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SPEAKER:

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BODY:

' U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
HOLDS HEARING ON ECONOMIC TREATIES

APRIL 1, 2004

SPEAKERS:

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LUGAR: This hearing of the Senate Foreign Relations Committee is called to order. Today the Foreign Relations Committee will review various economic treaties including the Convention on International Interests and Mobile Equipment and the protocol on matters specific to aircraft equipment. These agreements are better known as the Cape Town Convention because they were negotiated in Cape Town, South Africa, in 2001.

And additionally, we'll address protocols amending the United States bilateral investment treaties with eight Eastern European nations.

All of the agreements pending before us today are significant as they promote trade and economic cooperation.

Economic treaties and investment agreements are important tools in generating new commercial opportunities for United States business and in advancing United States foreign policy. Cooperation on the commercial front enhances our ability to work with other nations on security and political matters. Our committee is committed to reviewed expeditiously the economic agreements negotiated by the administration.

The Cape Town Convention will facilitate purchasing and leasing of large commercial aircraft and aircraft engines by foreign entities that otherwise might be unable to arrange sufficient financing. Aircraft customers in foreign countries that implement the convention will be eligible for lower cost loans from the United States Export/Import Bank when they seek to buy or to lease United States' commercial aircraft.

These incentives to foreign customers will help open new markets to United States aircraft manufacturers. Simultaneously, the convention creates internationally recognized finance rights and enforceable remedies that will improve the security of aircraft financing. This is essential in many developing markets where conducting large commercial transactions are risky and obtaining adequate security for United States financiers is otherwise difficult.

The Cape Town Convention was negotiated to be consistent with the United States commercial and insolvency laws and it reaffirms existing obligations under these bodies of United States law.

Ratification of the convention by the United States likely will stimulate other nations to ratify it as well. Expanding the list of nations that participate in the convention will provide a needed boost to our aircraft industry and to the broader goal of promoting commerce with developing nations.

In addition to the Cape Town Convention today we will review protocols that amend existing bilateral investment treaties with eight Eastern European countries. Six of the eight nations, the Czech Republic, Estonia, Latvia, Lithuania, Poland and the Slovak Republic, are expected to join the European Union on May 1, 2004, a month from now. Bulgaria

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and Romania are expected to join the EU in 2007.

Each of the protocols is based on a similar understanding reached between the United States, the European Commission and the subject countries. The goal of these understandings is to preserve the effect and intent of existing bilateral investment treaties between the United States and each of the subject countries after their accession to the European Union.

The protocols create a legal framework and enhanced consultation for avoiding inconsistencies between the obligations of the eight nations and their European Union membership. The United States supports the enlargement of the European Union. At the same time, we believe that the continued existence of bilateral investment treaties with countries poised to join that body will be mutually beneficial to investors on both sides of the Atlantic.

We want to encourage economic growth in these nations which is the key to solidifying their young democratic institutions. We also want to encourage the growth of new capital markets that can provide United States firms with productive business partners.

It is a pleasure to welcome our panel of witnesses. Shaun Donnelly is principal deputy assistant secretary of the State Department's Bureau of Economic and Business Affairs and Jeff Rosen is general counsel of the Department of Transportation.

We look forward to your insights on these important economic treaties. And gentlemen, I would just say parenthetically that the committee has been pleased to have success on the floor following similar hearings.

Your flavors today hopefully will be productive in the same way, but we are very pleased that our colleagues have in fact passed on the Senate floor the United States-Japanese Tax Treaty and likewise the tax treaty with Sri Lanka in recent days.

And the former of these treaties was especially important because of action that needed to be taken by the Japanese Diet in a timely way so that tax years coinciding in Japan and in the United States made possible very substantial savings for a large number of American firms. That is often the case with tax treaties, but this particular one was large in its impact because of the size, obviously, of the Japanese economy and the number of ties that we have.

Although this is not a tax or commercial treaty, I am pleased it's something for the benefit of members and staff to announce that fairly late last night, on the floor, the IAEA protocol was passed, the International Atomic Energy protocol, which the president specifically asked for in his speech on nonproliferation at the National Defense University just a short time ago.

I was present for the speech, in the front row, and the president looked at me and indicated the Senate ought to take action promptly. We had been taking action, but it prompted me to reply respectfully that within the president's administration, people needed to get their act together and to find a common theme, which they did. And so all's well that ends well.

But that has moved along swiftly. And it's very important, as the IAEA deals, as it's dealing now with Iran, with Libya, with other situations that are not hypothetical, but in the real world, are extremely important.

So I mentioned these as successes, not just for the committee, but for the Senate, for the country, working with the administration, as we seek to do with you gentlemen today.

We are very, very pleased that you are here. And I would like to call upon you, Mr. Donnelly, to testify first and then Mr. Rosen. Let me say at the outset, your full statements submitted to the committee will be made a part of the record in full and you may proceed in any way you wish.

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DONNELLY: Thank you very much, Mr. Chairman. Before I say anything about the business, I want to thank you on behalf of Secretary Powell and the administration for the leadership you've been showing on the efforts you just mentioned, the Japan and Sri Lanka tax treaties.

I was the former U.S. ambassador in Sri Lanka, so I have a particular interest in that one, but the timely action on the Japan treaty is very important, and also on the IAEA protocol.

Mr. Chairman, I very much appreciate the opportunity to appear here today to recommend, on behalf of the administration, favorable action on the Cape Town Convention on International Interests in Mobile Equipment and the protocols amending eight bilateral investment treaties pending before this committee.

I'd add parenthetically that as a fellow Hoosier, I particularly appreciate the opportunity to appear before you, Mr. Chairman.

LUGAR: Very nice to have you here.

DONNELLY: Well, thank you, sir. I'm accompanied by my colleague from the Department of Transportation, General Counsel Jeff Rosen, representatives from the Export-Import Bank, the Federal Aviation Administration, industry representatives. We appreciate very much the committee's interest in these treaties, as demonstrated by the prompt scheduling of this hearing.

As you know, Mr. Chairman, the administration is dedicated to facilitating trade and the expansion of commerce across all borders. And the treaties we're considering today will promote expanded trade and investment, support American companies, create American jobs, and advance our economic interests.

Mr. Chairman, the Cape Town Convention on international interests in mobile equipment and the related protocol on aircraft equipment will extend modern commercial finance laws already in place in the U.S. to international transactions involving high value mobile equipment.

This treaty will make available the benefits of these finance laws to our trading partners all over the world, resulting in lower risks and expanded array of credit services, thereby increasing business transactions, manufacturing activity and employment growth.

The convention and protocol are fully supported by the U.S. industry and the key government agencies involved and the negotiating process has really been a model of public-private partnership.

All federal agencies with interest in this treaty, the Departments of State, Transportation, Commerce, the FAA, and the U.S. Export-Import Bank, worked very closely with the affected private sector to insure that U.S. positions were in line with the needed results.

Mr. Chairman, we respectfully request Senate ratification of this convention and protocol. These instruments represent a positive step forward in international commercial law and in our economic and commercial interest. Early Senate approval will reaffirm U.S. leadership in this key area.

Mr. Chairman, I would now like to turn the second item of business before the committee today, as you summarized, our bilateral investment treaties with acceding and candidate countries to the European Union.

Bilateral investment treaties, or BITs, are a key part of the framework for U.S. investment in eight of the countries that are now seeking membership in the E.U.: the Czech Republic, Estonia, Latvia, Lithuania, Poland and the Slovak Republic, all of which will join the E.U. on May 1, as well as Bulgaria and Romania which are candidates, as you said, for a session in 2007.

During the last two years, BITs have afforded important protections to U.S. investors in these countries. U.S.

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investors in turn have played an important role in those countries' economic transformation. U.S. investment in the region will benefit even more once these countries accede to the E.U. as enlargement fosters stronger regional economic integration and expanded economic opportunities.

However, certain aspects of the bilateral investment treaties may conflict with obligations these countries will take on upon entry into the European Union. Under E.U. law, member states are required to bring their commitments under preexisting international agreements into conformity with E.U. law.

In addition, the acts of accession of these countries acceding on May 1st require that prior to that time, they either eliminate any such incompatibilities or withdraw from such agreements. Therefore, to the extent necessary to maintain compatibility with E.U. legal obligations, we were willing to make adjustments in certain provisions of these BITs in a form compatible with E.U. obligations in order to preserve the vital protections these treaties otherwise provide for U.S. investors.

In addition, we also obtained important assurances from the European Commission about the protection of existing U.S. investors in these countries and the right under the E.C. treaty of U.S. investors once they are established in one E.U. member state to invest onward without hindrance in other members of the E.U. When viewed together with the benefits of enlargement, these steps actually represent a significant gain for U.S. investors.

Mr. Chairman, in closing, I would say again that the protocols amending the bilateral investment treaties and the Cape Town Convention under consideration today will help grow the American economy, produce new jobs, and strengthen economic relations with new and existing trading partners. We believe that expanding markets overseas is good for American entrepreneurs and American workers.

The amendments to the BITs will support continued U.S. investment and growth in an enlarged European Union and the Cape Town Convention will facilitate financing the sale of major American products to the four corners of the globe, particularly in the developing world. We urge your committee to take prompt and favorable action on these treaties.

I thank the committee and you, Mr. Chairman, for its continuing interest in these matters and the members and staff who are devoting the time and attention to review these treaties so promptly. I'd be very happy to try and answer any questions that you may have. Thank you.

ROSEN: (OFF-MIKE) ratification of the Cape Town Convention and aircraft protocol. I have provided a written statement and I thank you for accepting that in the record of today's hearing. In my oral remarks, I would like to highlight two aspects of the Cape Town Convention and the process that brought it to fruition.

The first of these is the broad array of benefits that this convention will produce, both here at home and abroad. For countries such as the United States, which manufacture air frames, aircraft engines and helicopters, there will be increased exports as the number of orders for this equipment increases.

Increased exports will boost the economy and translate into more jobs and this job stimulus will be felt not just by the major manufacturers, such as Boeing, GE and United Technologies, but also by smaller companies that make the parts and provide services for these companies.

In addition, the convention and aircraft protocol will benefit the companies that provide the capital that finance the sale of such equipment around the world. U.S. financial institutions are, of course, major players in aircraft financing.

The creditor protections provided for by the convention and protocol will benefit them by significantly reducing the risk they now incur when financing aircraft into countries whose laws do not meaningfully protect creditors in the event of a default or insolvency. It is this risk reduction, in turn, which will bring significant benefits to many countries and airlines in the world.

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These benefits take the form of lower financing charges and are fresh sources of capital for aircraft financing. And this is particularly a benefit to developing countries whose carriers have had to pay high interest rates or who have not been able to access the commercial credit markets at all because of their risk.

In addition, in terms of the benefits, the world's skies will become safer and cleaner as newer equipment is acquired and brought into service. Many countries' airlines are operating older, less sophisticated aircraft. The full implementation of this convention and protocol should hasten the replacement of this equipment with state-of-the-art aircraft.

Now, the second item that I want to highlight is the extraordinary collaborative nature of this project since its inception. It is an example of what a government-industry partnership can produce when done well.

At each step of the negotiations, the State Department, the Transportation Department, the U.S. Export-Import Bank, along with U.S. commercial law financing experts, worked closely with representatives from industry, financiers and aircraft registry interests.

In addition, at all major stages of the process, the U.S. position on issues was coordinated through the interagency group on international aviation, whose membership, in addition to those agencies I mentioned, includes the Departments of Commerce and Defense as well as airport, general aviation and commercial aviation trade associations.

Furthermore, the U.S. negotiators maintained an ongoing dialogue with the state law commissioners, the Aircraft Title Lawyers Association, the Air Transport Association and representatives of the American Bar Association section of business law. So it is easy to understand why the product of all this effort and coordination has produced a convention in aircraft protocol with so many benefits and with no apparent opposition to its ratification.

In sum, we believe that the merits of the convention and protocol are compelling and the process that brought it about was a model collaboration between U.S. government agencies, international organizations, private sector stakeholders and sovereign governments worldwide. Prompt ratification by the United States will enable us to begin to achieve its benefits.

So I thank the committee for its interest and you personally, Mr. Chairman, for the attention that's been given to these matters. And I would be pleased to answer any questions you may have.

LUGAR: Well, I thank both of you for that testimony.

I would just note Mr. Donnelly, in your testimony, you point out the conventions, these are the Cape Town, will come into force April 1, 2004, which you note coincidentally is the date of this hearing, with only three ratifying states aboard.

However, you point out the convention will not apply to aircraft until the protocol also comes into force, so that both are necessary, and that requires ratification by eight states. And currently four countries have ratified the convention and the protocol and we expect that four additional ratifications are likely to occur by the fall, and the protocol expected to come into force by the end of calendar year 2004.

As you pointed out, and I compliment both of you and your staffs and our staff of the Foreign Relations Committee on both sides of the aisle, for alertness, really to the possibilities of leadership. One reason which you've already mentioned for taking this action or having this hearing, now, in the midst of everything else that is going on in the world, is that essentially by acting in a timely way, we encourage other countries to do so.

We think at least from the United States' standpoint, that you and the administration have negotiated an excellent treaty that is of benefit to the aircraft industry and perhaps others you have noted, but all of that good work could come for naught if not only we fail to act, but likewise, our dragging our feet makes other countries drag their feet or at least

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less reticent to step up to the plate. So, I thank you for the special efforts that have come about to prepare for this hearing and for the body of work that you perform.

Let me also just mention parenthetically, as both of you have, but if we were in any other forum in this body, that is the United States Senate or for that matter the House of Representatives, we would be talking about jobs. We would be talking about how somehow in the United States of America, more Americans are employed in good- paying jobs in sophisticated industries in which we are very competitive.

And so I take the point -- sometimes people ask why in the Senate Foreign Relations Committee are you involved in such mundane matters as jobs and American industry? Well, this is a major foreign policy issue. It's a major domestic issue. It's an issue for all Americans.

So what we're talking about today is expediting the possibilities that, as you pointed out, Mr. Rosen, the skies will be safer if there are new aircraft with state-of-the-art safety mechanisms and abilities ready to handle takeoffs and landings well. And so that will be a safety factor for us and for the world.

But to get to that point, someone must produce these aircraft and this equipment and we are very hopeful it will be American workers and American plants. And we believe because we are state-of-the-art and competitive, there's a very good possibility that will be the case.

Having said all of that, let me ask these technical questions of you for the benefit of filling out our record today.

First of all, Mr. Donnelly, will revisions of the bilateral investment treaties, you and I have both called them BITs, but for the benefit of the record and public understanding of bilateral investment treaties -- how will these affect obligations under any other agreements to which the United States or the eight countries we're considering today or the E.U. are a party?

In other words, are there side effects, other effects that we should take into consideration in our action on these treaties?

DONNELLY: Thank you, Mr. Chairman. First, let me just endorse all the comments that you've made about the importance of timing and U.S. leadership on this. We really think that as a major producer of aircraft and helicopters, the U.S. is going to be a major player in this. And it's very important that we be at the table from the very start.

And we think that our being in a position to ratify early will help spur, as you said, Mr. Chairman, other countries joining it.

On your specific question about, if I can call it corollary effects of this, we do not believe that there will be any. There have been similar issues raised by a few of the Eastern European countries regarding other agreements totally separate, outside of this area, and more in the trade agreements area, and whether their accession to the E.U. requires some adaptation in those agreements. And there's a separate process under way within the administration involving the State Department, the U.S. Trade Representative's office.

But as far as any directly related effects that would flow from these amendments, we do not believe there are any. And it's been very carefully reviewed by the interagency experts, sir.

LUGAR: Let me follow up with a more specific question about the E.U. itself. Will these amendments to the BITs result in increased consultation requirements by the E.U.? And if so, how would this benefit American industry doing business in the relevant countries? Or has a formal consultation procedure been established at all at this point?

DONNELLY: Mr. Chairman, can I take that question and get an answer for you for the record? I don't want to speak in an ad hoc way and mislead the committee.

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LUGAR: That would be perfectly acceptable, for you to research the issue and come back to us...

DONNELLY: Yes, sir. We will get you a thorough answer to that question.

LUGAR: Now, in addition to affecting the ability of the United States firms to do business in the BIT countries, will the amendments to the BIT benefit their ability to do business throughout the region?

DONNELLY: Yes, sir. That is one of the important benefits that we see in this package that we've been able to negotiate.

We have gotten a clear understanding in writing from the European Commission that U.S. businesses established in one of these six acceding countries will have the full benefits, whether they are previously established or to be established companies, that they will be able to take the full benefit of being able to operate from that base and carry forward into the broader European market, which as you know, Mr. Chairman, is a large and rapidly expanding effort.

That was a very important issue for our business community, and one that we were able, we believe, to find a solution that represents a clear step forward for our companies.

LUGAR: Has there been a framework developed, Mr. Donnelly, for modifying existing agreements which we have with countries that are poised to join the E.U.?

DONNELLY: Mr. Chairman, we believe that the process we have gone through in this effort provides a framework. As you pointed out, six of the countries are acceding in the very short term. Two others are on a somewhat slower path to accede in 2007.

But the European Union has broader plans to continue expansion as countries qualify and step forward to express their interest. And we believe that the process we've gone through, the model that we've developed here, will provide a framework for us to use should this same issue arise as other countries that we have bilateral investment treaties with come forward in the accession process.

LUGAR: And presumably, you will be closely following E.U. accession efforts. And these go on for quite a while. And so, it would not be a surprise, but on the other hand, some other Foreign Relations Committee hearing at some stage, other countries may come on the horizon.

And I raise the question just simply as a matter of precedent, at having proceeded in this way with these eight countries and it could very well be in a timely way, almost in a routine fashion want to move ahead with others as they come on line.

DONNELLY: We obviously will have to deal with it. Mr. Chairman, the E.U. does have an ambitious expansion plan in mind. The timetable will obviously be worked out between those countries and Europe.

The United States has long been on record of supporting the process of European integration. We believe it is in our political interest, it's in our economic interest, and we want to support it. At the same time, we want to make sure that our interests, particularly our economic interests are protected.

So we will carry forward I believe a very similar process as the accession process moves forward. And I would think you're quite correct that over the coming years, you may see very similar packages coming back.

Obviously, we'll have to study carefully each individual bilateral investment treaty and each individual country situation to make sure that we are finding the right package that fits each particular situation, but we believe that the general model that we have been able to work out here will work in similar situations.

Obviously, the European Commission will be a major player in that process. They have been the third party in this

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negotiation. As we've negotiated with each of these eight acceding countries individually, we've also had the European Commission fully involved in that process. And they would be a major player as other accession candidates come forward. So I think we will be building on this model, sir.

LUGAR: Without being too confusing, I'm going to skip back to the Cape Town Convention protocol for just a moment and highlight a paragraph in your testimony that I thought was helpful for the understanding of our members. And you pointed out the treaty will facilitate the acquisition of newer, safer aircraft and help developing countries without private capital, those that are lacking that.

The proposal that this new treaty will be in place in the near future has already been reflected in the United States Export-Import Bank preferential exposure fee terms for borrowers from countries that ratify and implement the Cape Town Convention and protocol.

And several major sales of U.S. equipment have been made or will be made based on the expectation of other countries that the United States will ratify the treaty.

Now I find it's a very practical basic dollars and cents issue. Frequently, even though the countries that we're talking about that might be interested in ratifying this and may now come in because the United States is involved, may do so for these reasons, that an entity such as our export-import bank suddenly becomes available to them on very favorable terms to loan them money if there happen to be capital shortages for these large investments in aircraft in the countries.

And I mention that because frequently these treaties, in terms of all our discussions, sort of float by. And it's thought well and good that we are all visiting with each other. But in this case there's a very, very practical side to this, and it involves American institutions and specifically, the Ex-Im Bank and perhaps others as the case may be.

And as we've already pointed out, it doesn't come into force, at least in the second instance, until eight countries are aboard. And as the United States is coming aboard, that makes number four or number five. So the need for leadership here is once again evident.

Let me ask, Mr. Rosen, these technical questions of you. The convention and protocol specifically indicate consistency with the United States bankruptcy law. And they are not intended to affect a state's existing insolvency system.

There is no reference to the provisions of U.S. law which specifically deal with aircraft equipment and vessels. How, if at all, do the convention and the protocol interact with those provisions? And what are the potential effects of this interaction?

ROSEN: Well, thank you, Mr. Chairman, for giving me an opportunity to address that, because one of the real positives of this convention is that it's so consistent with the existing Uniform Commercial Code that we have in the United States in our various states. And so as a practical matter, there will not really be inconsistencies. There will be one new aspect in terms of the registration. This will be a single port of registration through the FAA into the International Registry.

But in terms of the basic terms -- and this is part of why the United States has so few declarations that will be needed -- the basic law is extremely similar to that that already exists under Article 9 of the Uniform Commercial Code.

And so in some instances, there's new terminology, let's say, of international interest as opposed to security interest, but the concepts are fundamentally the same. And so, in terms of U.S. law, while this would augment and supplement it, it really will not be a significant change in terms of what we're already doing.

But it will produce efficiencies through the consistency that will be available in an international context to have the

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kinds of rights and remedies and the transparent priorities available for people to identify what interest exists and the ability to have prompt relief in the events of insolvencies, that those efficiencies from having a clear law akin to what already exists in the United States will enable benefits to take place in an international sales context.

LUGAR: I appreciate your answer encompassing the Uniform Commercial Code. The fact that it has been adopted by all 50 of our states, it has fairly well developed case law background now. So the coincidence of the treaties that we're discussing today and our own Uniform Commercial Code is especially important. And I thank you for underlining that.

But let me ask this question. The convention and protocol provide that the FAA will have heightened responsibilities with respect to these additional international obligations. Is the FAA presently equipped to handle this new responsibility? And if not, what is required to provide it with the ability to take on these new tasks?

ROSEN: Well, Mr. Chairman, let me say that while there are some new tasks for the FAA, I don't think that they are major or substantial burdens in terms of what will be required. Primarily, the most important aspect is the operation of the entry from the United States standpoint of the notice filings of the interest in the registry.

And for that, the FAA will need to participate and the administration has asked for some technical amendments really to the FAA legislation, statutes, I should say, to enable that. But I think the FAA is prepared and the FAA has been a participant at every phase of the process and the negotiations leading up to this and is quite ready to take on the responsibilities that would be entailed by ratification of the convention and protocol.

LUGAR: Let me ask now if there are any additional items that either of you would like to highlight for the benefit of the record? We have your testimony in full, and you have summarized. And this is why I've gone back, Mr. Donnelly, to some of your testimony, which I thought was especially pertinent in a practical way illustrating relevance of the treaties.

But for the sake of the record, do either one of you or both have maybe some final comment you would like to make about these affairs?

DONNELLY: Mr. Chairman, thank you. I would just like to pick up on the point you raised about the practical effect on the Export-Import Bank. The Export-Import Bank at a very senior level, one of their vice presidents, Robert Morin, who is here with us today. He has been a full member of the negotiating team, and they have been intimately involved every step of the way.

And so we think that this is a case where, although this is a formal legal treaty, it is very much grounded in the practicalities of the business world and actual deals. And I believe the Export-Import Bank is on record as having said that they are reducing their exposure fee by 33 percent, from 3 percent to 2 percent for airlines that purchase equipment through the Ex-Im Bank in countries that have signed on to this treaty.

So I think it does have the effects that you were pointing out about really being able to provide an impetus of increased sales, newer aircraft, safer aircraft. This is really very much a treaty that can have very practical benefits for us and for all the countries of the world. And we appreciate the prompt efforts of the committee to look at it and try to help us move it forward. Thank you very much.

LUGAR: Mr. Morin, would you identify yourself? Thank you for attending the hearing.

Mr. Donnelly, are there others who are here today who have been especially important in the formation of this work that should be recognized?

DONNELLY: Well, I believe, and perhaps my colleague could do a better job, but we do have two senior FAA representatives who have been full members of the delegation, Jeff Clang (ph) and I believe Joe Standell (ph), one from

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headquarters and one from the Oklahoma City office, which is the center of this aviation effort. And they have been key members.

We also have Jeffrey Wohl (ph) and representatives of the aircraft group, aviation group in the private sector, and members of some of the leading companies I see in the crowd as well here today.

So I think it's a very clear indication of the broad support and the collaboration that has been behind this effort and part of that has obviously been the consultation process with members of your staff, Mr. Chairman.

LUGAR: Well, we appreciate the attendance of each of these public and private officials today. This gives heavier credentials to work we are about.

Mr. Rosen?

ROSEN: Thank you, Mr. Chairman. I think that the one additional thing that I would like to underscore is what a win-win proposition this particular convention and protocol are, because it has the benefits of by virtue of being an efficiency enhancement, providing benefits simultaneously to the sellers and the workers of the companies who are making and selling the products and to the borrowers, who are the purchasers of the equipment at issue. And so it's truly one of these win-win situations.

And I think it's in part for that reason that another important aspect of the convention is that the aircraft protocol is set up to be the first of what would be several available protocols. The convention is an equipment convention that can accommodate future protocols.

And in that regard, there are already processes under way for potential additional protocols in the future that might deal with railway rolling stock and rail equipment, possibly space equipment, and perhaps in the future, a high value, mobile agricultural or construction equipment.

And so the structure of this particular convention, because it is a win-win kind of setup, an efficiency-enhancing setup, it's one that I think is of great interest in a number of contexts, that this is a terrific place to begin and to demonstrate the benefits, and as you underscored, the practical benefits that are already being realized through the reduction of exposure fees and credit costs.

And so I welcome you and your committee's readiness to take this up so promptly and with so much attention and hope that what I've been able to provide here today is some help to that.

LUGAR: Well, let me just say that the comment that you've made is especially interesting. You've mentioned some very important industries that might use the same framework, I suppose, with slight modifications of language pertinent to those industries.

Where in the grist for the mill process are these agreements? Are they well along or how could you describe administration efforts?

ROSEN: Well, I think it's fair to say that they are at different stages, that some of them are more inchoate than others, but the ones with regards to the rail stock and rail equipment is perhaps under way, but that these are, I think, subject to continuing negotiation processes and are something that will continue.

But in part, the success of the aircraft protocol, if our countries are able to move ahead and ratify it and take advantage of its benefits, will prove a model of how these things might be done.

LUGAR: Well, I appreciate that. And I'm sure all Americans who are listening to this record and because each of these industries for the same reason we're discussing aircraft industry, have viable employment opportunities, new jobs for Americans and new possibilities utilizing our basic institutions. And so we wish you well and your colleagues as

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they help these procedures move ahead.

Let me mention that we will keep the record of the hearing open for the rest of the day in the event that members who were not able to attend the hearing have questions they may want to submit. And we hope that you would respond quickly likewise to the one question that you reserved, Mr. Donnelly, earlier on, so that our record will be fulfilled on that.

It would be the intent of the committee, and I want to consult closely with the distinguished ranking member, Senator Biden, to put this on the agenda of our next markup. And that is problematic simply because of the schedule of the Senate. We want to make certain that we are all here and have some reasonable chance of getting a forum.

But in any event, it is a high priority for our activity, and we would hope to get the treaty then to the Senate floor so that our colleagues, all of them, could consider its merits.

We thank both of you for coming and your staffs and those who have supported you, likewise, the staff on both sides of the aisle here who have made this hearing very successful. And having said that, the hearing is adjourned.

DONNELLY: Thank you, sir.

ROSEN: Thank you, sir.

END

NOTES:

[????] - Indicates Speaker Unknown

[-] - Indicates could not make out what was being said.[off mike] - Indicates could not make out what was being said.

PERSON: DICK LUGAR (94%); CHUCK HAGEL (91%); LINCOLN CHAFEE (58%); LINCOLN CHAFEE (58%); MIKE ENZI (57%); NORM COLEMAN (57%); GEORGE VOINOVICH (57%); LAMAR ALEXANDER (57%); SAMUEL BROWNBACK (57%); LAMAR ALEXANDER (57%); SAMUEL BROWNBACK (57%); GEORGE VOINOVICH (57%); JOHN SUNUNU (56%); JOHN KERRY (56%); CHRISTOPHER DODD (56%); JOE BIDEN (56%); JOHN P SARBANES (56%); JOHN P SARBANES (56%); CHRISTOPHER DODD (56%); JON CORZINE (55%); JAY ROCKEFELLER (55%); BARBARA BOXER (55%); RUSS FEINGOLD (55%); BILL NELSON (55%); JAY ROCKEFELLER (55%);

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