

The Executive Memorandum

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HOW TRANSPORTATION DEPARTMENT POLICIES HELP JAPAN AND HURT U.S. SATELLITE MAKERS

The Australian government has announced plans to buy space satellites for commercial activities from an American manufacturer. The People's Republic of China (PRC) has won the contract to launch these satellites into orbit for Australia. This the United States Department of Transportation (DoT) is trying to prevent. In fact, DoT is urging a ban on launching any American-made satellites on Chinese rockets. DoT argues that U.S. security would be threatened if the PRC used U.S. satellite technology for military purposes. DoT also argues that subsidized Chinese launches constitute unfair competition to American launch firms. The State Department and several working groups within the White House currently are considering whether to approve the sale of the U.S. satellites. Whatever DoT's motives are, it is advocating the same protectionist policies that already have harmed many U.S. industries. If DoT succeeds, the U.S. space satellite and space launch industries could resemble America's steel industry, crippled by those measures ostensibly designed to protect it. And DoT stretches the imagination and insults American technology when it argues seriously that somehow the U.S. space industry has something to fear from barely developed China. If security concerns can be dealt with, there is no justification for banning the use of Chinese "Long March" rockets to launch satellites manufactured by U.S. firms.

An Issue for the Pentagon. The potential for Chinese military use of U.S. satellite technology is a legitimate security issue. During the bidding process for the Australian contract, the U.S. State Department issued several advisory opinions stating that it did not see a security problem. In any case, the U.S. satellites, manufactured by Hughes Aircraft Company, would be placed on PRC rockets as "black box" payloads. This means that they would be launched into orbit by the PRC without being opened. The Coordinating Committee for Multilateral Export Control (CoCom), an organization of Western democracies, under U.S. leadership has established guidelines to prevent the transfer of military technology to communist countries through exports. The satellite launch issue is for CoCom, the Pentagon, and the State Department to resolve according to their procedures. It is not a matter for the Transportation Department.

In discussions with the Australians, the Chinese have offered to launch each satellite for about \$25 million. The largest U.S. launch firms and Arianespace, the European launch consortium, charge around \$100 million for a launch. DoT alleges that the PRC might be subsidizing launches to take business away from the West. If so, the PRC is guilty of unfair trade practices and is subject to sanctions. This then would be a trade matter, an issue for the Commerce

Department and the U.S. Trade Representative to resolve under current law. It is not a matter for DoT. The Commerce Department currently negotiates and enforces pricing agreements with many socialist countries to assure that their exports do not compete unfairly with American products.

Treating the U.S. Like a Third World Country. DoT's contention that PRC competition will destroy the U.S. launch industry embarrassingly is the well-worn "infant industry" argument advanced by Third World countries to justify closing their markets to U.S. goods and services. By banning foreign competitors, these countries merely have ensured that their industries remain inefficient and their citizens poor. The U.S. correctly opposes such policies in other countries, declaring them counterproductive. DoT should not be advocating them for the U.S. Restrictions on Chinese launches of U.S.-made satellites would allow inefficiency to creep into the American launch industry. As serious, it would force potential customers of U.S.-made satellites to look elsewhere. Not surprisingly, Japan already is developing a satellite industry. If DoT is successful in lobbying to ban certain countries from launching U.S.-made satellites, Japan is sure to move in and capture, as it has before, what is now a U.S.-dominated market.

DoT's action on the space launch issue is puzzling for DoT has been a strong advocate of competition and free market policies. While DoT has the authority to license all private U.S. commercial space flights, it does not have the authority to police overseas efforts by private U.S. firms in the space industry. DoT, moreover, has ignored the need for further deregulation of U.S. commercial space activities. DoT, for example, could be working to break Intelsat Corporation's monopoly on international satellite communications. By opposing Chinese launches, DoT is further regulating American business rather than promoting economic freedom. Given its licensing power over U.S. private commercial launches, the Department's lobbying efforts bode ill for future U.S. private space activities.

Making America the Loser. The Transportation Department has overstepped its jurisdiction in advancing national security and commercial policy arguments against the Chinese launch of U.S. satellites. If the Pentagon is worried about China launching a sealed "black box" U.S.-made satellite, it should say so. If the Commerce Department, the U.S. Trade Representative, and U.S. launching firms believe that competition from the Chinese is unfair, they should say so and initiate what is called a "301 procedure." DoT has no business trying to halt the launch of U.S.-made satellites. If it succeeds in doing so, America will be the loser and Japan the winner. The Reagan Administration should ignore DoT's lobbying and allow the Chinese to launch U.S.-made satellites.

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For further information:

"Space: America's Competitive Frontier," in Edward L. Hudgins, ed. *Making America More Competitive*, The Heritage Foundation, 1987.

James Bennett and Phillip Salin, "Privatizing Space Transportation," Reason Foundation *Issue Paper*, March 6, 1987.