

EXECUTIVE SECRETARIAT (O/DCI)
Routing Slip

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	DD/RM	X			
4	DD/NFA		X		
5	DD/CT	X			
6	DD/A				
7	DD/O				
8	DD/S&T		X		
9	GC				
10	LC				
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16	AO/DCI				
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SUSPENSE DATE: 10 October

Remarks: To 3 & 5: Please develop coordinated response for DCI's signature.
 To 5: This is the letter you forecast at the 26 September Staff Meeting.

Executive Secretary

6 Oct 80

Date

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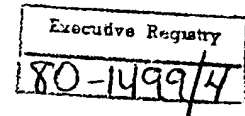
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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

OCT 3 1980



Dear Stan,

I am enclosing the guidance letter we recently received from Jim McIntyre, Director of the Office of Management and Budget, with respect to the Transition Plan for Land Remote Sensing from Space. The letter reviews many of the major policy issues discussed in the Transition Plan and states that, in the view of OMB, most of the decisions on these issues should be made in the context of the 1982 budget process.

The letter raises a number of policy issues of national importance that warrant your attention. I believe we must first resolve these critical policy issues and then implement them through the budget process.

I would appreciate receiving promptly your views on the issues raised in the OMB letter. Upon receiving them, I will prepare a final response to OMB and recommend a process to determine the future of the Landsat program.

Sincerely,

A handwritten signature in dark ink, appearing to be "P. R. ...", written over the typed name.

Secretary of Commerce

Enclosure

Honorable Stansfield Turner
Director of Central Intelligence
Washington, D.C. 20505



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

SEP 16 1980

Honorable Philip M. Klutznick
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

This letter provides our comments on the "Transition Plan for Civil Operational Land Remote Sensing from Space" and outlines what we believe should be the next steps undertaken to move forward with Administration policy commitments for satellite-based land remote sensing. The views in this letter reflect not only this Office's position, but also those of Dr. Frank Press.

Although we may share different views on the issues, your Department is to be commended for its analysis of the complex policy and technical issues discussed in the Plan. We appreciate the amount of effort, under tight time constraints, which has been devoted to this effort by your Department and representatives from the other interested agencies.

The path we have embarked on to transfer government-developed technology from the R&D phase to an "operational" status and ultimately private sector ownership is an area where we have little experience. Land remote sensing from space is considered by many to have great economic potential, but, as articulated in your Plan, the user community is limited, and, as yet, reluctant to share fully in the system's costs. Furthermore, it comes at a time when the President and Congress are pressing for fiscal restraint. In summary, we appreciate the rationale behind the resource allocations proposed in your Plan but must state that our decision to provide increased funding for this program will be dependent on thorough programmatic justification and the willingness of the users to share in the costs.

Given the uncertainties over the launch date and configuration of LANDSAT D and D', and the budgetary and legislative implications of the options available, we believe that most decisions should be made in the context of the 1982 budget process. We, however, do have initial guidance on how we should proceed with resolving the issues and moving forward and what additional analysis we believe is necessary.

NOAA Recommendation #1: Continuity of Data in the 1980s

- a. Operations and transfers.--The LANDSAT D ground segment should be upgraded to provide prescribed performance standards and additional spacecraft (two) should be procured to provide data continuity. The National Aeronautics and Space Administration (NASA) would transfer responsibility to NOAA for the LANDSAT D space and ground segments after the LANDSAT D system meets initial performance standards, and the Department of the Interior (DOI) subsequently would transfer archiving and dissemination functions to NOAA.
- b. Management.--Authorizing legislation would be requested for NOAA to: (1) manage the satellite system until it is transferred to another entity, and (2) regulate and provide financial assistance to the private owner. The interagency Program Board and Advisory Committee would be established.

OMB Comment/Reaction

Recommendation #1 a.--We appreciate NOAA's and the user community's desire to have a system which meets high performance standards. Before we can concur with such a proposal, we need more detailed programmatic justification, other than stated assertions, of users' perceived needs. Such justification should document what the additional benefits are and why the additional system improvements are worth the added costs. The justification also should provide an analysis of to what extent the incremental costs would be recovered fully from users. Since there is very large cost for each additional satellite, as part of the 1982 budget review process your Department and the user agencies must document the losses and gains, respectively, in as quantifiable a manner as possible, which would occur from different levels of LANDSAT performance and satellite coverage.

The proposed sequence for the transfer of LANDSAT operations from NASA to NOAA seems reasonable if the Federal Government continues to operate and manage the LANDSAT system during this decade. We believe that before this strategy is finalized, the possibility of having the private sector take over the system in the near future from NASA should be pursued further over the next few months and analyzed in the context of the institutional approach options and data continuity commitment.

Recommendation #1 b.--Regardless of the institutional approach selected, regulating authority should be kept to the minimum essential to protect the public and national security interest. The charter for the interagency Program Board and Advisory Committee should be finalized and implemented as soon as possible.

NOAA Recommendation #2: Initiation of a Fully Operational System in 1989

A 1989 goal for a fully operational system (using new sensors, and maybe spacecraft that meet a broad range of user needs) should be established. Operational system characteristics based on user needs, projected levels of demand, costs, pricing policies, and expected Federal financial assistance would be developed in consultation with the user community in 1981. NASA would move forward with the necessary R&D work as soon as possible to achieve the 1989 goal.

OMB Comment/Reaction

We concur that we should begin the necessary studies for determining valid user data requirements and market demand at projected service costs. The timing for moving to a future, advanced operational system should depend upon the willingness of the Federal user agencies, State and local governments, and the private sector (domestic and foreign) to invest, not technology-push. Until the private sector is willing to provide a significant share, if not most of the investment required, a future, more advanced operational system should be deferred beyond 1989.

NOAA Recommendation #3: Pricing Policies and Federal Financing

- a. Pricing policy.--Prices charged system users (direct reception and data products) would be raised on a phased basis at levels initially designed to encourage potential users to invest and to reduce the use of competing methods of data collection. Initial price increases would become effective in FY 1983 as a result of preliminary pricing studies. Prices for FY 1984 and after would be established after contracted market studies initiated in FY 1982.
- b. Federal financing.--NASA would continue to budget for the R&D costs (i.e., sensor/spacecraft R&D and prototype launch). The Department of Commerce (NOAA) would budget for the "core" operational system costs, not covered by revenues, meeting common needs of the majority of users and costs for any special system capability would be budgeted by user agencies desiring them.

OMB Comment/Reaction

Recommendation #3 a.--We concur that longer-term, non-Federal market development needs to be taken into consideration in the data pricing policy. At the same time though, the maximum market value of the data products should be charged to the extent possible. A market strategy that sets the price at a level all potential users find acceptable is too artificially low. For FY 1983 the prices should be raised so that they are closer to competing methods of data collection and for FY 1984 and beyond the additional benefits and uniqueness of land remote satellite sensing data should be factored into the prices as market studies are completed. At a minimum, serious consideration should be given to establishing FY 1983/84 prices for non-Federal users at a level that will recover at least the annual recurring costs for operations. The goal we should press for is total cost recovery over the next 10 years.

Starting with FY 1983, prices charged to Federal user agencies should be based on recovery of annual recurring costs for operations for their portion of the total usage. For FY 1984 and beyond, prices to Federal users should be increased annually so as to approach full cost recovery by FY 1988. Federal user agencies will need to budget for required services at these higher levels. The multi-year budget projections for NOAA and user agencies should reflect estimates of increased revenues and costs, respectively.

We believe that your Department (NOAA) initially should budget for the "core" (as yet undefined) operational system costs and that costs for any special system capabilities should be budgeted by user agencies desiring them.

NOAA Recommendation #4: Institutions for Private Sector Involvement and Financial Assistance

- a. Institution.--The Administration would submit legislation to the Congress in FY 1981 to create a for-profit private corporation with Federal and non-Federal representatives on the Board of Directors to own and operate the fully operational system.
- b. Financial assistance.--The Department of Commerce (NOAA) would seek authorizing legislation which allows the Department of Treasury to provide the appropriate capital assistance (loans, guarantees, and bonds) and/or enter into long-term Federal data purchase guarantees at subsidy price levels.

OMB Comment/Reaction

We have serious reservations with your recommended institutional approach. The creation of such an entity can lead to never ending Federal subsidies. If after reexamination, you continue to believe such an institutional approach is most desirable, your Department and the concerned agencies should be prepared to amplify more fully the merits during the 1982 budget review. Likewise, in addition to developing the legislative and financial details of your recommended new, for-profit corporation, and pursuing further your private sector option we would like to have developed fully for our consideration during the 1982 budget review the programmatic and financial implications of the following options:

1. Have the private sector assume responsibility for the ownership/operation of the Earth Remote Satellite Sensing program in the immediate future. This could involve having the corporation(s) chosen by a competitive process take over the LANDSAT system and/or develop its own system.
2. Maintain Federal management of the LANDSAT system to assure data continuity through this decade but defer initiating the development (except possibly for some sensor R&D) of a fully operational system until possibly the latter part of this decade when the private sector is more ready to assume responsibility of ownership/management and Federal agencies have more experience with using LANDSAT data products. Steps required to assure eventual private sector ownership should be explored.

NOAA Recommendation #5: Control over Data Products and Market Expansion

- a. Data control.--Legislation which enabled the system owner-operator to own the data products and condition their dissemination on the payment of appropriate fees would be submitted to the Congress.

- b. Market expansion.--A tailored Federal market expansion program would be established to train users of land remote sensing satellite data and conduct application demonstration programs.

OMB Comment/Reaction

Great care must be exercised to assure that the owner can market his product freely without constraints that reduce the product's value unduly. There may be a need for some market development on the part of NOAA but before we initiate a program along the lines outlined in your Plan, we need a firm understanding of what criteria will be used to determine when NOAA should become involved in market development.

NOAA Recommendation #6: International Aspects

Foreign user interests and data needs would be taken into consideration in developing the U.S. system performance characteristics and discussions with other countries to explore the prospects for complementarity and compatibility among the land remote sensing satellite programs would be continued.

OMB Comment/Reaction

We have no comments at this time.

Finally, although not highlighted in your summary of recommended actions, the Plan assumes that the capabilities of your recommended upgraded LANDSAT D system should be used as the baseline for planning the operational system. Before we can concur in this recommendation, we need to explore fully the cost and relative benefits of other options. In particular, the cost of a system based on MSS-level capability (not including TM) should be determined and used as a baseline in discussing cost-benefit issues.

My staff is prepared to discuss our concerns raised in this letter and work with your staff to define the various options. Thank you again for doing such a fine job on the Transition Plan and we look forward to finalizing the program and policy decisions during the 1982 budget process.

Sincerely,

(Signed) Jim McIntyre

James T. McIntyre, Jr.
Director