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THE CHAIRMAN  
OF THE  
CIVIL AERONAUTICS BOARD  
WASHINGTON, D. C. 20428

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Mr. James M. Frey  
Assistant Director  
for Legislative Reference  
Office of Management and Budget  
Room 7201, New Executive Office Building  
Washington, D.C. 20503

Dear Mr. Frey:

Thank you for requesting the views of the Civil Aeronautics Board on the State Department's proposed submission to Congress of the Compact of Free Association for the Micronesian Trust Territories. The Board's interest arises from sections 221 and 232 of the Compact, and Article IX of the Federal Programs and Services Agreement, which provide for continuation of certain CAB programs following these territories attaining their new status of Free Association.

Article IX of the Federal Programs and Services Agreement includes the specifics of the civil aviation economic provisions that will apply upon the effectiveness of the Compact. These provisions are, nevertheless, incorporated by reference into the Compact by section 221, and that section also grants the Civil Aeronautics Board, and its successor, the necessary legislative authority to implement the provisions of Article IX under rules to be adopted by the Board. Since the Compact will be adopted as a public law, the provisions of section 221 will be effective in conferring this legislative authority.

Pursuant to Article IX, the Governments of Palau and the Federated States of Micronesia will exercise independent economic regulatory jurisdiction over air service to their territory, but subject to the provisions of the Agreement. Most significant is the right granted in paragraph 6 for U.S. air carriers, without restriction or impairment, to operate air services to these territories and to establish tariffs applicable to such air services.

On the other hand, paragraph 5 of Article IX extends certain rights to these territories and their carriers which would not otherwise apply under their new status as foreign points and foreign air carriers within the meaning of the Federal Aviation Act. Specifically:



Mr. James M. Frey (2) .

1. Until October 1988, U.S. carriers will be eligible for subsidy compensation necessary to support essential air transportation to these territories at a level determined by the Board. Carriers owned and controlled by nationals of these territories would be eligible for such subsidy compensation only if no U.S. carrier is available to provide such essential air transportation, or the subsidy required would be substantially less than if the service was provided by a U.S. carrier. To the extent that subsidy is provided, the Board may impose service or rate conditions on any carrier operating in the market in order to minimize such subsidy.
2. The Civil Aeronautics Board shall have authority to authorize national carriers of these territories to carry local "cabotage" traffic between Guam, the Commonwealth of the Northern Mariana Islands and Honolulu.

In addition, the Board will provide certain technical assistance and training to enable these territories to establish their own independent regulatory procedures.

The Board participated in the negotiation of these provisions. We believe they are in furtherance of the interests of the United States. The maintenance of U.S. air carrier service throughout this area, and the consequent economic links to U.S. points, will clearly further U.S. national security and foreign policy interests. Air service to these isolated areas is essential for their economic self sufficiency. The civil aviation assistance provided in Article IX of the Federal Programs and Services Agreement will, consistently with U.S. obligations under the Trusteeship Agreement, make a significant contribution to the development of these territories. We therefore strongly support the adoption of the aviation provisions of the Compact of Free Association.

Sincerely,

Dan McKinnon