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Date: 6/26/95

Special Instructions:

Attached are the final versions of the cleared issues Paper and Talking Points.

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ISSUE PAPER:
U.S. SPACE LAUNCH TRADE TRANSITION STRATEGY

Issue: Whether or not the United States should announce its intention to implement, after the expiration of agreements now in effect or currently being negotiated, a transition away from the current policy of negotiated trade in launch services toward an environment characterized by free and fair trade among market economies.

Background:
The President's Space Transportation Policy (NSTC-4) identified "free and fair trade" in space transportation services as the long-term goal of the United States. In pursuit of this goal, the President's policy directed that the U.S. seek agreements with other nations to define "free and fair trade," to limit unfair practices in the market place, and to establish criteria for the participation in this market by countries in transition from non-market to market economies. At present, the United States has agreements with China and Russia and has begun discussions with Ukraine regarding their participation in the commercial launch vehicle marketplace. Current agreements contain specific limits on the quantity of launches that may be offered in the international marketplace and the price for which they may be offered.

The current policy is meant to balance three important interests: 1) the US Government's interest in maintaining a robust US industrial base to satisfy key national security and civil space requirements, 2) the interests of the US launch vehicle industry to be protected from subsidized or otherwise unfairly priced foreign launch systems; and, 3) the interests of the US satellite community to have ready and affordable access to international launch vehicles on prices and terms comparable to their competitors and consistent with their needs.

Substantial change is occurring within the satellite and launch vehicle industry which has raised questions about the current US approach to managing trade in launch vehicles. These changes include:

0 A potentially large increase in global demand for space launch services – Short term demand (next 2-3 years) for launch services exceeds supply. Some analysts argue that demand, greatly increased by industry interest in constellations of LEO communications satellites, will continue to be robust. Other analysts argue that demand will peak and then fall within a few years leaving a substantial oversupply in launch vehicle capacity;

0 A substantial restructuring of the US launch industry yielding fewer, more powerful US participants in the global launch industry – As a result of industry downsizing and restructuring, the US space launch industry is dominated by two large actors: Lockheed Martin, which builds the Atlas and Titan families of vehicles, and McDonnell Douglas, which builds the Delta launch vehicle family;
Significant new partnerships between US companies and foreign launch vehicle suppliers — Lockheed Martin has teamed with several Russian companies to form LKE, an international marketing organization for the Russian Proton launch vehicle. Boeing has joined forces with Ukrainians and Russians to propose a sea-launch variant of a Russo-Ukrainian vehicle. Both Lockheed Martin and Boeing are now arguing for a reduction and eventual elimination of current restrictions on the launch market;

Europe dominates the commercial launch market in a way that was not adequately foreseen when the US formulated its response to entry into the launch market by "economies in transition" -- With over 60% of the international launch market, the European Arianspace continues to be the dominant market actor. Some argue that US restrictions on Chinese and Russian vehicles benefits Arianspace more than it benefits US launch providers,

New US Government investment in launch vehicle R&D -- For years, the US launch vehicle industry has complained that the US Government has underinvested in launch vehicle technology development. The President's launch policy directed NASA and DOD to address this issue. As a result, DOD has initiated its Evolved Expendable Launch Vehicle (EELV) Program and NASA has initiated a Reusable Launch Vehicle (RLV) Program. Combined, these programs could invest billions of dollars in the US launch vehicle industrial base;

For many, these changes suggest that the U.S. should now pursue a more market-based policy on space launch trade and begin the transition away from current agreements that contain quotas and price constraints. The "Transition Plan" would have the following elements:

- The U.S. would continue to monitor compliance with existing space launch agreements which all expire in the 2000-2001 timeframe.;

- At the upcoming G/C meeting, the U.S. would agree to negotiate with the Russians to bring the U.S.-Russian space launch agreement into reasonable conformity with the Chinese launch agreement (This presumes successful resolution of the issues regarding Start accountability of Russian space launch vehicles incorporating first stages of ICBMs or SLBMs);

- The U.S. would negotiate and conclude an agreement to facilitate entry of Ukraine into the international launch vehicle market. This agreement would include appropriate pricing and quota constraints that would expire in the 2000-2001 timeframe.

- Beginning with the G/C meeting, the U.S. would take the position that at the termination of the current agreements the U.S. intends to transition away from managed trade in launch services. A statement to this effect would be issued by an appropriate Administration spokesperson. This new position would then be
documented in the President's National Space Policy, currently under development and due to be complete by November 1.

As appropriate, the U.S. would continue to negotiate agreements with international launch service providers to define appropriate market disciplines. The U.S. would be prepared to implement appropriate safeguards in the event that significant disruption to the market takes place.

**Recommendation:**

That the Deputies approve the proposal to implement, after the expiration of agreements now in effect or currently being negotiated, a strategy for transitioning from the current policy of negotiated trade in launch services toward a trade environment characterized by the free and open interchange of market economics.
Administration Statement
Talking Points

The United States is committed to achieving free and fair trade in space launch services.

This evolution, beneficial to both of us, would naturally depend on our reaching agreement on Start accountability of Russian space launch vehicles based on first stages of ICBMs and SLBMs.

Over the past several years, we have negotiated trade agreements with Russia, China, and are in the process of negotiating an agreement with the Ukraine, to allow them access to the commercial space launch market.

These agreements have been crafted to ensure that the entrance these nonmarket economies did not unduly disrupt the market and create an unfair advantage over market providers.

To protect against undue distortions in the marketplace, our trade agreements with these countries have included specific quota and price restrictions.

These agreements were developed at different times and therefore contain some differences. The US sees an advantage in working with Russia to clarify and to resolve these differences so as to produce a consistent approach to this important issue.

Recognizing the changes that have taken place, both within the economies of these countries and in the satellite and launch vehicle markets, the U.S. intends to implement, after the expiration of agreements now in effect or currently being negotiated, a strategy for transitioning from the current policy of negotiated trade in launch services toward an environment characterized by free and fair trade among market economies.

We are confident that this step will lower the cost of access to space, create new markets for U.S. satellite manufacturers, and stimulate new and innovative international partnerships in space launch without affecting U.S. national or economic security.
To:  PBN Backlund

From:  Jeff Zigare

Pages + cover:  1

Date:  10/2

Special Instructions:

P/l, clean on enclosed talkers intended for VP possible use w/ PM Chernomyrdin this week. Need your ok by 12:00 noon tomorrow. Call if you have questions/comments. Thanks.

JHT

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DRAFT

We have always viewed our space launch trade agreements as transitional arrangements.

These agreements have facilitated entrance by nonmarket economies into the commercial space launch business.

Given the great progress Russia has made towards a market-based economy, and with the START issue behind us, we are prepared to work with your experts to transition to a more flexible approach.

I am confident that we can move towards a market characterized by free and open trade in commercial space launch services. Given this, it is our intention, by the end of the current agreement, to eliminate the need for quota-based agreements in the future.

I have asked our negotiators to contact Mr. Koptev and set the next round of talks as soon as possible.