing in U.S. dollars at 9.5 percent. Spare parts and engines, ground equipment and training not included.

American Embassy in Australia reports that TAA move puts pressure on Ansett. Ansett reportedly favors Boeing 767.

December: Cables from American Embassy and consulates in Australia discuss major changes in domestic Australian airline structure; dismantling of "airline policy" in Australia, heightened domestic airline competition. Ansett preference for Boeings and Ansett plans to meet TAA Airbus competition while it awaits delivery of Boeing wide-bodies. Three cables in December (December 7, 10 and 12) discussing airline situation in Australia. U.S. officials in Australia express concern over Airbus use of large offset as incentive for TAA to buy Airbus.

Late December, 1979—Early January, 1980: ExIm Team travel plans announced in State Department cable to Australia. ExIm Team asks that February 15 meeting be set up with key officials of Ansett *1980 January:* At February 26 ExIm Board meeting, Moore said Boeing called him as soon "as they had wind . . . in January "that Ansett may be in the market for Boeing aircraft.

January 10: American Embassy in Australia reports that TAA moved quickly to buy Airbus to get a jump on Ansett as it decided what to do. Embassy also reported that offset offered by Airlines *not* a factor in TAA's decision to purchase Airbus.

January 27: U.S. Ambassador Alston flies back to U.S. from Australia to help prepare for visit of Australian PM Malcolm Fraser. Alston in U.S. thru Feburary 7. Alston and Murdoch fly to U.S. on same airplane. Alston claims to have seen Murdoch for only "2–3 minutes" on flight.

January 28–January 30: Murdoch in Seattle negotiating purchase of Boeings.

Howard Rubenstein, Murdoch publicist, sends note to White House suggesting White House lunch between Carter and Murdoch for Feb. 19. Lunch meeting had been discussed since last June. Two prior dates, in late November and mid December, canceled by Murdoch because press of other business.

February 1: American Consulate/Melbourne cable reports that meeting has been scheduled for ExIm Team on February 15 at 11:00 a.m. at Ansett. Meeting may be hosted by Rupert Murdoch.

February 4: Alston in Washington dines in evening with John Moore and former law partner Richard Beatty and their wives at Metropolitan Club. On trip to U.S., Alston says he saw President Carter, Bob Strauss and Hamilton Jordan. Denies he discussed Ansett loan with them.

February 7–8: Murdoch in Toulouse for meeting with Airbus Industries. Airbus tells Murdoch it would give Ansett same financing in U.S. dollars as it offered TAA (i.e., 9.5 percent at 10 years).

February 12: Jack Pierce of Boeing calls John Moore to arrange meeting on February 19 with Murdoch. Mentions that Murdoch is publisher of *New York Post* and that Murdoch has 12:30 p.m. luncheon scheduled with President Carter. Purpose of meeting: potential purchase of 12 Boeing 767's, 4 Boeing 727's and 9 Boeing 737's vs. 12 Airbus.

February 15: ExIm Team Heidrich, Telesca, et al) meet with Ansett in Melbourne. (ExIm Team visiting New Zealand and Australia from January 29 to February 22). At meeting, Ansett officials tell ExIm Team that Ansett says it's under considerable pressure to buy Airbus in wake of TAA's Airbus purchase. Ansett says it will be required to decide between Boeing and Airbus "within several weeks and financing will be crucial."

Heidrich indicates interest rate may be 8½ percent to 8¾ percent, adding that interest rate could increase.

Cooper of Ansett says Murdoch "was now in Seattle discussing with Boeing purchase of 5 Boeing 767's, 9 Boeing 737's and 4 Boeing 727's."

Heidrich asked Ansett to submit application for preliminary commitment by February 22 when he was scheduled to leave Australia. (Application *not* submitted to ExIm Team when it left on February 22). No report from ExIm Team to Bank on Ansett meeting before February 26 ExIm Bank Board meeting.

February 19: 11:00 a.m. meeting at ExIm between John Moore and Ed Houston of Bank and Murdoch, Donald Kummerfeld (of News American Publishing Inc.), Robert Clifton-Bligh (of Thomas Nationwide Transport Ltd.), Pierce and Les Hong of Boeing.

Murdoch and Pierce discuss possible purchase of 12 Boeing 767's 4 Boeing 727's, and 9 Boeing 737's.

Murdoch outlines terms of Airbus offer to Ansett, says Airbus offer good only until February 29. Says it is "very important that he promptly receive an indication of ExIm Bank's position."

Pierce presents Bank with letter requesting an ExIm Bank preliminary commitment.

12:30 p.m. Murdoch goes to 12:30 luncheon with Carter at White House. Bank officials and rest of party go to lunch at Paul Young's Restaurant.

Afternoon: Peacock starts drafting preliminary commitment memo for February 26 Board meeting.

Feburary 20: Murdoch letter to Moore says that "a matching competitive interest rate would be 7.95 percent as offered by Airbus, even if the loan is entirely in U.S. dollars." Asks for 12 year loan, "which we believe to be available from Airbus."

February 21 or 22: John Duff of ExIm speaks with Airbus representative in Washington. Airbus representative confirmed Airbus financing offer to Murdoch: basket of currencies with blended rate of 7.95 percent, 10 years, aircraft and engines only, offer in U.S. dollars only at 9.5 percent for 10 years.

February 22: *New York Post* endorses Carter for renomination.

Peacock preliminary commitment memo completed and printed.

February 20–25: Moore receives and passes onto Houston and Peacock an internal Boeing memo referring to a phone call from Murdoch to Boeing. Murdoch demands 7.9 percent rate and 12 year financing. "Deal is dead unless it's 8 percent or less."

February 24: Ambassador Alston calls Moore about Ansett loan. Alston had just been visited by a Boeing representative who reiterated need for March 1 decision by Bank. Alston urged Moore to act favorably and quickly on Ansett loan.

February 25: Heidrich returns to office in Bank. Learns that Murdoch has already visited Bank about Ansett loan and that ExIm Board is due to consider loan next day. Heidrich is "very surprised" at rapid action.

February 26: ExIm Directors Kahliff and de St. Phalle receive preliminary commitment memo on Ansett loan 20 minutes before ExIm Board meeting begins. Board meeting time moved up to allow Moore to testify on Hill later.

Board meeting at which Ansett request first considered. Board members present: Moore, Kahliff, de St. Phalle, Bank Staff present: Ed Houston, George Heidrich, Dave Peacock, John Duff.

Moore says decision needed by February 29. Says Ansett plans to buy 12 Boeing 767's even though TAA plans to buy only 4 Airbuses. Pushes for 8 percent interest on Boeing 767's and Boeing narrow-bodies. Moore says 8 percent interest needed to make the Boeing sale.

Duff says that Airbus has offered TAA financing at 9.5 percent interest in U.S. dollars.

Afternoon: NAC staff meeting at which Ansett loan discussed. Fed and Treasury learn of loan request.

February 27: Moore meets personally with C. Fred Bergsten of Treasury and Henry Wallich of Fed to discuss ExIm's Ansett loan.

Treasury staff memo very critical of loan: "fritters away" Bank's resources; interest rate illusion is "galling. ExIm Bank rate should be around 9.25 percent to match what Airbus is charging for the dollar portion of its loan"; 8 percent interest rate undercuts efforts to achieve common line on aircraft financing.

Bergsten said he discusses matters frequently with Moore but called the February 27 meeting unusual since this was first time Moore met with Bergsten to discuss a particular loan (usually discussed policy questions).

Moore told Bergsten nominal interest rate to be matched was 8 percent. Moore never discussed issue that lower interest rate was needed on Ansett loan to spur French to negotiate with U.S. about common financing terms.

February 28: Telex from Pierce/Boeing to Moore. Reiterates that Bank decision needed by February 29 deadline. ". . . Ansett must firmly commit on or before this date to avoid the possibility of losing the positions to another airline." Telex says Ansett "fully expects" the financing terms and conditions relating to follow-on aircraft "will be exactly the same" as proposed for first 4 aircraft. Ansett would make that a condition before signing firm contract on first 4 aircraft.

NAC meets and approves Ansett loan at 8 percent interest.

Second ExIm Board meeting at which Ansett loan is discussed. Decision: approve 8 percent interest, 10-year financing on 5 Boeing 767's. Other terms for 4 Boeing

727's and 9 Boeing 737's. Financing includes spare parts and engines, ground equipment and training. Board approves letter of interest to be sent to Ansett about financing for additional Boeing 767 purchases.

Moore calls Alston to report Board's decision to approve preliminary commitment.

February 29: Peacock has several telephone conversations with Murdoch and Kummerfeld describing ExIm offer.

March 3: (Focus shifts to ExIm letter of interest) Pierce letter to Houston. Quotes from internal BCAC (Boeing Commercial Aircraft Company) memo prepared Friday, February 29: Murdoch says he has verbal assurances from Airbus "within the last day" that it will finance 10 Airbuses for 85 percent at 7.95 percent and that spares and support equipment would be financed on same terms. Murdoch is concerned ExIm's letter of interest proposed on Boeing 767's doesn't give him "adequate assurance" that ExIm will give him "substantially similar financing" on 7 additional Boeing 767's. "As a result of Murdoch's concern," he requested and received a 2-week extension of the Airbus offer and asked Boeing to give him additional time to evaluate the two offers.

Pierce asks Houston in letter to call Murdoch to discuss situation.

ExIm chronology says that, in view of Peacock's February 29 conversations with Murdoch, Houston saw no need to call Murdoch.

March 7: Cable from U.S. Consulate/Melbourne outlining details of February 15 Ansett/ExIm meeting.

Clear from cable that Ansett has decided by February 15 to buy Boeing and has made plans to cope with TAA's Airbus competition while it awaits delivery of the Boeing 767's.

Cable mentions that Murdoch has taken matters into his hands and is dealing directly with ExIm Bank.

Cable includes intelligence that U.S. Consulate had visa applications during the last half of February from 3 Ansett personnel to trips to Boeing "to evaluate the use of Boeing 737 aircraft in Australia" and for "new aircraft programs."

March 17: ExIm letter to Boeing formally notifying company of ExIm approval of Ansett loan preliminary commitment.

ExIm sends "letter of interest" to Boeing re: financing of additional sale of 7 Boeing 767's to Ansett. No specific offer included in letter. However, Committee staff learned that Peacock had conversations with Murdoch, et al. at Chairman Moore's instructions saying that ExIm had moral obligation to match Airbus financing offers.

Murdoch announces at a press conference in Melbourne Ansett decision to purchase Boeings and have an all-Boeing fleet. Murdoch said ExIm had offered terms competitive to those offered by Airbus.

CHRONOLOGY: STATE DEPARTMENT CABLES RE: ANSETT

November 30, 1979.

From: American Consul/Melbourne.
Subject: Takeover of Ansett Airlines and possible Airbus Purchases.

Ansett is close to a decision on buying wide-bodied aircraft. Murdoch has bought increased interest in Ansett.

November 30, 1979.

From: American Consul/Melbourne.
Subject: Possible Purchases of Airbus by TAA and Ansett.

Insights provided by Ansett official into factors that could influence imminent Ansett decision re: Boeing or Airbus—Delivery date is key. Australian Government could delay delivery of Airbus to TAA until Ansett would get its Boeings.

Indications that TAA has made decision to buy Airbus.

Mentions Tom Basher as a Boeing Rep in Australia.

December 1, 1979.

From: Secretary of State, Washington.
Subject: Ansett, TAA Aircraft Procurements.

Boeing's concern over rapidity of TAA deal with Airbus—indications of generous terms offered by Airbus to TAA.

Asks Embassy for more information.

December 7, 1979.

From: American Embassy/Canberra.
Subject: GOA Approves purchases of Airbus for TAA.

Four airbuses to be purchased.

Cost: $34 mm (Australian) per aircraft. Tot package, with spare engines, parts and ground equipment, valued at $200 mm (Australian). Local offset requirements amount to 30 percent of order's value.

TAA move puts pressure on Ansett. Ansett reportedly favors Boeing 767—Reason: B767 smaller, more economical, more closely meets Australia's needs.

Australian Transport official says "two-airline policy" "not inscribed in stone". Ansett could still opt for Boeing.

December 10, 1979.

From: American Consul/Melbourne.
Subject: Boeing v. Airbus: Waiting for the other shoe to drop.

Ansett would prefer to purchase Boeings but may be forced to go with Airbus because of Australia's "2 airline policy," and possible market loss if it doesn't have its own wide body to compete with TAA Airbus.

Ansett official said wide body not economical in Australia.

December 12, 1979

From: American Consul/Melburne.
Subject: TAA Purchase of Airbus.

Generous offset offered by Airlines Industry to Australian aircraft industry in connection with Airbus purchase by TAA played up by Australian press.

Ansett reported to still be interested in Boeing but is considering chartering 2 Airbuses as stopgap measure to compete with TAA.

December 20, 1979.

From: Secretary of State/Washington.
Subject: Australian Aircraft Purchases.

Asks for details about Airbus offset—State expresses concern about offset.

December 27, 1979.

From: Secretary of State/Washington.
Subject: ExIm Travel Plans.

Announces ExIm Team trip to Australia and New Zealand, January 29–February 21.

January 4, 1980.

From: Secretary of State/Washington.
Subject: ExIm Travel Plans.

ExIm Team itinerary. Asks that meeting be set up on February 15 with Key officials of Ansett.

January 8, 1980.

From: American Embassy/Canberra.
Subject: Ferment in Australian Domestic Aviation.

Analysis of implications dismantling of Australia's non-competitive "2 airline policy."—Heightened competition.

January 8, 1980.

From: American Counsel/Melbourne.
Subject: ExIm Travel Plans.

January 10, 1980.

From: American Embassy/Canberra.
Subject: Australian Aircraft Purchases and Offset.

TAA rushed in to take option on Airbuses to preserve its place in Airbus production line and then signed purchase contract while Ansett was deciding what to do.

Offset not factor in TAA's decision to purchase Airbus.

February 1, 1980.

From: American Consul/Melbourne.
Subject: ExIm Team Program in Melbourne.
ExIm itinerary.

11 am—Ansett, which may be hosted by Rupert Murdoch.

March 7, 1980.

From: American Consul/Melbourne.
Subject: Boeing—Airbus Competition Update.

Details of ExIm's February 15 meeting with Ansett—"very productive meeting". "On confidential basis, (Ralph Cooper) revealed Ansett's plan for transition to Boeing 767's during period that TAA will have European Airbuses." Ansett will have greater frequences by introducing 727s and 737s.

Rupert Murdoch "had taken the matter (purchase of Boeings) into his own hands by going into ExIm Bank and making presentation" according to Ansett's Bill Franklin.

"While Ansett Execs are not likely to tip us off when they reach the watershed of going all the way with Boeing, we have the feeling that they are at that point. Our Consular section has had visa applications from 3 Ansett personnel during the last half of February for trips to Boeing "to evaluate the use of Boeing 737 aircraft within Australia" and for "new aircraft program."

March 26, 1980.

From: American Embassy/Canberra.
Subject: Senate Inquiry into ExIm Loan to Ansett Airlines Australian Press Reports.

March 27, 1980.

From: Secretary of State/Washington.
Subject: Senate Inquiry into ExIm loan to Ansett Airlines.
No reason for U.S. Government to be defensive re: Ansett sale.

○