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***GOVERNMENT PROCUREMENT
OF UNITED STATES COMMERCIAL JET AIRLINERS
(1958-1975)***

A Major Factor in the U.S. Airliner Manufacturing Industry

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SECTION I

A National Asset: The U.S. Airliner Mfg. Industry Serves a Large Market, Generates Substantial Employment, Contributes Favorably to Balance of Trade.

THE MARKET FOR U.S. JET AIRLINERS: LARGE WITH POTENTIAL FOR GROWTH

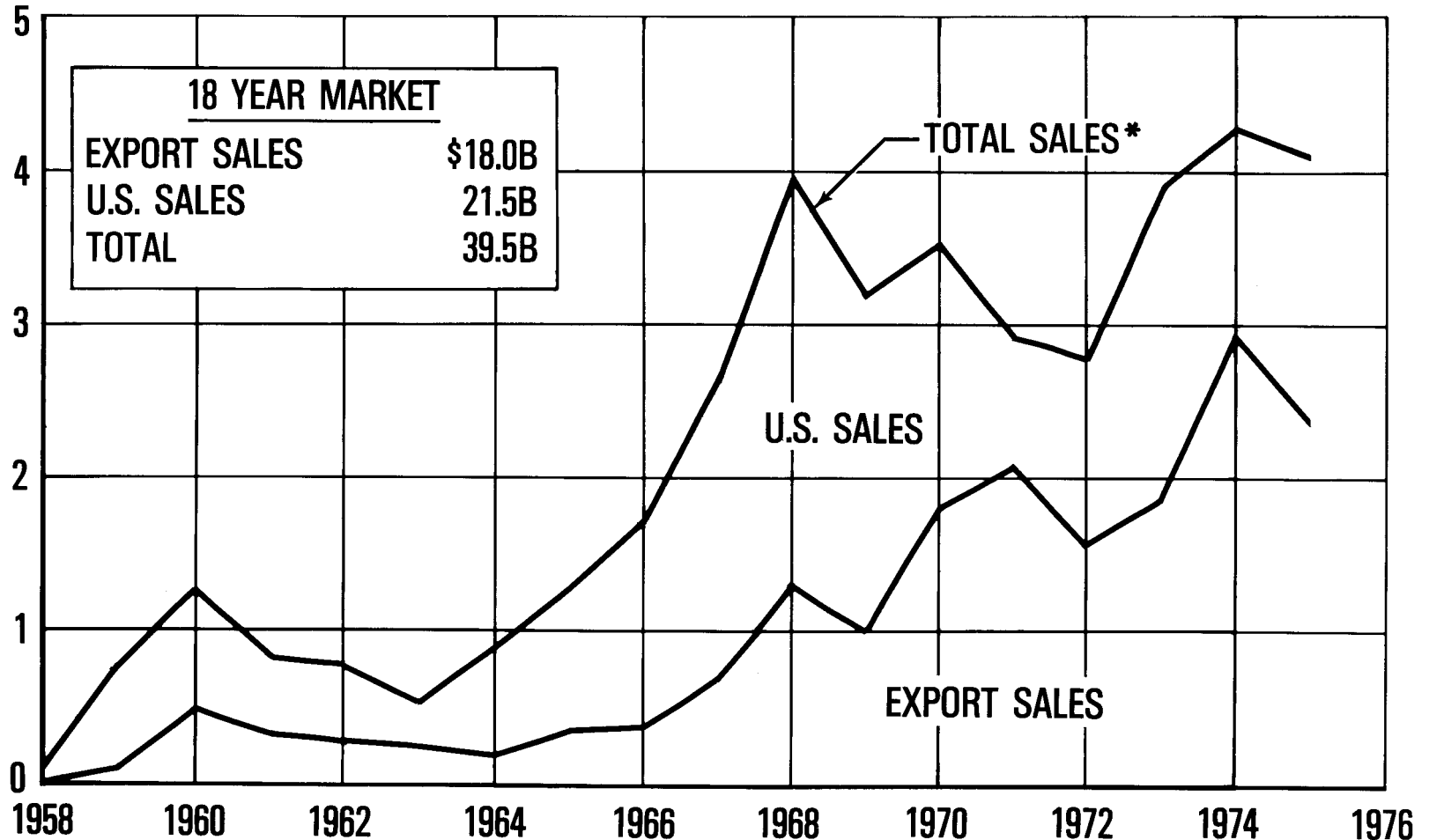
- During the 18 year period 1958 - 1975, the world market for U.S. commercial jet airliners* grew in annual sales from \$63 million to \$4.1 billion - a \$39.5 billion market, with 46% exported to foreign airlines.
- During this period, U.S. manufacturers increased their dominance of the world commercial jet airliner market - from an average of 79% for 1958 - 1960 to 92% in 1975.
- Exports have contributed an increasing share of the market, rising to 59% in 1975.

*Includes all U.S. manufactured jet and turboprop airliners except 194 Fokker F-27's manufactured under license by Fairchild Hiller.

U.S. COMMERCIAL JET AIRLINER SALES

CURRENT \$*
BILLIONS

BOEING, GENERAL DYNAMICS, LOCKHEED AND MCDONNELL DOUGLAS



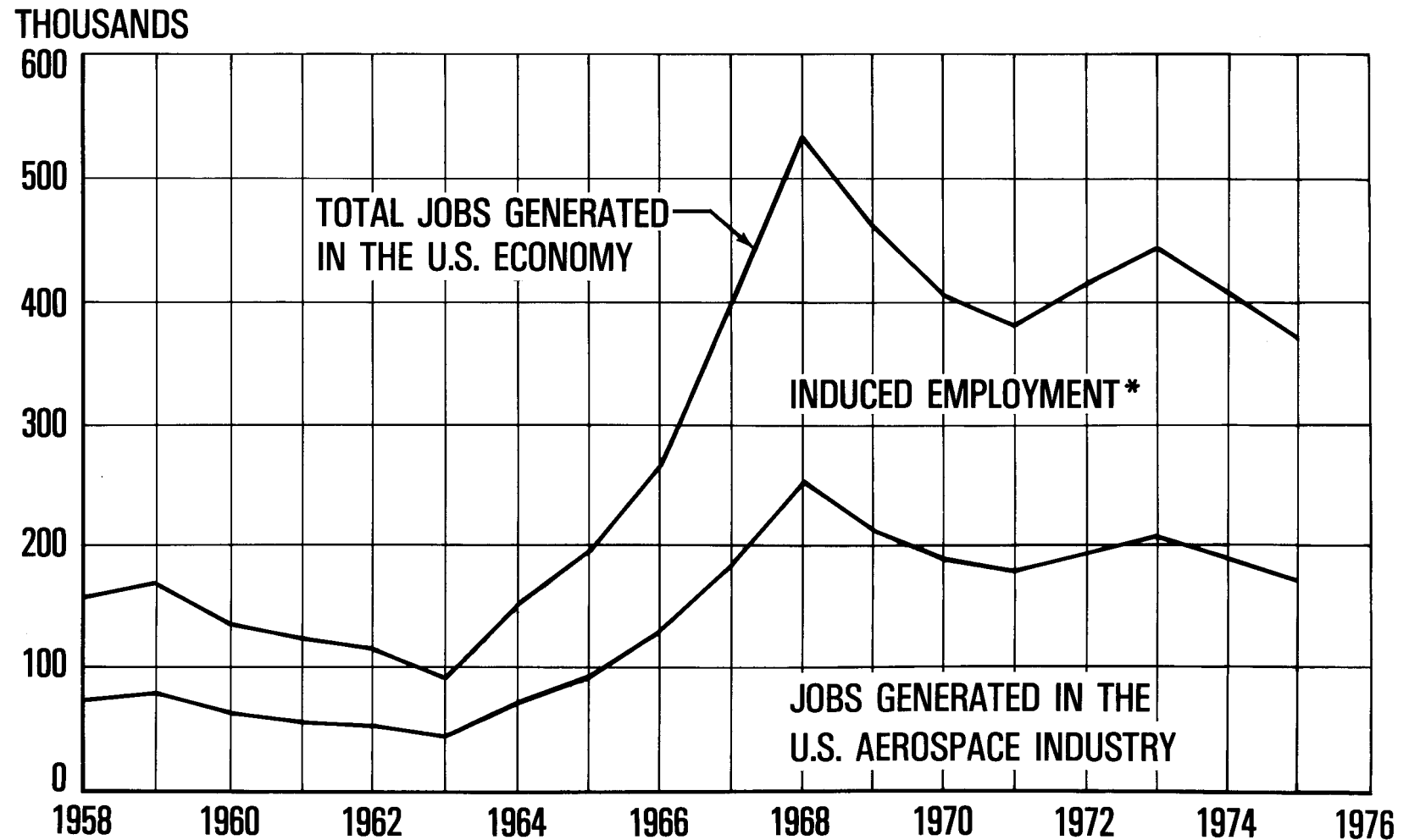
*The price prevailing in each year.

**Does not include sale of derivative military aircraft to U.S. or foreign governments.

COMMERCIAL JET AIRLINER MFG. EMPLOYMENT: SUBSTANTIAL BUT VARIABLE

- Industry employment is sensitive to economic conditions and has experienced sizable variations. In spite of the recent decline, employment is substantial and the long term trend is up.
- Jobs generated in the Aerospace Industry by the manufacture of commercial jet airliners rose from 75,000 in 1958 to 174,000 in 1975, reaching a peak of 252,000 in 1968.
- The total number of U.S. jobs generated by the manufacture of commercial airliners, including jobs induced in other sectors of the economy, was 370,000 in 1975.

U.S. COMMERCIAL JET AIRLINER MFG. EMPLOYMENT



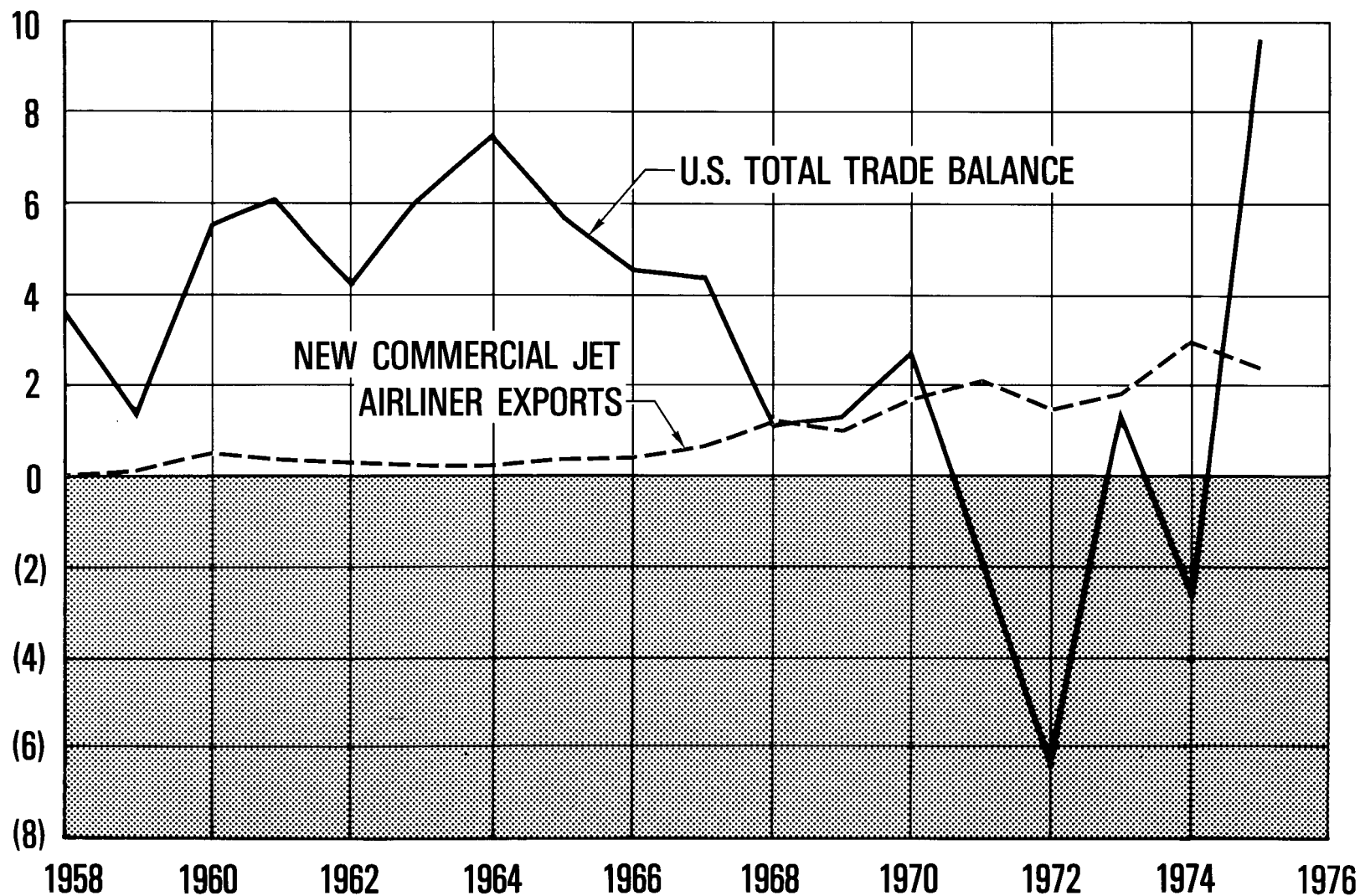
*Estimated using a conservative job multiplier of 1.13 supplied by Professor M. Weidenbaum, Washington University.

EXPORT OF U.S. COMMERCIAL JET AIRLINERS: A MAJOR CONTRIBUTION TO THE BALANCE OF TRADE

- Commercial jet airliner exports have contributed favorably to the U.S. balance of trade in 17 of the 18 years from 1958 to 1975.
- The years 1970 - 1975 inclusive are especially significant: Commercial jet airliner exports were a plus \$12.5 billion compared to a total U.S. trade balance of only \$2.3 billion.
- During the next decade, the contributions of the commercial jet airliner industry to the U.S. trade balance will be critically important because of the high cost of imported oil.

CONTRIBUTION OF COMMERCIAL JET AIRLINER EXPORTS TO U.S. BALANCE OF TRADE

CURRENT \$
BILLIONS



SECTION II

Economic Realities of the Industry: Poor Earnings and Special Sensitivity to Size of Production Run.

DOMINANCE OF WORLD MARKET HAS NOT RESULTED IN EARNINGS FOR U.S. MANUFACTURERS

- Since 1958 U.S. manufacturers of commercial jet airliners sold 4,666 airplanes worldwide for \$39.5 billion.
- Cumulative net losses on those airplanes totaled \$1.1 billion, amounting to 2.7% of total sales.
- In short, the manufacture of commercial jet airliners has not been a profitable business.

INDUSTRY SALES AND NET EARNINGS

U.S. COMMERCIAL JET AIRLINERS (1958-1975)

NUMBER OF AIRPLANES 4,666

SALES \$39.5 BILLION-CURRENT \$

NET EARNINGS (\$1,078) MILLION-CURRENT \$

RETURN ON SALES (2.73%)

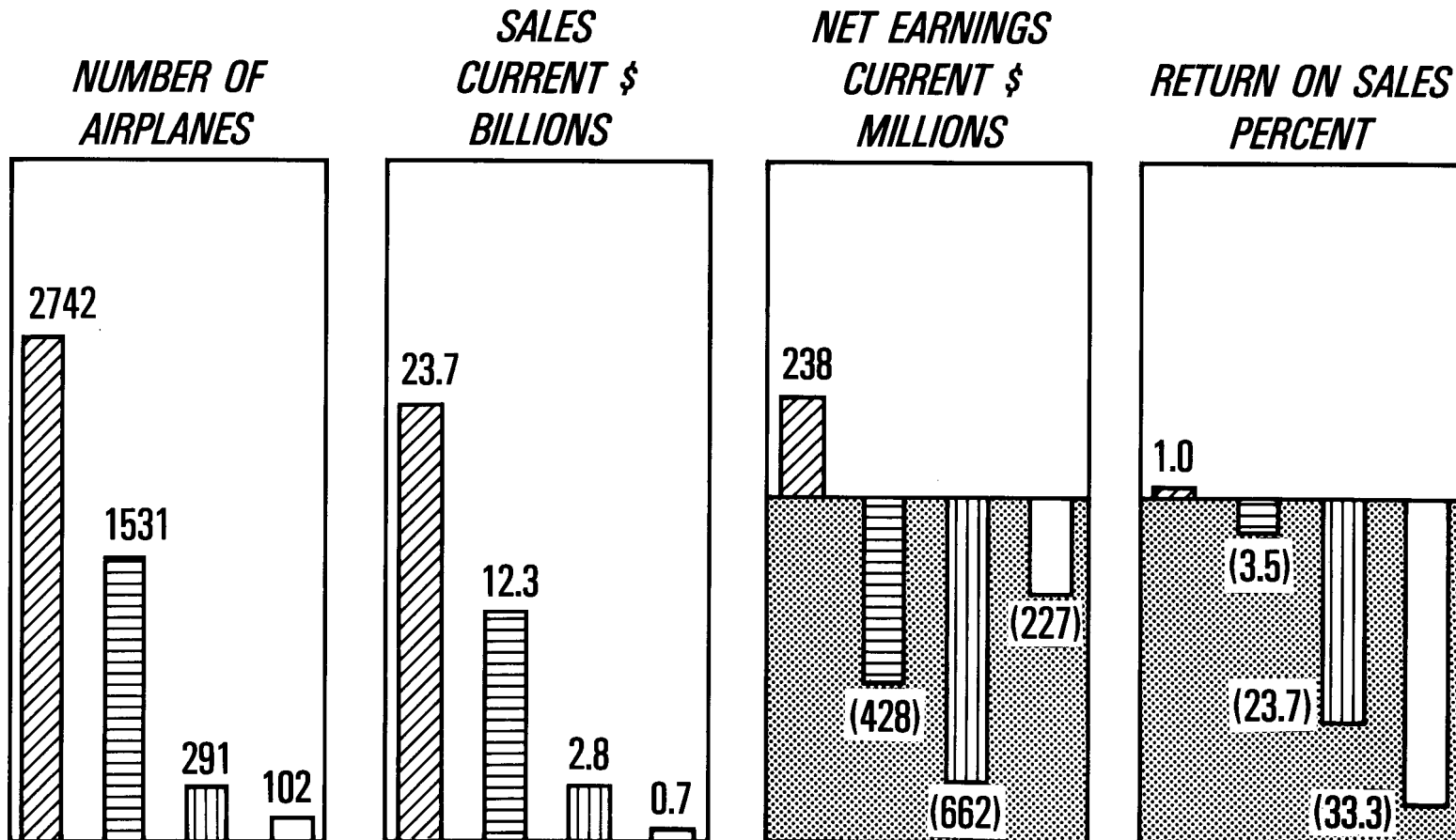
THREE OF FOUR COMMERCIAL JET AIRLINER MANUFACTURERS HAVE EXPERIENCED SUBSTANTIAL LOSSES

- During the 18 year period 1958-1975, Boeing dominated the marketplace with \$23.7 billion in estimated sales returning \$238 million in net earnings or 1.0% on sales.
- The other 3 manufacturers - McDonnell Douglas, Lockheed, and General Dynamics - delivered almost \$16 billion worth of commercial jet airliners at a substantial loss.
- General Dynamics is no longer an active competitor in the commercial jet airliner marketplace.

SALES AND NET EARNINGS, U.S. MANUFACTURERS OF COMMERCIAL JET AIRLINERS

(1958-1975)

 BOEING
 MCDONNELL DOUGLAS
 LOCKHEED
 GENERAL DYNAMICS

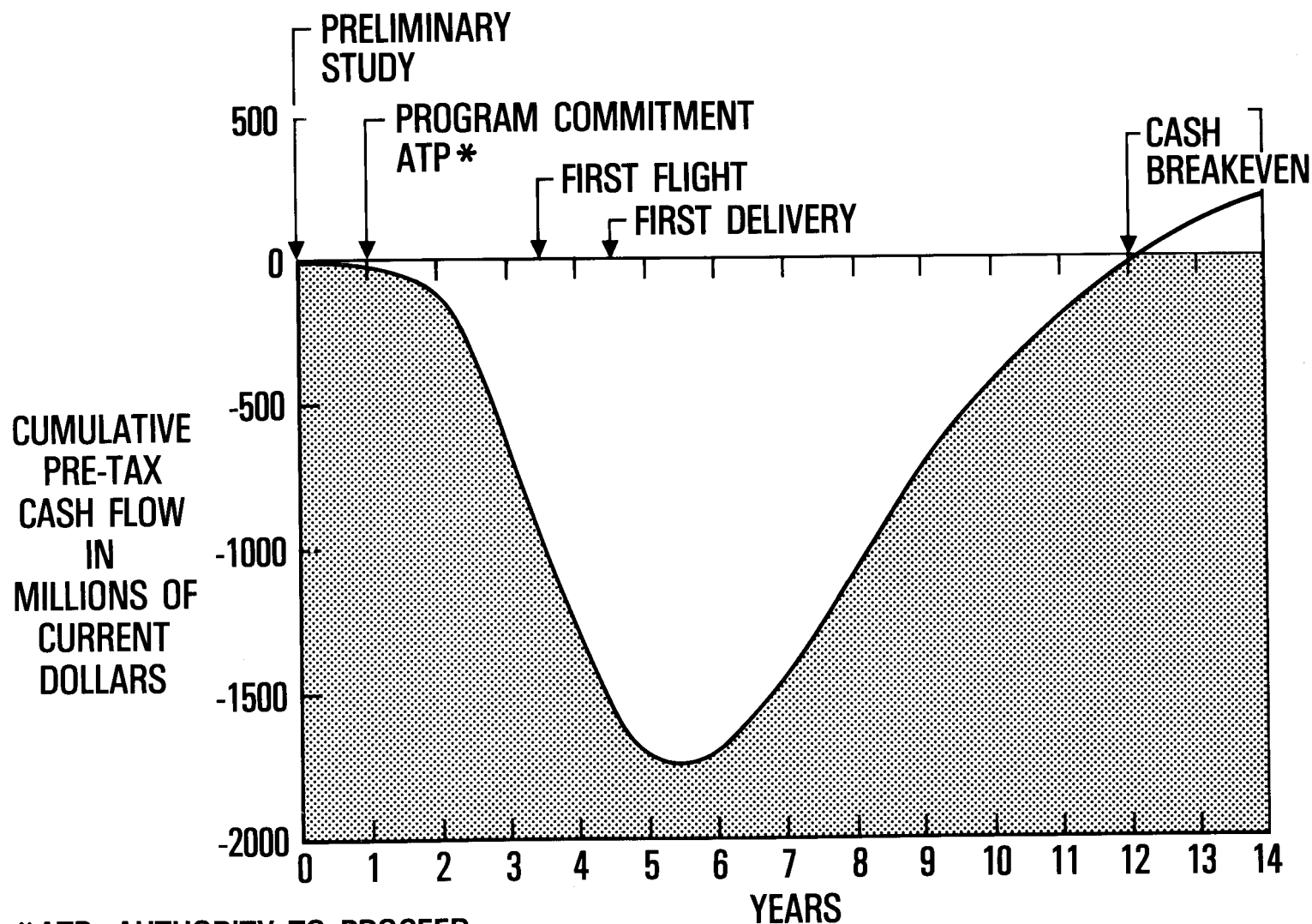


HIGH DEVELOPMENT COSTS CREATE EXTREME SENSITIVITY TO SIZE OF PRODUCTION RUN

- Introduction of a new series of airplanes requires an enormous initial cash commitment - on the order of \$1 billion for a wide body jet before the first airplane flies.
- It takes 2-3 years and an additional \$500 to \$750 million to reach a point in the manufacturing learning-curve where enough airplanes have been delivered to provide a positive cash flow on subsequent airplanes.
- Typically, another six and one-half years are required before cash breakeven. The true development cost must be measured, therefore, not only in terms of massive amounts of money but also in the excessive number of years of cash exposure.
- Characteristics of the learning-curve magnify the importance of each subsequent order received after positive cash flow has been achieved -- by creating a large gap between unit prices reflecting reasonable total program costs and those merely recovering out-of-pocket costs on the specific order.
- Faced with the enormity of the initial financial risk and the intense competition of the commercial marketplace, a manufacturer is forced to sell at an unrealistically low price or lose the order.

THE ECONOMICS OF COMMERCIAL JET AIRCRAFT MANUFACTURING

TYPICAL CASH FLOW CURVE FOR LARGE JET AIRLINER PROGRAM



***ATP-AUTHORITY TO PROCEED**

Source: The Long Range Needs of Aviation; Report of the President's Aviation Advisory Commission, 1973, page 27.



SECTION III

**Impact of Government Procurement: Alters Competitive Situation
and Industry Economics.**

GOVERNMENT PROCUREMENT OF U.S. COMMERCIAL JET AIRLINERS HAS BEEN SUBSTANTIAL

- Government procurement of military derivatives of U.S. commercial jet airliners totaled \$9.2 billion since 1957.
- Boeing and Lockheed have dominated the government market. Program values for the B-707 and Electra derivatives alone total \$8.6 billion or 94% of total government procurement.
- Boeing has had the greatest success in this government market - B-707 derivatives accounted for \$5.3 billion or 57% of the total.

MILITARY DERIVATIVES OF U.S. COMMERCIAL JET AIRLINERS

<u>COMMERCIAL DESIGNATION</u>	<u>MILITARY DESIGNATION</u>	<u>QUANTITY⁽¹⁾</u>	<u>FIRST DELIVERY</u>	<u>PROGRAM VALUE CURRENT \$ MILLIONS⁽¹⁾</u>	<u>MILITARY UTILIZATION</u>
BOEING 707 ⁽²⁾	C-135, KC-135	821	1957	3,550	TRANSP, TANKER, COMMAND AND RECON
BOEING 707	VC-137	5	1959	36	PRESIDENTIAL TRANSPORT
LOCKHEED ELECTRA ⁽³⁾	P-3	449	1959	3,326	ANTI-SUBMARINE WARFARE
MDC DC-9 ⁽⁴⁾	C-9A/B/C	42	1967	206	AEROMED/LOGISTICS TRANSPORT
BOEING 707	AWACS	13	1972	1,711	AIRBORNE WARNING AND CONTROL
BOEING 737	T-43A	19	1973	114	NAVIGATOR TRAINER
BOEING 747	AABNCP	4	1973	272	AIRBORNE COMMAND POST
?	ATCA	0	1979(?)	?	ADVANCED TANKER CARGO AIRCRAFT

TOTALS

BOEING	\$5,683 MILLION
LOCKHEED	\$3,326 MILLION
MCDONNELL DOUGLAS	\$ 206 MILLION

(1) Quantity and dollar value funded through FY 1976 (30 June 1976)

(2) Includes twenty-three (23) 707-320C's to foreign governments.

(3) Includes fourteen (14) P-3's purchased by foreign governments.

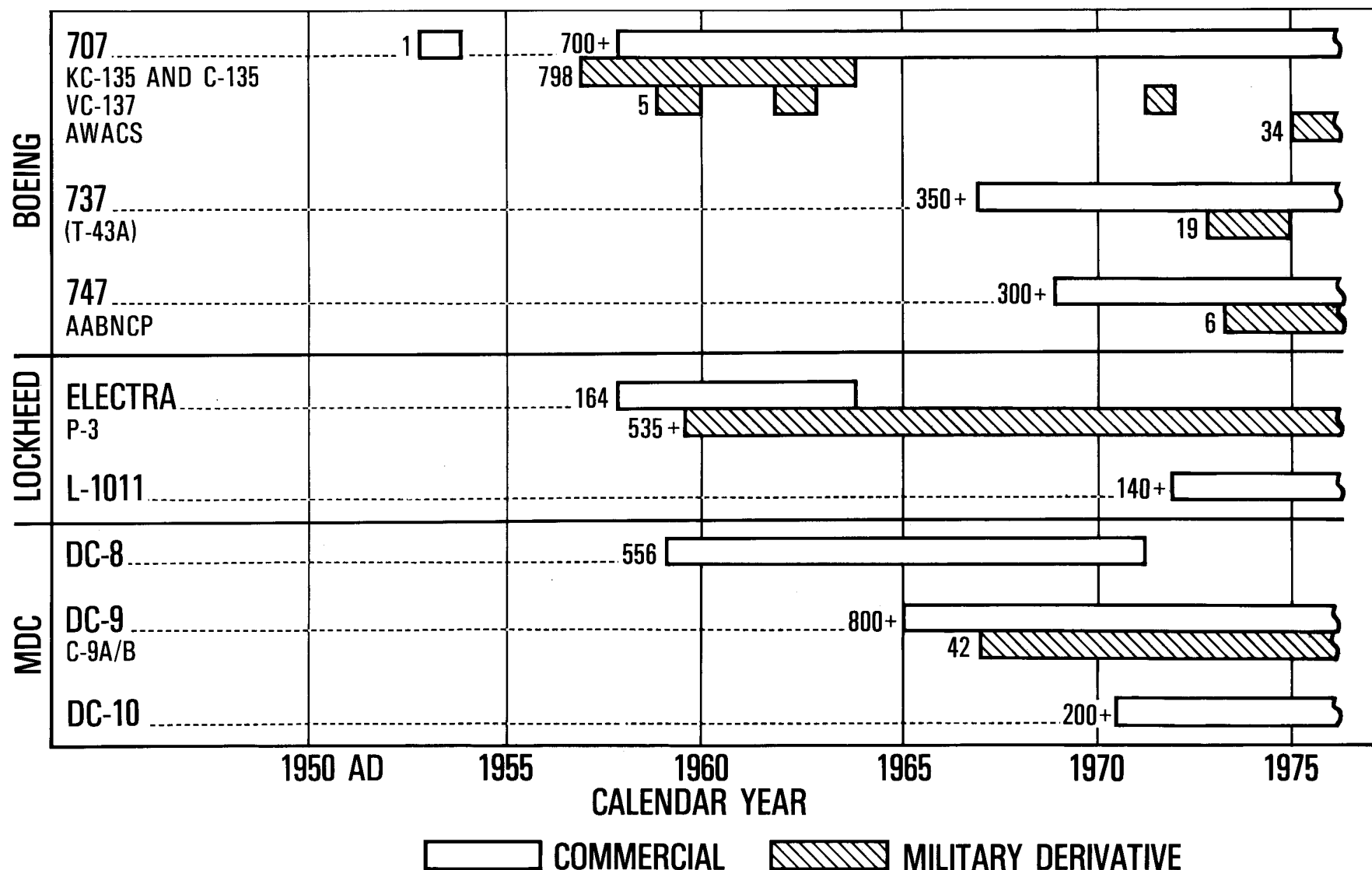
(4) Includes four (4) C-9's purchased by foreign governments.

A SIGNIFICANT IMPACT ON THE COMPETITIVE SITUATION . . .

- Early government procurement of B-707 military airplanes in quantities almost equal to the ultimate number of commercial airplanes pushed the program down the learning-curve -- providing a substantial competitive advantage in the commercial marketplace.
- Lockheed's success in winning the P-3 award permitted it to sustain the capability needed to re-enter the commercial market with a wide body jet airliner a decade later.

MILITARY DERIVATIVES OF COMMERCIAL JET AIRLINERS

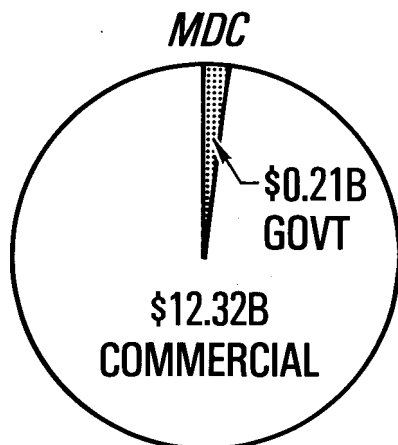
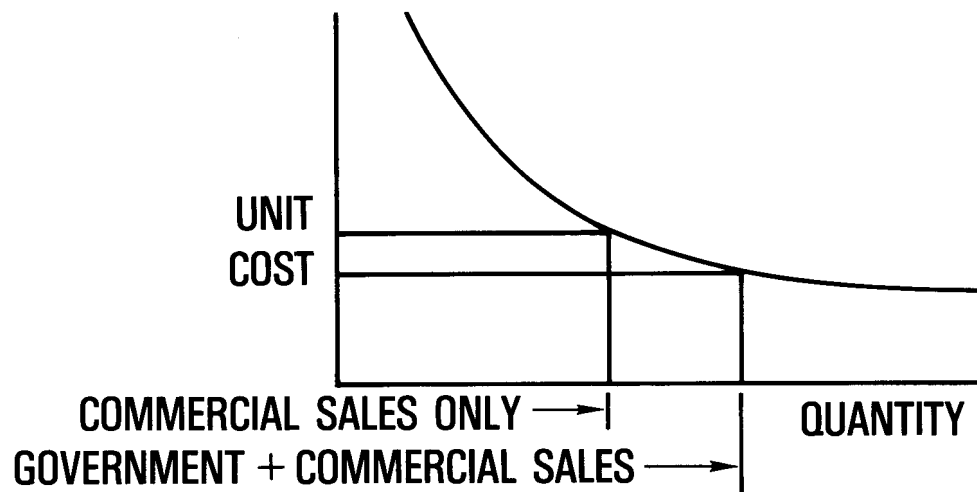
QUANTITIES SHOWN ARE FOR TOTAL PROGRAMS



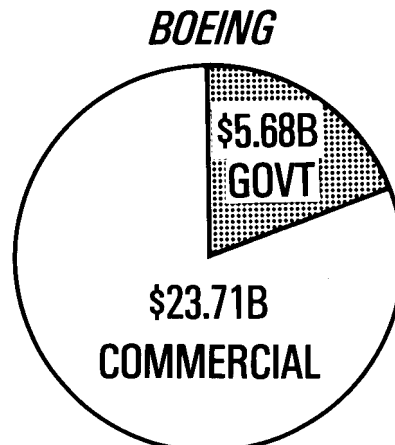
. . . BY LOWERING UNIT COSTS AND SPREADING OVERHEAD

- The impact of government procurement on the economics of a commercial airliner program is twofold:
 - First, as shown in the chart, additional quantities result in lower mfg. unit costs, giving the manufacturer with government orders a strong competitive advantage and possibly making the difference between the success or failure of a program.
 - Second, when government procurement is co-mingled with commercial production, government orders carry a pro-rata share of the total overhead, thereby reducing the share borne by the commercial work and the total unit costs of the commercial airplanes.
- McDonnell Douglas has benefited less from these effects than have other manufacturers.

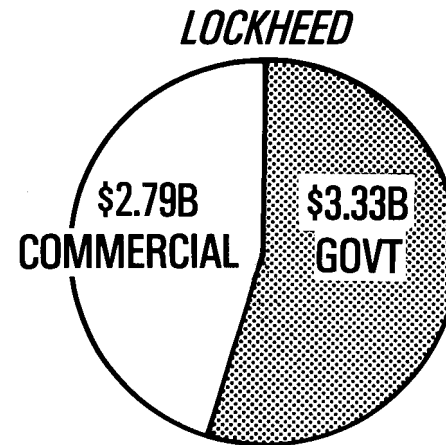
IMPACT ON COMMERCIAL JET AIRLINER COSTS OF ORDERS FOR MILITARY DERIVATIVE AIRPLANES



**\$12.53 BILLION
(CURRENT \$)**



**\$29.39 BILLION
(CURRENT \$)**



**\$6.12 BILLION
(CURRENT \$)**

IN SUMMARY

- The U.S. commercial airliner mfg. industry is a national asset worthy of preservation. It currently generates employment for almost 400,000 and in recent years has made important contributions to the U.S. balance of trade.
- This fiercely competitive industry has developed great jet airliners but earnings from commercial sales are not commensurate with risks.
- U.S. Government procurement of derivative military aircraft is a powerful force in the commercial marketplace. In the national interest this force needs to be applied in an equitable manner to insure free competition and to sustain the commercial airliner manufacturing industry.

CONCLUSION

TO PRESERVE THIS NATIONAL ASSET THE U.S. GOVERNMENT
SHOULD ORDER DERIVATIVES OF COMMERCIAL JET AIRLINERS
IN A MANNER CALCULATED TO MAINTAIN A STRONG AND
HEALTHY COMMERCIAL AIRLINER MFG. INDUSTRY.

[1976]

THE WHITE HOUSE
WASHINGTON

February 24

TO: JIM CANNON

FROM: PAUL LEACH

The attached airline reform brochure may be of interest. Senate and House hearings now scheduled for April.



Transp.
Airlines

Aviation Act of 1975

A bill to expand competition in the airline industry, to provide improved services by the airline industry to travelers and communities, and to better enable the airline industry to adjust to changing economic conditions.

United States Department of Transportation



Aviation Act of 1975

Congress of the United States

A bill to expand competition in the airline industry, to provide improved services by the airline industry to travelers and communities, and to better enable the airline industry to adjust to changing economic conditions.

Aviation Act of 1975

Questions and Answers on the
Aviation Act of 1975

Effects of Implementing
Aviation Act of 1975

United States
Department of Transportation

Office of the Secretary
Washington, D.C. 20590

January 1976



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To the Congress of the United States

As part of my program to strengthen the Nation's economy through greater reliance on competition in the marketplace, I announced earlier this year my intention to send to the Congress a comprehensive program for the reform of transportation regulation. In May, I sent to Congress the Railroad Revitalization Act aimed at rebuilding a healthy, progressive rail system for the Nation. Today I am pleased to submit the Aviation Act of 1975 which will provide similar improvements in the regulatory environment of our airlines. To complete the package, I will soon be forwarding similar legislation for the reform of regulation governing the motor carrier industry.

The result of the regulatory reform measures proposed in this legislation will have a direct and beneficial impact on the American consumer. Countless Americans use air travel on a regular basis in connection with their jobs and leisure activities. But for many Americans, air travel has become a luxury too expensive to afford. In part, today's high costs of air transportation are attributable to inflation and the rising cost of fuel and labor. But they are also the result of long years of excessive economic regulation.

In 1938, when the Congress authorized the creation of the Civil Aeronautics Board, there was a belief that some form of government intervention was needed to protect the infant airline industry. Accordingly, the Board was instructed to regulate this industry in order to promote its growth and development. Entry into the industry was strictly

controlled. Even those airlines who were allowed entry into the industry were rigorously controlled with respect to what markets they could serve and fares were regulated. Real competition was intentionally dampened.

In the almost four decades since economic regulation of airlines was established, this industry has grown tremendously. It can no longer be called an infant. Consequently, protective government regulation established to serve the particular needs of a new industry has outlived its original purpose. The rigidly controlled regulatory structure now serves to stifle competition, increase cost to travelers, make the industry less efficient than it could be and deny large segments of the American public access to lower cost air transportation. A number of studies have indicated that the cost of air transportation to American consumers is far higher than necessary as a result of overregulation.

The overriding objectives of the proposed legislation is to ensure that we have the most efficient airline system in the world providing the American public with the best possible service at the lowest possible cost. We must make sure that the industry responds to natural market forces and to consumer demands rather than to artificial constraints set out by government. This legislation would replace the present promotional and protectionist regulatory system with one which serves the needs of the public by allowing the naturally competitive nature of the industry to operate. It provides the airline industry increased flexibility to adjust prices to meet market

demands. And it will make it substantially easier for firms who wish and are able to provide airline services to do so. These measures will be introduced gradually to permit the industry to adjust to a new regulatory environment. Government will continue to set rigid safety and financial standards for the airlines. But the focus of the new regulatory scheme will be to protect

consumer interests, rather than those of the industry.

I urge the Congress to give careful and speedy attention to these measures so that the over 200 million passengers who use our airlines every year are given the benefits of greater competition that will flow from regulatory reform of this industry.

GERALD R. FORD

THE WHITE HOUSE, October 8, 1975.

Facts Concerning Aviation Act of 1975

The Aviation Act of 1975 is the first comprehensive legislative proposal for regulation of the airline industry since the Civil Aeronautics Act of 1938. By lessening economic controls over the industry and by placing maximum reliance on competition, the Act will enable the airline industry to provide more efficient, responsive and less costly service to the public. It will assure that inefficiency is not protected by an outdated system and that well-managed airline firms will be able to grow and prosper.

Principal Objectives of Legislation

1. To increase the ability of air carriers to respond to consumer interests. This legislation directs the Civil Aeronautics Board (CAB) to allow competition to direct the setting of airline fares and to determine the services to be provided in response to market demand. The present regulatory system insulates the airlines from competition and protects industry interests instead of the public interest.

2. To introduce and foster price competition in the industry. Government regulation has limited price competition in the airline industry. The bill will encourage airlines to compete on the basis of price as well as service and create opportunities for low-cost air service.

3. To liberalize entry into the industry and to reduce restrictions on the services which carriers can provide. Government regulation has restrained competition by severely restricting the entry of new firms into the industry and by controlling the routes which existing airlines are allowed to serve.

This legislation will, over a period of years, permit qualified firms to enter new markets and offer new air transportation services.

4. To eliminate anticompetitive air carrier agreements. Presently, airlines are accorded special treatment under the antitrust laws. Unlike other industries, carriers are permitted to restrict capacity, pool revenues, and deliberately lessen competition. The bill will prohibit such agreements. However, carriers will still be able to enter into agreements which are not anticompetitive and which facilitate air transportation. Carriers, for example, can continue to transfer baggage on connecting flights, honor ticket exchanges and make joint reservations for the convenience of their passengers.

Major Provisions of the Aviation Act

1. Policy Changes. The present Declaration of Policy, enacted in 1938, was framed in the context of an infant industry in need of protection. The Board has often relied on the Declaration of Policy to limit competition. Now, however, air transportation is a mature industry capable of operating in a competitive environment. The Aviation Act of 1975 revises this declaration to stress the desirability of competition rather than the protection of established carriers. The new declaration also directs the Board to encourage the entry of new firms into air transportation.

2. Pricing Flexibility. Price competition has been discouraged by Federal regulation and is virtually non-existent. Restrictions on price competition have significantly harmed



air travelers. For example, while carriers in intrastate markets are subject to Federal safety regulations, they are free from Federal economic restrictions on fares and routes. In these markets, prices have been lower than in comparable interstate markets. Scheduled commuter air carriers, operating equipment which is more costly per passenger mile, charge comparable or lower fares than regulated carriers for similar distances.

Ironically, air carriers have not earned unusually high profits from this lack of price competition. Excess profits that might have been earned have been dissipated through service competition—most visibly in the form of in-flight movies, free drinks, and other amenities but most expensively in terms of scheduling additional flights.

The Aviation Act of 1975 substantially increases airline pricing flexibility over a three-year period. During the first year of the Act, airlines may lower fares as much as 20 percent and in the second year as much as 40 percent below the fares in effect on the date of enactment, without CAB interference. By the third year, fare decreases may be disallowed only if they are below the direct cost of the service in question.

Fares may be increased up to 10 percent per year without CAB involvement.

Flexible pricing, coupled with liberalized entry and the removal of antitrust immunity, will assure the widest range of consumer choices for air transportation at the lowest possible prices.

3. Entry Into Air Transportation. The CAB controls the entry of new firms into the industry and the expansion of existing firms into additional markets. With minor exceptions, no new scheduled passenger carriers have been licensed since 1950. No new carrier has been permitted to enter major airline service since regulation was established in 1938. The Board has often been restrictive in allowing carriers to expand their routes. It maintained an unannounced route moratorium, during which it refused to consider major route applications, for most of the past five years.

The effect has been to deny consumers the benefits of services which efficient and innovative carriers have been willing to pro-

vide. For example, in 1967, World Airways (a large charter carrier) proposed scheduled transcontinental service with a one-way fare of \$75. The Board took no action whatever until it dismissed the application six years later as being "stale".

Numerous conditions and restrictions have also been attached to the operating certificates held by air carriers. For example, some flights may not carry local passengers, while others may not provide through service or must continue to points beyond their logical destination. These restrictions protect the markets of established air carriers and add to costs by wasting aircraft, fuel and labor.

The Aviation Act of 1975 is designed to reduce substantially the barriers facing qualified firms that wish to enter into air transportation, expand into new markets, or offer innovative service. It provides for increased entry while giving airlines time to rationalize their operations and adjust to the changing regulatory environment.

Entry is facilitated by a variety of means. The new declaration of policy directs the CAB to encourage the entry of new firms into the airline industry. Other provisions allow carriers to offer new or better service:

A. Certificate Restrictions. The Act directs the Board to eliminate all existing operating restrictions within five years and prohibits it from imposing restrictions in the future.

B. Discretionary Mileage. Following the removal of operating restrictions in 1981, the Act allows each carrier to increase route mileage by about five percent per year. This allows carriers to expand and rationalize their route systems.

C. Sale of Certificates. After January 1, 1978, a carrier may sell, transfer, or lease any portion of its operating authority to any air carrier found by the CAB to be fit, willing, and able to provide air service. This will also enable air carriers to restructure their routes to improve service to the public. New carriers entering the industry under this provision will be eligible to increase their route mileage under the discretionary mileage provision.

D. Scheduled Service by Supplemental Carriers. The Act allows supplemental air carriers (charter carriers), who have been innovators in the air carrier industry, to apply for authority to provide scheduled service.

E. Unserved Markets. The Act requires that the CAB permit entry by qualified applicants for non-stop service between cities not receiving such service from certificated carriers.

F. Charter Service. The Act improves opportunities for low-cost service by reducing the strict limitations on charter services which have severely impaired their growth.

G. Commuter Aircraft Restrictions. Carriers operating aircraft up to 30 seats now are exempt from economic regulations but are subject to the same safety rules as certificated airlines. Operating within this exemption, a vigorous and rapidly growing industry of more than 200 commuter airlines has developed, primarily providing service to small and isolated communities not served by certificated carriers. The Act allows scheduled commuter carriers to increase the size of aircraft they operate from 30 to 55 seats. This will enable them to purchase larger turbo-prop, pressurized aircraft and provide improved service to many small communities.

4. Abandonment of Service. Certificated carriers require CAB approval to withdraw service from a city. Although abandonment does not seem to be a major problem, the existing standard for abandonment should be changed for two reasons. First, costs that a carrier incurs when it is compelled to serve markets at a loss, without subsidy, are defrayed by passengers elsewhere on the carrier's system. This is unjustifiable. If subsidy is desirable, it should be paid directly by the government rather than by air travelers flying elsewhere. Second, carriers are more likely to enter new markets if abandonment provisions are liberalized because they would then be able to withdraw from service if the market should prove unprofitable.

The Act deals with abandonment in the following manner. Carriers will be per-

mitted to exit upon 90 days notice if alternative scheduled air service is provided by another carrier. Where alternative scheduled air service is not provided, carriers will be permitted to exit whenever, taking subsidies into account, they could not cover fully allocated costs for one year or they could not cover direct operating costs for three months. The Board may require continued service if the community or another public body were willing to defray the carrier's losses.

The new provision will not substantially change abandonment practices. The Board has generally granted abandonment applications where a carrier can show that it has lost money on this service. This provision will ensure that appropriate economic criteria will continue to be applied in abandonment proceedings.

5. Subsidies. The Act proposes no substantive changes in the subsidy program. The Board now administers an annual subsidy program of nearly \$70 million directed at ensuring the continuity of service to small communities, primarily by local service carriers. The CAB has periodically recommended revision of the subsidy formula. The Act directs the Secretary of Transportation to undertake a comprehensive study of the present subsidy system and to report to Congress within a year. The Secretary will undertake this study in full consultation with the CAB, the affected communities and the airlines. The study will develop recommendations for legislation to improve the program.

6. Mergers. The Act brings airline merger standards more in line with antitrust laws. Under the new standards, the Board could not approve a merger which would tend to create a monopoly or substantially lessen competition, unless it found that the anti-competitive effects were outweighed by the probable benefits to the communities to be served and that no less anticompetitive alternatives were available. The Board would have one year to decide on a merger application. Because there is a substantial difference between the current and the proposed merger standards, a 30-month transition period is provided. During the interim, existing merger procedures would be retained.

7. Anticompetitive Agreements. Currently, agreements among carriers are immune to antitrust challenges once Board approval is given. Although most agreements filed with the Board do not raise antitrust considerations, some agreements, particularly those which restrict capacity, have anticompetitive effects.

The Aviation Act of 1975 prohibits the Board from approving agreements to control levels of capacity, equipment or schedules, or which relate to pooling or apportioning of earnings or of fixing of rates. The Board could continue to confer antitrust immunity on other agreements between airlines, but before granting approval it would have to find that the agreements meet a serious transportation need and that reason-

able, more competitive alternatives are not available.

8. Procedural Changes. The Board has often refused to hear applications or to render decisions in a reasonable period of time. It has also used procedural motions to settle substantive questions. The Act requires the Board to hear and decide cases speedily. In order to avoid burdening the Board with spurious applications, it will be allowed to dismiss certain cases. However, any cases dismissed shall be dismissed on the merits, and the dismissal may be reviewed by the Court of Appeals. This will end the practice of dismissing applications on procedural grounds, leaving the applicants with no recourse to court review.

Questions and Answers About the Aviation Act of 1975

General

What are the goals of the Aviation Act of 1975?

The purpose of the bill is to modernize Federal economic regulation of the air transportation industry. It reflects the Administration's desire to rely more heavily on competition and to improve and update airline regulation to meet today's economic needs. Competition among carriers will cause them to meet travelers' and shippers' needs most efficiently.

Why is the Administration proposing reform now?

The Aviation Act of 1975 is part of the Administration's overall program to revitalize the free enterprise system and it is one of three proposals seeking fundamental reform of economic regulation governing the transportation industry. As President Ford has noted: "Such regulation, established long ago, in many instances no longer serves to meet America's transportation or economic needs."

Federal regulation has not kept pace with the growth of the airline industry. The Civil Aeronautics Act of 1938 was intended to protect, nourish and foster the growth of an infant industry. Airlines have now grown and matured into the dominant mode of public intercity passenger transportation. The regulatory practices of the Civil Aeronautics Board are badly out of date and no longer serve the public interest.

The regulatory system has attempted to protect established firms within the airline industry from the forces of competition. This has resulted in higher fares than necessary. Low cost service innovations have been discouraged. Ironically, there is little evidence that regulation has actually helped the established carriers. Competition in the form of costly services has replaced price competition.

What effect will the bill have on airline safety?

None whatsoever. The CAB has no responsibility for safety regulation. The Federal Aviation Administration (FAA) is responsible for assuring that all airlines maintain the highest safety standard. The safety enforcement powers or duties of the FAA are not changed in any way. The Administration's bill deals solely with economic regulation by the Civil Aeronautics Board.

Competition and Efficiency

How does the bill benefit consumers?

Enactment of the proposed bill will result in lower average fares and more responsive service. By removing unnecessary operating restrictions and undue reliance on costly service competition, airlines will be able to reduce costs. And by providing for increased entry and price competition, the bill insures that these cost savings will be passed on to consumers.

Airlines compete actively for passengers—ads, drinks, movies, special luggage compartments. Why is more competition desirable?

One form of competition of interest to consumers—price competition—is currently unavailable. The existing regulatory system largely limits airlines to service competition, which raises the cost of air travel. Airlines should be able to offer lower fares and innovative services. The Act will allow airlines to do this rather than relying heavily on costly frills.

What inefficiencies in airline operations are caused by the absence of price competition?

Passengers often receive services that they would not buy separately, such as meals, drinks and fancy decor. Another kind of inefficiency involves airline scheduling and results in too many airplanes flying with too many empty seats. Because all airlines charge the same fare, they are forced to compete by offering "more flights to . . ." or "a flight every hour . . ." This form of competition results in empty seats and higher ticket prices.

What inefficiencies in airline operations are caused by route regulation?

Over the years, numerous types of conditions and restrictions have been attached to the operating certificates held by air carriers. For example, a carrier may not be allowed to provide through-plane service between two cities, forcing passengers to change planes unnecessarily. In other cases, carriers must continue flights to points beyond a certain destination, whether or not there is sufficient demand for such service. Often they are not permitted to carry "local" passengers who only want to travel one leg of a particular route. These restrictions waste aircraft capacity, fuel and labor. They raise costs and passenger fares and they prevent airlines from providing service many passengers might like to have.

If reliance on service competition is reduced, won't service to the public suffer?

In competing for customers, carriers will have the incentive to provide the types of service their customers want. If consumers prefer lower fares, less frequent service and fewer amenities, then this is the type of airline service that will be offered. If travelers' preferences are sufficiently varied, then a variety of combinations of services and fares will be offered.

How will the bill affect airlines' fuel efficiency?

It will make the airlines more fuel efficient. One result of the current reliance on service competition is that the airlines are encouraged to fly more often than is desirable. With increased price competition, airplanes will tend to be more fully loaded, thus saving energy and increasing fuel efficiency. Fewer empty seats mean less fuel will be consumed per passenger mile traveled.

The bill eliminates antitrust immunity for agreements between air carriers. Does this mean airlines won't transfer baggage or cooperate on connecting flights?

No. Airlines will still be permitted to make agreements which do not result in anti-competitive behavior, such as ticket exchange and baggage transfer agreements.

Will travel agents continue to be able to function if airlines are allowed to set fares competitively?

Yes, travel agents will arrange for air travel in the same way they arrange for other services like steamship travel, hotel accommodations, rental cars, and air charter trips. The prices of these services are set in the marketplace rather than by regulation.

Airline Fares

What effect will the bill have on air fares?

Under current regulation competition takes the form of service competition rather than price competition. This leads to excessive scheduling and consequently to a large percentage of empty seats and to the inefficient use of aircraft, fuel and labor. While some passengers enjoy an uncrowded flight, empty seats mean higher costs and therefore higher fares. The provisions of the Administration's bill will encourage airlines to reduce costs. Competition will insure that these cost savings are passed on to consumers in lower fares.

Under a flexible pricing arrangement, why won't prices simply go up, considering rising fuel costs and other factors?

Price competition and the threat of new competitors will prevent fares from simply going up. If an airline tries to raise its fare too high, one or more of its competitors will charge a lower fare and take the traffic.

If costs rise, then fares probably will rise. This is true under the current regulatory system and it will be true under the proposed system. But average fares will be lower if the bill is enacted than if the present system continues unchanged.

Will discount fares still be available and will there still be different classes of travel—first class, coach, etc.?

The word "discount" is misleading. There will be fare differences based on cost differences. Coach fare is, and should be, lower than the first-class fare because less service and fewer amenities are provided, seating is denser, and free drinks are not given. Night flying on some routes are lower priced than day flights because unused aircraft are available. The range of cost-based price differentials will remain and probably expand.

Students and senior citizens, whose travel schedules generally are more flexible than others, should benefit especially from a wider choice of ticket prices. Of course, they will also benefit from the generally lower level of fares which will result from price competition.

Airlines give discounts to people who plan ahead and buy tickets well in advance. Will these reduced fares remain?

Probably, and the general level of fares will also drop. If discounts result from cost savings they will stay. But if the discounts exist because some travelers are discriminated for or against, then competition will ensure that they disappear.

Would lower stand-by fares be prohibited by the Act?

No. The Act provides that fares cannot be disallowed for being too low so long as they cover the direct costs of the specific service in question. Stand-by passengers occupy seats that would otherwise be empty. Therefore, the direct costs of stand-by service are lower than that for reservation passengers, and discounts are appropriate.

How much rate flexibility is actually provided?

Airlines may lower their rates 20 percent in the first year and 40 percent in the second year below the rates in effect at the time of enactment. Rate increases of up to 10 percent per year are also allowed. Beginning with the third year a rate cannot be disallowed on grounds that it is too low, if it covers the direct costs of providing the service in question.

Entry

Why does the bill propose liberalizing entry?

The Administration believes that it is in the long-term interest of both consumers and the industry to rely to the maximum extent possible on competition to regulate fares in the airline industry. Therefore, it has proposed a gradual introduction of pricing flexibility to allow airlines to adjust fares within limits without government intervention.

To assure that this additional flexibility does not permit the airlines to raise their rates unreasonably, the Administration has proposed a corresponding relaxation of entry restrictions to encourage competition. Then, if an airline tries to charge a rate that is unreasonably high, there is always the threat that a competitor will enter the market, charge a lower fare, and take over the business.

Won't increased entry into the airline business mean more planes and an additional burden on congested airports?

The number of airlines has little to do with the number of planes or with airport congestion. The number of planes in use is determined by the amount of air travel and by the number of seats that are occupied in each plane. With price competition replacing the current reliance on service competition, there will be fewer empty seats. This will reduce the number of flights. Congestion is largely the result of airlines bunching their departure times at the start and end of the business day. With greater price flexibility, airline schedules will provide for a better dispersion of flight times because people will be more likely to choose to fly at off-peak times with lower off-peak fares. This will tend to reduce congestion.

The bill liberalizes entry by permitting airlines to sell operating rights to other air carriers. Couldn't this have an adverse effect on safety?

No. The same safety rules apply to all air carriers. The CAB must also determine that the buyer is "fit, willing and able" to provide air service.

What are the specific entry provisions of the bill designed to achieve?

The bill proposes a gradual relaxation of entry regulation which has been carefully designed to avoid short-term disruptions in the industry. First, the CAB is directed to phase out artificial route restrictions which reduce airline efficiency. This is to be accomplished in an equitable manner by January 1, 1981. To permit carriers additional flexibility to rationalize their route structures, the bill permits the sale, transfer or lease of operating authority between cities beginning in 1978. Six years after enactment of the bill, carriers are given limited discretion to expand their operations into new markets. These provisions permit a gradual move toward a more competitive marketplace.

What effect does the bill have on international air travel?

Nothing in the bill directly affects international aviation, but U.S. carriers with international routes will be able to adjust their domestic routes so they feed better into their international traffic. This should enhance the financial health of these carriers and enable them to compete more favorably with foreign carriers which cannot carry passengers between U.S. cities. International travelers from inland areas will also benefit because there will be less need to change airlines.

Many airlines are facing financial difficulties. Won't increased entry and lower fares lead to bankruptcy?

Some airlines are having a difficult financial time, as are other businesses and individuals. In fact, the existing regulatory system, by emphasizing service competition, has encouraged airlines to overinvest in equipment. This results in high fixed costs and makes airlines more sensitive to fluctuations in the economy than would otherwise be the case. The bill provides for gradual introduction of both price and entry competition. This will reduce vulnerability to economic fluctuations and will enable efficient and well-managed airlines to prosper, attract capital and grow.

Service to Small Communities

Won't airlines stop flying to many small cities?

No. Air service to small cities is largely provided by scheduled commuter air carriers. These airlines are unsubsidized and unregulated by the CAB. The FAA regulates them in safety and operational matters. Commuter carriers will be allowed to use larger aircraft and this will permit improved service. Also, many small cities are served by CAB-regulated airlines that receive a subsidy for providing service. Nothing in the proposed bill changes the subsidy arrangements. There are fewer than a half dozen cities that receive service only from scheduled, unsubsidized airlines where service might be curtailed.

Will airlines be allowed to stop serving unprofitable markets?

If, despite subsidy payments, an airline loses money on its service to a city, then it will be allowed to stop service to that market upon reasonable notice.

Does the Administration bill change the Federal subsidy program?

The existing Federal subsidy program is not changed.

Does the provision of State or local subsidy make an airline ineligible for Federal subsidy?

No.

The Air Transport Association (ATA), the industry's trade association, claims that many markets will lose service as a result of this legislation. Is this likely to happen?

The ATA's claim appears unjustified. Airlines are required to fly few, if any, of the routes described by ATA as subject to curtailment or abandonment. On many of these routes, several carriers now compete—without any requirement that they do so. Also on many of the routes which the ATA says are endangered, there is service by carriers that are not regulated by the CAB, such as commuter airlines or intrastate carriers. Hence, it is unlikely that many markets will lose service as a result of a lessening of CAB regulation. The opposite is more likely to be the case. This legislation would eliminate the route and operating restrictions which now prevent or hinder service to many communities.

Other Issues

Some people feel the bill does not go far enough—that the air transportation system would be better off with no regulatory controls at all. Why does the Administration bill stop short of deregulation?

The bill provides for a gradual lessening of economic controls but maintains those which are desirable. A fairly long transition period is incorporated into the bill because abrupt change might be disruptive. If, after some experience under the new regulatory climate, it is felt that still less regulation is in the public interest, appropriate proposals could be made at that time.

Some critics suggest that the CAB should be abolished. How does the bill affect the Board's authority?

The bill reduces the CAB's discretionary authority to restrict competition. The Board will continue to license carriers, authorize routes, approve fares, and administer the subsidy program. But the bill changes the criteria which the CAB must apply in regulating air transportation. The new criteria ensure a greater reliance on market forces in determining fares and service.

Critics say the results of the bill will be to turn the clock back to pre-1938 conditions when there was no regulatory system. Is this true?

No. In 1938 air transport was a new industry, struggling to become established. Few people flew, and the equipment used by airlines was primitive by present standards. The air transport industry is now large and sophisticated. Airline travel has become routine: about 200 million Americans travel by air each year. There is no way to turn the clock back, and the Administration certainly does not want to do so. But the regulatory system of the thirties simply is not appropriate to the current situation, and it requires modernization.

Critics of the legislation claim it will disrupt air travel and destroy our air transportation system. Is this true?

No. As a result of regulatory reform, the nation's air transport system will improve. Businesses survive and prosper if they provide a service people want and for which they are willing to pay. People want to fly and are willing to pay for flying. Existing air carriers will continue to be able to serve their customers and charge fares on the basis of costs incurred. Existing as well as new carriers will be able to enter new markets where they can provide better or lower cost service. The service to the public will improve.

Why is the airline industry strongly opposed to this change?

The Act will change the economic environment in which the airlines operate. Airline managements have been sheltered from certain kinds of competition and have been restricted in making certain business decisions. Under the Act, they will no longer be offered these protections.

The bill recognizes that airlines must earn profits if they are to attract capital and serve their growing markets. Under the bill, efficient, well-managed carriers will thrive, creating jobs and providing low-cost service. Poorly-managed firms will have every incentive to improve their efficiency and productivity through better management of their operations, without present excessive regulatory restrictions.

Effects of Implementing Aviation Act of 1975

Existing Law

New Law

Policy Statement

Directs the CAB to ensure adequate, safe, economical, and efficient air service to the public.

No change.

Directs the CAB to promote the growth and development of the aviation industry.

Revised to deemphasize promotion of the industry and to stress the desirability of competition in the public interest.

Directs the CAB to promote aviation safety.

No change.

Entry

Existing statute gives regulators broad authority to impose restrictions on airline operations. Restrictions have been imposed to limit the number of carriers in the industry, the routes they are permitted to fly, and where they may pick up passengers. These restrictions raise costs, inhibit competition and impair the ability of the industry to serve the public.

Prohibits new certificate limitations and mandates development of a 5-year plan to phase out existing restrictions. After the transition period each carrier could provide non-stop service between any points it now serves. Beginning in 1981, carriers would be allowed to expand their operations by a limited amount each year without government approval.

Carriers wishing to provide new service must go through lengthy application procedures with an uncertain outcome.

Qualified applicants proposing innovative services will be authorized. Applicants for routes without non-stop scheduled air service would have to prove only that they are "fit, willing and able", but not that the service is "required." Applicants would be able to begin service without procedural delay.

Carriers operating aircraft which carry fewer than 30 passengers or 7,500 pounds of cargo are exempt from economic regulation.

Exemption from economic regulation would be expanded to aircraft which carry up to 56 passengers or 16,000 pounds of cargo, enabling scheduled commuter airlines to improve their services. Further increases in aircraft size would also be permitted.

The Act has been interpreted to prevent supplemental (charter) carriers from receiving scheduled authority. The interpretation has been used as one basis for limiting entry by qualified applicants.

Procedural Expedition

No time limits for acting on applications for new route authority now exist. Some decisions on applications have been delayed for up to eight years.

Route Transfers

Government approval is required before any carrier may transfer route authority to another. In practice, approval is difficult and time consuming to obtain.

Mergers

Carrier mergers are now exempt from Federal antitrust laws.

Abandonment

Carriers may petition for permission to discontinue service. Abandonment may be allowed if there is inadequate public support for the service, but carriers are sometimes required to continue money-losing services.

Supplemental carriers will have their applications for scheduled authority heard on their merits.

Applications must be set for hearing within 60 days or dismissed "on the merits," to allow court review. A final decision must be reached in 10-12 months from filing date.

Route transfers to qualified applicants must be approved unless the proposed transfers would lessen competition.

After a 30-month transition period, air carrier mergers would become subject to the antitrust laws in a manner designed to permit accommodations between antitrust and regulatory policy. A merger could not be approved if it resulted in a monopoly. If the merger would substantially lessen competition, it could not be approved unless the anticompetitive effects are outweighed by the transportation benefits.

Abandonment will be facilitated where carriers can demonstrate they have operated at a loss. Federal subsidy, as at present, provides for continuation of needed services.

Intercarrier Agreements

The CAB may approve intercarrier agreements and immunize them from antitrust prosecution. This authority has been used to approve capacity and other anticompetitive agreements, without public hearing or reference to the public interest.

Rates

Price competition among carriers has not been permitted. The CAB has broad authority to set rates. This has resulted in rates which are higher than necessary. The CAB has required that rates be the same in markets of equal distance, despite cost differences due to variances in density or type of traffic.

There is no time limit on rate decisions and cases may take years.

Some anticompetitive agreements (such as those regarding capacity, pooling and price fixing) will be outlawed. Other agreements which tend to reduce competition could be approved only if they meet a serious transportation need, and if less anticompetitive alternatives are not available. The Secretary of Transportation or the Attorney General may request that hearings be held, and the CAB would be required to comply.

Price competition will be fostered. The CAB's rate-setting authority will be limited by authorizing carriers to reduce rates to variable costs. CAB authority over ultimate lawfulness of increases is retained.

Rate decisions must be made within 180 days.

DEPARTMENT OF TRANSPORTATION

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*File - Issue
Transportation:*

March 17, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

In my fiscal year 1976 Budget Message, I stated that my Administration would transmit legislation to restructure existing Federal airport and airway development programs. Following extensive consultations with members of the Congress, State and local governments, aviation groups, and others, I am today sending a comprehensive legislative program to the Congress.

To help ensure continued improvement in the safety and efficiency of the Nation's excellent air transportation system, this program will extend for five years the 1970 Airport and Airway Development Act to provide funding authorizations for fiscal years 1976-80.

As an additional step to enable State and local officials to plan and to manage Federal airport assistance effectively, this bill would establish a multi-year, predictable formula to allocate the bulk of the aviation grants funds directly to States and local airport sponsors. This formula approach, coupled with other features of this bill which provide more flexibility in the use of Federal assistance, will enable State and local officials to address their highest priority airport needs while reducing burdensome Federal red tape. I am also proposing removal of federal restrictions which currently prevent State and local governments from imposing certain airport taxes.

One of my principal goals is the establishment of strong partnerships among Federal, State and local governments in the execution of national domestic programs. Consistent with this goal, this legislation provides for gradually increasing the responsibility of the States in the general aviation program. With many States using new general aviation facilities to stimulate community development, this is an appropriate step at this time.

The legislation I am proposing today also includes a separate measure to adjust the revenues accruing to the Airport and Airway Trust Fund. These adjustments are designed to generate financial contributions from the users of the aviation system which more equitably match the system benefits they receive. In this connection, I am requesting that user revenues also finance the direct costs of maintaining air navigation facilities.

I commend the Congress for initiating hearings on this important problem and for its prompt attention to the extension of the airport and airway development program. I have asked Secretary Coleman to work closely with the Congress to insure speedy enactment of the aviation program I have proposed to meet the challenges of a growing America.

GERALD R. FORD

THE WHITE HOUSE,
March 17, 1975

#



THE WHITE HOUSE

WASHINGTON

August 7, 1975

MEMORANDUM FOR JIM CANNON
VIA: DICK DUNHAM
FROM: MIKE DUVAL *Mike*
SUBJECT: PROPOSAL BY EASTERN AIRLINES



Jim, perhaps I'm missing something, but in your July 30 memo you referred to the Gilpatric proposal and specifically mentioned that it would involve an imposition of fuel limitations by Zarb, based on 85% of '72 consumption levels -- in other words, mandatory allocation. Also, Gilpatric mentioned price controls when he described his proposal to me.

In your August 4 memo, you focus on just capacity agreements which, as you state, raises a different question.

There can be very solid arguments for capacity agreements although, in balance, they are generally bad policy and should be used only in extreme emergencies.

Here are the pros and cons, as I see them. (For the purpose of this discussion, capacity agreements refer to an agreement among several airlines to reduce scheduled flights in a given market, which agreement is approved by the Civil Aeronautics Board, thus conferring antitrust immunity.)

Pro

- Provide substantial short-term savings by increasing load factors (amount of passengers carried per aircraft). Increase in load factors generally show up immediately at the bottom line, and thus this step may result in avoiding bankruptcy or other major restructuring, such as merger.

- Capacity agreements can reduce aircraft and airport congestion in a given market, and thus help reduce airline costs.
- They can result in fuel savings as long as the "excess" capacity is not shifted to another market.
- May permit reduction in labor force without burdensome labor protection agreements mandated by the CAB or Congress.

Con

- They result in a continuation of the basic inefficiencies which produced the initial financial problem.
- As a practical matter, ^{some} past capacity agreements (in 1971 and '73) have resulted in ~~the~~ carriers transferring their resources to other markets not governed by the agreement (or to charter service). This intensifies service and other aspects of non-price competition in the other markets. Also, this result does not produce any net savings in fuel consumption *for those airlines that shift to other markets.*
- From a policy standpoint, if capacity agreements are accepted on a non-emergency basis, then efficient administration and antitrust policy would suggest that the law (Federal Aviation Act) should be amended to give the CAB direct control over scheduling. This would be contrary to the thrust of the President's decontrol efforts, and it is strongly opposed by industry.
- In general, labor opposes capacity agreements because, if they work, the result is less jobs.
- Once in place, the agreements limit the ability of the market to respond to increases in demand.
- By eliminating scheduling as a competitive tool, the capacity agreements focus competition on the "frills", e.g., food service.
- Although the consumer continues to pay the same price, he gets less service because schedules are reduced.

To sum up, capacity agreements are useful as a short-term emergency measure to increase airline profits and reduce the threat of bankruptcy. In the long run, the exact opposite



inevitably occurs because the basic inefficiencies are frozen in place and, as in the case of any cartel-type action, costs once again creep up because of the lack of discipline which is imposed by competition.

The major airline cost problem continues to be labor (about 45% of total cost -- compared to fuel which is just slightly over 20%). Capacity agreements will relieve the pressure for fundamental airline reform which has been generated by their current financial condition. Thus the labor problem will continue, even if capacity agreements are imposed.

The Administration will have to reach a policy position on capacity agreements before it submits its airline regulatory reform legislation. There continues to be a split on this with CEA, Justice and most of DOT lined up strongly against any authority for the Board to approve capacity agreements. However, Secretary Coleman has suggested that capacity agreements be used as a solution to the current financial crisis of the airlines, under strict conditions.

If you will let Paul Leach and me know your feelings on the capacity agreement question, we will reflect that as debate continues on the regulatory reform package.

cc: Paul Leach



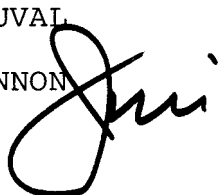
THE WHITE HOUSE

WASHINGTON

August 4, 1975

MEMORANDUM FOR: MIKE DUVAL

FROM: JIM CANNON



You've given me answers to questions I didn't ask.
I said nothing at all about airline fuel price controls
or allocations.

To the matter of the 85% proposal, which would permit
airlines to reduce marginal schedules, but not eliminate
service to cities:

On the face of it, it seems to me that this would

--conserve fuel, and

--enable the airlines to cut down, legally, on
excess capacity.

Why shouldn't we look at competition realistically?
It does not produce competition among airlines to have
some airlines going broke.

CC: Dick Dunham



THE WHITE HOUSE

WASHINGTON

July 31, 1975

MEMORANDUM FOR

JIM CANNON

FROM:

MIKE DUVAL *Mike*

SUBJECT:

AIRLINE FUEL PRICES

This is in response to your memorandum concerning the proposal by Floyd Hall and Ros Gilpatric that airline fuel should be price controlled and allocated at a rate of 85% of 1972 levels.

By way of background, this proposal was suggested (with a slightly higher allocation percentage) in January and again in February of this year by the Air Transport Association in meetings with Frank Zarb and myself. I argued very strongly within the Administration against it, even though it had the support of DOT. It is an extraordinarily bad idea in terms of Federal energy policy and was developed as a consensus of the scheduled airlines because of two factors:

- Desperation due to the increase in the price of kerosene from a pre-embargo average of under 12¢ to the current average of 27¢. (Note: This has been a smaller increase than has occurred with other products because of long-term contracts which the airlines have with the oil companies.)
- A desire of several airlines, principally American and Eastern, to use fuel allocation as a cover for capacity agreements in order to reduce schedules without losing market share.

In general, the airlines have approached the fuel problem myopically, basing their "solutions" on the premise that airline fuel will be price controlled and that conservation will occur through voluntary means, or by government allocation. I have urged the airlines to seek a solution which treats fuel price as a variable.



In response to your specific question, here are the pros and cons of the ATA proposal (which was presented to you by Hall and Gilpatric):

Pro

- Will financially help the airlines. This proposal, if used on a phase-out basis (that is, allow the higher cost of kerosene to be passed through gradually) would allow the airlines to adjust to the higher fuel prices as they gradually recover from the current recession.
- With the cooperation of the CAB, we could couple an allocation/price control program with airline load factor goals, and thus move towards the objective of greater utilization of existing capacity.

Con

- We may not have any authority to price control and allocate fuel. If the President is successful in his veto of the Emergency Petroleum Allocation Act of 1973, there will be no authority to implement the airline plan.
- Even if such authority does exist, the airline proposal is directly contrary to the President's objectives. The whole thrust of the President's program is to get out of price controls and let the marketplace control demand and stimulate domestic production. Politically, there is no way to limit price controls and allocations just to the airlines, but rather, it would immediately be extended to other "public transportation" and then to the farmers, petrochemicals, etc.
- In all likelihood, capacity agreements would be part and parcel of any control/allocation plan. These are inherently anti-competitive and would be strongly opposed (I assume) by the Justice Department.
- The airline proposal is unworkable. Even if viewed as a short-term transition measure, the price of kerosene will be under enormous pressure to rise as current contracts expire, decontrol and following any OPEC increase in the price of crude. If the controls on airline fuel keep its price substantially below other products, the pressures to increase the control price or include other products will be unbearable. (Can you imagine controlling the price of kerosene and



not controlling propane?) The international carriers -- which are in the worst financial state -- will have to pay the uncontrolled price for their foreign purchases, in any event, and thus we really do not solve the airline financial problem. While the focus of the airline financial problem has been on fuel, labor costs are probably a greater factor.

In urging the airlines to come up with some alternative which treats the cost of fuel as a variable, I have had conversations with Eddie Carlson and Dick Ferris of United Airlines. They are pushing strongly for a solution which would treat airline fuel costs as a surcharge to the passenger's ticket. They believe this would have less of a negative impact on demand.

The problem with this approach (besides a question on the accuracy of their elasticity assumptions) is that the President may take the blame for increased prices if fuel is identified separately.

A better idea is to couple fuel cost pass-thru with our regulatory reform package. Secretary Coleman is working on these options for the EPB.



Transportation

THE WHITE HOUSE

WASHINGTON

INFORMATION

March 19, 1976

MEMORANDUM FOR: JAMES M. CANNON

FROM: JUDITH RICHARDS HOPE *JRH*
AND
STEVE PIPER *SP* (CIEP - Senior Staff Member)

SUBJECT: March 15 CAB Decision Awarding Miami-LA Route to Western Airlines

Decisions in Miami-LA Route Case

On June 13, 1973, the CAB's administrative law judge designated Pan American as the second non-stop carrier in the Miami-LA market. (National began non-stop service in 1961. See History of Case, Tab A).

The Board exercised its prerogative to review that decision, and in a 5-0 vote on March 15, 1976, decided that Western should be selected to compete with National. In addition, Chairman Robson and Vice Chairman O'Melia voted to grant Pan American permissive authority to serve Miami-LA on those flights serving a point beyond Honolulu for a three-year trial period. Members Minetti, Timm and West voted no.

Current Status

1. The Board's decision is final. The effective date is June 13, 1976, unless extended.
2. There is no Presidential review of the decision because the case involves only domestic routes. Presidential review is permitted by law only in international route cases.



3. Judicial review is available to the losing carriers in the United States Court of Appeals, and under the Administrative Procedures Act, the sole legal test is whether the Board's decision was "arbitrary and capricious" and whether it is supported by "substantial evidence."

On March 15, 1976, Delta filed for review in the Court of Appeals. (Delta has a slight legal leg up here because of its 1972 merger with Northeast, and the CAB's 1969 award of Miami-LA authority to Northeast.)

4. A number of carriers are expected to petition for CAB reconsideration. The odds strongly favor CAB affirmance of its decision. This is particularly true where:

(a) the decision-making process has taken so many years;

(b) Member Timm is leaving the Board and his successor, Tenny Johnson will most likely not participate in the decision on any petition for reconsideration. This would probably leave a 2-2 split: Robson and O'Melia for reconsideration regarding Pan American; Minetti and West, opposed.

5. A long-range option is passage of the President's proposed Aviation Act of 1975. A provision of that Act would give international carriers, such as Pan American, the authority to operate between any two domestic cities that are on any of its routes.

Discussion

It is difficult to determine precisely the reasons behind the Board's decision to choose Western over the law judge's choice of Pan American.

It is generally thought that Timm just does not favor Pan American in any case.

The decision against adding Pan American as a third carrier is discussed in detail in the opinion:



Robson and O'Melia argued that some 65,000 passengers annually would be inconvenienced by better through or connecting service. Minetti, Timm, and West opposed, arguing that Pan American would likely offer one flight per day, that the market could support only four daily nonstops (2 National, 2 Western), and that service by Pan American would be unprofitable to that carrier and would adversely affect National's and Western's ability to be profitable and to serve the local market.

Thus, the basic choice was whether to emphasize the local Miami - LA market, or to consider the traffic flow east of Miami and west of LA, as well as the flow between.

cc: Rogers C.B. Morton, per his request of March 16, 1976.



A

Tab A
History of Miami-Los Angeles Route Case

- 1961: Board authorizes National to provide the first non-stop service.
- 1969: Board determines competition on route is in the public interest, and designates Northeast to be the second carrier.
- 1970: Board approves Northeast-Northwest merger, but does not allow Northwest the Miami-LA authority. Merger agreement collapses.
- 1971: Delta says it would merge with Northeast, and compete with any other carrier for Miami-LA authority.
- 1972: Board approves Delta-Northeast merger, does not allow Delta the Miami-LA authority.

On August 23, the Board instituted the present case to determine anew which carrier should be authorized to compete with National: American, Braniff, Continental, Delta, Eastern, Northwest, Pan American, TWA, or Western. (United was the only trunk carrier not to apply).

- 1973: On June 13, the administrative law judge found in favor of Pan American.

The Board agreed to review the case.

- 1975: Oral argument was held before the Board on April 16.
- 1976: CAB awarded Miami-LA route to Western Airlines on March 15.



THE WHITE HOUSE
WASHINGTON
July 9, 1976

Jim Cannon
Transp.
Air

SIGNING CEREMONY FOR
AIRPORT AND AIRWAY DEVELOPMENT ACT

Monday, July 12, 1976
11:00 a.m.
The Rose Garden

From: Jim Cannon

For Jim Cannon

I. PURPOSE

The purpose of this meeting is to sign the Airport and Airway Development Act which is a significant Presidential accomplishment and provides another example of your work with the Congress to produce important domestic legislation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

The Airport and Airway Development Act of 1970 authorized a comprehensive Federal airport grant-in-aid program (construction and planning grants) funded at \$295 million per year. The Airport Acceleration Act of 1973 increased Federal funding to \$325 million per year. The authorization for the program expired at the end of June, 1975, thus requiring new legislation to continue Federal funding for the airport construction and planning grant programs.

This bill will provide contract authority of \$2.7 billion and authorize appropriations of \$1.4 billion, for a total of \$4.14 billion, for fiscal years 1976 through 1980 for DOT to carry out its responsibilities under the 1970 Act. While the total funding in the bill is about \$1 billion more than the Administration recommended, HR 9771 represents a compromise between the Administration's request and the much higher levels supported by the Congress and the major aviation interest groups.



One of the major desirable provisions of this bill authorizes, for the first time since November 1971, the use of Trust Fund monies for maintenance of the air traffic control system.

This bill will also:

- extend grant eligibility to snow removal equipment, noise suppression equipment and barriers, land acquisition for environmental purposes and development of public use areas in terminals;
- provide for four State demonstration programs to transfer general aviation airport grant decisionmaking from the Federal Government to State elected officials;
- decrease complexity of grant procedures by allowing the Secretary of Transportation to accept certification that the sponsor will comply with statutory and administrative requirements;
- allow use of Trust Fund revenues for field maintenance of the airway capital facilities authorized by other sections of this bill.

B. Participants

See Tab A.

C. Press Plan

Full press coverage of signing.

III. TALKING POINTS

To be supplied by Bob Orben.

The following is a list of suggested invitees to the signing ceremony for H.R. 9771 (scheduled for Monday, July 12, 1976 at 11:00 A.M. in the Rose Garden of the White House):

Congressional Guests:

Senate:

Senate Commerce Committee

Warren G. Magnuson *
John O. Pastore
Vance Hartke *
Philip A. Hart *
Howard W. Cannon **
Russell B. Long
Frank E. Moss *
Ernest F. Hollings *
Daniel K. Inouye *
John V. Tunney *
Adlai Stevenson *
Wendell H. Ford
John A. Durkin *

James B. Pearson ***
Robert P. Griffin *
Howard Baker, Jr. *
Ted Stevens *
J. Glenn Beall *
Lowell P. Weicker
James L. Buckley

*Member, Aviation Subcommittee
**Chairman, Aviation Subcommittee
***Ranking Member, Aviation Subcommittee



Staff:

Robert E. Ginther, Professional Staff Member
Mary Schuman, Staff Counsel
Mary Ellen Miller, Legislative Aide to Senator Stevenson
S. Lynn Sutcliffe, General Counsel
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John Kirtland, Professional Staff Member, Minority
Doug Buttrey, Minority Staff Member

Mal Sterrett, Minority Staff Director
Maynard Dixon, Legislative Aide to Senator Buckley
Dave Clanton, Minority Staff Member
Rodger Schlickeisen, Professional Staff Member, Budget
John McEvoy, Chief Counsel, Budget

Additional Senators:

Barry Goldwater (Aeronautical and Space Sciences)
Birch Bayh (Chairman, Appropriations Subcommittee on Transportation)
Henry R. Bellmon (Ranking Member, Budget)
Clifford Case (Ranking Member, Appropriations Subcommittee on Transportation)
Robert Dole (Budget)
Edmund S. Muskie (Chairman, Budget Committee)
Edward W. Brooke

House:

Committee on Public Works and Transportation

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Jim Wright *
Harold T. Johnson *
David N. Henderson *
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Glenn M. Anderson **
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Teno Roncalio *
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Robert W. Edgar
Marilyn Lloyd *
John G. Fary *
Ted Risenhoover
W.G. (Bill) Hefner *

William Harsha
James Cleveland
Don Clausen *
Gene Snyder ***
John Hammerschmidt *
Bud Shuster
William Walsh
Thad Cochran *
James Abdnor *
Gene Taylor *
Barry Goldwater, Jr. *
Tom Hagedorn
Gary Myers

*Member, Aviation Subcommittee
**Chairman, Aviation Subcommittee
***Ranking Member, Aviation Subcommittee

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Dave Mahan, Assistant Counsel, Subcommittee
Arnie Havens, Legislative Counsel
Dave Heymsfeld, Assistant Counsel, Subcommittee
Richard Sullivan, Chief Counsel
Lester Edelman, Counsel
Robert Mowson, Legislative Counsel
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Robert Dawson, Administrator
Mortimer Downey, Budget
John Martin, Ways and Means
John Meharg, Ways and Means
Douglas Copley, Minority Staff Member, Subcommittee
Henry Pflanz, Professional Staff Member, Subcommittee Minority
Clifton Enfield, Minority Counsel
Larry Reida, Associate Minority Counsel
Erla S. Youmans, Minority Executive Staff Assistant
Alan Rothenberg, Assistant Minority Counsel, Ways and Means

Additional Representatives:

John J. McFall (Chairman, Appropriations Subcommittee on Transportation)
Silvio O. Conte (Ranking Member, Appropriations Subcommittee on Transportation)
Brock Adams (Chairman, Budget)
Delbert L. Latta (Ranking Member, Budget)
Ralph Metcalfe
Charles B. Rangel
Yvonne B. Burke

Department Representatives:

Office of the Secretary:

William T. Coleman, Jr., Secretary
John W. Barnum, Deputy Secretary
Theodore C. Lutz, Deputy Under Secretary for Budget and Program Review
Roger W. Hooker, Jr., Assistant Secretary for Congressional and
Intergovernmental Affairs
Robert P. Goss, Special Assistant to the Assistant Secretary, TCI
Barclay Webber, Assistant General Counsel for Legislation
Ray Warner, Director of Congressional Relations
Bud Welch, Liaison Officer for Federal Aviation Administration
Al Gleske, Liaison Officer for Federal Aviation Administration
Dave Lawhead, Aviation Chief, Office of Planning and Program Review
Bill Moga, Office of Planning and Program Review
John Patton, Director of Intergovernmental Affairs
Bill Fitzgerald, Office of Budget
John Snow, Deputy Under Secretary
Don Bliss, Deputy General Counsel
Federal Aviation Administration:

Dr. John McLucas, Administrator
Frederick Meister, Associate Administrator for Policy Development and Review
William Vitale, Director, Airports Service
Oscar Shienbrood, Special Assistant to the Chief Counsel
Robert Whittington, Chief, Research and Inquiry Division
James Dow, Past Administrator
Jefferson W. Cochran, Associate Administrator for Engineering and Development
Lamar Guthrie, Chief, Development Programs Division, Airports Service Office

Administration Officials:

John Robson, Chairman, Civil Aeronautics Board
Daniel W. Todd, Chairman, National Transportation Safety Board

State and Local Officials:

National Conference of State Legislatures:

Gerald Sohns, Director of Federal Relations
Joseph Mullins, Transportation Staff
Rep. Robert E. Washington (Va.), Transportation Executive Committee

National Governors' Conference:

Stephen Farber, Executive Director
Bud Thar, Transportation Staff
Governor George Busbee, Chairman, Transportation Committee
Governor Robert Ray

U.S. Conference of Mayors:

John Gunther, Executive Director
Carl Reidy, Transportation Staff

National League of Cities:

Alan Biels, Executive Director
Don Slater, Director, Federal Relations

National Association of Counties:

Dan Murphy, Chairman, Airport Subcommittee
Dan Mikesell, Chairman, Transportation Committee
Bernard Hillenbrand, Executive Director
Sandra Spence, Transportation Staff
Ralph Tabor, Director, Federal Relations

Prominent Aviation Industry Officials:

J.B. Hartranft, Jr., President, Aircraft Owners & Pilots Association
Max Karant, Senior Vice President, Aircraft Owners & Pilots Association
Robert Monroe, Aircraft Owners & Pilots Association
George Kirk, President, American Association of Airport Executives
F.R. Hoyt, Exec. Vice President, American Association of Airport Executives
Robert T. Murphy, Executive Director, Association of Local Transport Airlines
Joe Adams, Federal Affairs Counsel, Association of Local Transport Airlines
Graydon Hall (Southern Airways), Association of Local Transport Airlines
Janet St. Mark, Executive Vice President, Commuter Airline Association of America
Thomas Miles, Commuter Airline Association of America
Edward Stimpson, President, General Aviation Manufacturers Association, Inc.
Frank E. Hedrick, Chairman, General Aviation Manufacturers Association, Inc.
William Edgar, VP for Federal Affairs, General Aviation Manufacturers Association, Inc.
F. Farrell Higbee, Executive Director, National Agricultural Aviation Association
John Henebry, President, National Aeronautic Association
Lawrence L. Burian, President, National Air Transportation Association
John C. Cusack, VP for Government and Industry Affairs, National Air Transportation Association

Harold Vavra, President, National Association of State Aviation Officials
John A. Nammack, Executive Vice President, National Association of State
Aviation Officials
John H. Winant, President, National Business Aircraft Association, Inc.
Patricia McEwen, President, Ninety-Nines, Inc.
Lois Feigenbaum, Vice President, Ninety-Nines, Inc.
J.J. O'Donnell, President, Air Line Pilots Association
Roger Phaneuf, Director for Safety, Air Line Pilots Association
Robert Bonitati, Air Line Pilots Association
Carl G. Harr, Jr., President, Aerospace Industries Association of America, Inc.
Samuel L. Wright, Vice President, Aerospace Industries Association of
America, Inc.
Paul Ignatius, President, Air Transport Association of America
Leo Seybold, Vice President, Air Transport Association of America
Norman Sherlock, Air Transport Association of America
Grady H. Ridgeway, Jr., President, Airport Operators Council International
J.D. Reilly, Executive Vice President, Airport Operators Council International
Robert Ross, Board of Directors, Airport Operators Council International
Jack Corbett, Vice President for Federal Affairs, Airport Operators Council
International
Edward Driscoll, President, National Air Carrier Association, Inc.
Jack Reiter, National Air Carrier Association, Inc.
Paul J. Tierney, President, Transportation Association of America
Roger Allan, Director, Highway Division, Associated General Contractors of
America
James A. McDonough, Chairman, Airports Advisory Council, American Roadbuilders
Association
Ed Mitchell, League of American Airports
Ken Hoyt, Manager, League of American Airports
Robert A. Georgine, Construction Trades Department, AFL/CIO
James E. Dunne II, Airline Passengers Association
Henry Stafseth, Executive Director, American Association of State Highway
and Transportation Officials
John Leyden, Executive Director, Professional Air Traffic Controllers
Organization
Robert A. Richardson, Executive Director, Helicopter Association of America
Paul Poberezny, President, Experimental Aircraft Association, Inc.



Other:

Mrs. Theodore Lutz (Willa)
Mrs. Roger Hooker (Joan)

Union Representatives:

Nick J. O'Connell, President, Allied Pilots Association
Lawrence C. Cushing, President & Exec. Dir., National Association of Air
Traffic Specialists
Kenneth T. Lyons, President, National Association of Government Employees
Ms. Pat Robertson, President, Association of Flight Attendants
Mathew Guinan, President, Transport Workers Union of America

Local Service Airline Representatives:

Charles Butler, President, Air New England, Inc.
Ronald Cosgrave, Chairman of the Board, Alaska Airlines, Inc.
Edwin I. Colodny, President, Allegheny Airlines, Inc.
Kenneth Char, President, Aloha Airlines, Inc.
A.L. Feldman, President, Frontier Airlines, Inc.
John H. Magoon, Jr., Chairman of the Board, Hawaiian Airlines, Inc.
Irving T. Tague, General Manager, Hughes Airwest
Bernard Sweet, President, North Central Airlines, Inc.
Edward J. Crane, President, Ozark Air Lines, Inc.
T.H. Davis, President, Piedmont Airlines
R.C. Reeve, President, Reeve Aleutian Airways, Inc.
Graydon Hall, President, Southern Airways, Inc.
Francisco Lorenzo, President, Texas International Airlines
Raymond Peterson, President, Wein Air Alaska, Inc.

Trunk Line Representatives:

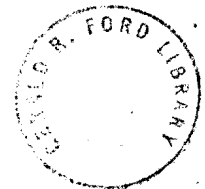
Albert V. Casey, Chairman of the Board, American Airlines, Inc.
Harding L. Lawrence, Chairman of the Board, Braniff International
Robert F. Six, Chairman of the Board, Continental Air Lines, Inc.
W.T. Beebe, Chairman of the Board, Delta Air Lines, Inc.
Frank Borman, President, Eastern Air Lines, Inc.
L. B. Maytag, President, National Airlines, Inc.
Donald W. Nyrop, President, Northwest Airlines, Inc.
William T. Seawell, Chairman of the Board, Pan American World Airways, Inc.
Charles C. Tillinghast, Jr., Chairman of the Board, Trans World Airlines, Inc.
Richard J. Ferris, President, United Air Lines, Inc.
Arthur F. Kelly, President, Western Air Lines, Inc.

Manufacturers Representatives:

T.A. Wilson, Chairman, Boeing Corporation
Sanford N. McDonnell, President and Chief Executive Officer, McDonnell
Douglas Aircraft Corporation
Robert W. Haack, Chairman, Lockheed Aircraft Corporation
Gerhard Neumann, Vice President Aircraft Engine Business Group, General
Electric
Bruce Torell, Sr. Vice President for Aircraft Engines, Pratt and Whitney

General Aviation Manufacturers:

Jack Ferris, Vice President, Avco Corporation
James E. Bevens, Senior Vice President, Bendix Corporation
Russell W. Myers, Chairman of the Board, Cessna
Harry B. Combs, President, Gates Lear Jet
J. Lynn Helms, President, Piper Air Craft
Corwin H. Meyer, President, Crumman American
James J. Edward, President, Sabreliner Division of Rockwell International
Edward J. King, Jr., President, King Radio Corporation
Edward B. Moore, President, Edo Corporation



Supplemental Air Carrier Representatives:

John E. Gallagher, President, McCulloch International Airlines
G.F. Steedman Hinckley, Chairman of the Board, Overseas National Airways, Inc.
Howard J. Korth, Chairman of the Board, Saturn Airways, Inc.
Glenn A. Cramer, Chairman of the Board, Trans International Airlines, Inc.
Edward J. Daly, President, World Airways, Inc.
Delford M. Smith, Chairman, Evergreen International Airlines

Transp.
JULY 12, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
ON SIGNING H.R. 9771
AN ACT TO AMEND THE AIRPORT AND
AIRWAY DEVELOPMENT OF 1970

THE EAST GARDEN

11:10 A.M. EDT

Secretary Coleman, distinguished Members of Congress and distinguished guests:

It is a great pleasure to participate in this signing ceremony this morning. I am signing into law the Airport and Airway Development Act of 1976, which will provide sufficient funds in the next four years to keep America on the move.

The Airport and Airway Development Act of 1976 will make possible the continuing modernization of our airways, airports and related facilities in communities throughout the 50 States. This legislation will give to the various departments increased flexibility to local authorities in the management and the development of the airport facilities and in starting to solve the airport noise problem. It will make possible thousands of jobs in aviation-related activities.

Significantly, this act will combat inflation because the funding for these airport and airway improvements will come from the users of the airways and the airport facilities -- the users of aviation. Moreover, for the first time since 1971 maintenance of the air navigation systems will be funded in part out of the Airport Trust Fund. In a sense, this is a "pay-as-you-fly" program.

Appropriately, the Airport and Airway Development Act of 1976 coincides with the 50th anniversary of scheduled transportation in the United States. Secretary of Transportation Coleman and Federal Aviation Administrator McLucas -- working closely with Members of the House and Senate and with the participation of the entire aviation community -- have brought forward a measure which will assure continued U.S. leadership in technology, efficiency and safety of air transportation.

This far-sighted and cooperative effort will assure that our country continues to benefit from the world's best aviation system, and I congratulate all the parties that had a part in this significant progress in the field of aviation. So, it is with great pleasure that I do sign this bill and again congratulate all who had a part in it.

END (AT 11:14 A.M. EDT)



JULY 12, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I am signing today a bill, H.R. 9771, which authorizes funds over a five-year period for the extension of the Airport Development Aid Program and for the continuation of Federal programs pertaining to the operation and improvement of the Nation's airway system. This bill, although falling short of my recommendations in several respects, will provide the basis for a number of important improvements in the operation of the airport and airway system.

First, the long-term extension of funding authorizations, while more than this Administration recommended, is funded from user taxes and will permit us to achieve substantial progress in the development of our Nation's public airports. In addition to supporting projects which will provide greater efficiency and safety in the operation of aircraft at these airports, the bill will permit the application of Federal assistance to projects which will enhance the ability of airport terminals to provide a smooth flow of traffic.

Second, the bill permits for the first time in nearly five years the use of monies in the Airport and Airway Trust Fund for defraying expenses incurred by the Department of Transportation in maintaining air navigation facilities, although it unwisely makes the amount of funds available for maintenance dependent on the amount of funds obligated for airport development purposes. This provision is most important from the standpoint of equity to the general taxpayer and I am especially pleased that the Congress agreed to its inclusion in the bill. I continue to believe that the users of the airport and airway system who derive special benefits from the system should contribute a fair share to the payment of system costs.

Third, the bill will permit us to make important progress in our efforts to shift to the State and local level governmental functions which can be carried out by State and local governments more efficiently and with greater sensitivity to the needs and desires of the people they serve. Under the amendments contained in this bill, recipients of grants for airport development will be afforded greater flexibility in managing their affairs and also will have the opportunity to take on greater responsibility with respect to carrying out the purposes of the statute.

more

H.R. 9771 also contains some undesirable provisions:

- It would shift from the airlines to the Federal government the cost of inspectional services provided to aircraft arriving in the United States on Sundays and holidays. As long as the Congress continues to mandate that the inspectors be paid at overtime rates for such work, I believe the airlines should continue to pay for the special services they receive.
- It would also unnecessarily increase the Federal share of the cost of projects at general aviation airports.

I am asking the affected agencies to determine whether corrective legislation should be submitted to the Congress on these provisions.

Despite these questionable provisions, this bill is generally consistent with the policy directions of my Administration and will help to assure an improved aviation system for all our citizens.

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JULY 12, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

AIRPORT AND AIRWAY DEVELOPMENT ACT AMENDMENTS OF 1976

The President is signing into law today the Airport and Airway Development Act Amendments of 1976 (H.R. 9771) which extends through 1980 the program for improvement of the Nation's public airports and airway facilities.

BACKGROUND

In March, 1975, the President sent to Congress a bill to extend through fiscal year 1980 the programs authorized by the Airport and Airway Development Act of 1970. In addition to an extension of the basic programs, the following new initiatives were recommended:

- Extension of eligibility to projects for noise suppression, land purchase and public use terminal development, thus enhancing the flexibility of State and local officials to use Federal assistance to meet their highest priority needs.
- Simplification of the process of approving grants through use of consolidated capital development planning, to reduce Federal red tape.
- Transfer of the general aviation airport grant program to the States to improve coordination of transportation project development and to permit project decisionmaking by elected officials closer to the local scene.
- Use of Airport and Airway Trust Fund annual revenue not needed for capital improvements to finance the cost of maintaining air navigation facilities in a safe and efficient fashion, thus shifting some of the burden of total federal aviation expenditures from the general taxpayer, who has been bearing two-thirds of those expenditures, to the aviation users.
- Promotion of sound airport project planning by providing a multi-year program with the bulk of the funds distributed by a predictable formula.

H.R. 9771 does extend the important Airway and Airport development programs and incorporates many of the new policy principles recommended by the President, although not to the extent recommended in the Administration's proposals.

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HIGHLIGHTS OF H.R. 9771A. Airport Development Program

- Extends grant eligibility to noise suppression equipment and barriers, land acquisition for environmental purposes, development of public use areas in terminals, and snow removal equipment.
- Changes distribution formula to more closely relate funding to air passenger activity, but provides minimum grants to assist small airports. At least one-third of air carrier grant funds will remain as discretionary programs.
- Increases Federal share to 90% of project cost for small airports through 1978 (80% for 1979 and 1980) and 75% for large airports, throughout the life of the bill.
- Provides for four State demonstration programs designed to transfer general aviation airport grant decisionmaking from the Federal Government to State elected officials.
- Decreases complexity of grant procedures by allowing the Secretary of Transportation to accept certification that the sponsor will comply with statutory and administrative requirements. Permits approval of multi-project applications from sponsors.

B. Other Key Provisions

- Allows use of Trust Fund revenues for field maintenance of the airway capital facilities authorized by other sections of this bill.
- Continues funding for Federal Aviation Administration facilities and equipment improvements through 1980.
- Increases flexibility on determining requirements for emergency services at small airports.
- Requires studies on conversion of private airports to public use, land banking for future airports, feasibility of establishing major new airports, and soundproofing of public buildings.

C. Funding Levels

The attached contains the authorized yearly funding for the program provided by H.R. 9771.

more



AIRPORT AND AIRWAY DEVELOPMENT ACT AMENDMENTS OF 1976
AIRPORT AND AIRWAY TRUST FUND

FY 1976-1980 Authorizations for Major Programs
(dollars in millions)

	<u>1976/TQ</u> ^{1/}	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Air Carrier Airport Development	435	440	465	495	525
General Aviation Airport Development	65	70	75	80	85
Facilities and Equipment Improvements	312.50	250	250	250	250
Maintenance of Air Navigation Facilities	-0--	250	275	300	325
Planning	15	15	15	15	15
R&D	<u>109.35</u>	<u>85.4</u>	<u>50</u> ^{2/}	<u>50</u>	<u>50</u>
	936.85	1110.4	1130	1190	1250

1/ 1976/TQ authorizations include the period from July 1, 1975 to September 30, 1976.

2/ Amounts for 1978, 1979, 1980 are minimum authorizations.

#

THE WHITE HOUSE

WASHINGTON

July 20, 1976

MEMORANDUM FOR: JIM CANNON
JIM CAVANAUGH

FROM: JUDITH HOPE

SUBJECT: Joint Memorandum from Brent Scowcroft
and Bill Seidman re: Approval of an
International Jet Engine Cooperative
Arrangement

This joint memorandum urges technology sharing of certain jet engines with engine firms among our NATO allies. The agencies involved in evaluating the proposal were: State, DOD, Commerce, Treasury, NASA, CIEP, and NSC. All recommended Option 2 (Page 6) which would approve licensing arrangements subject to certain limitations on the transfer of technology. DOT was not involved in the policy decision; the FAA provided technical assistance only.

As this is an international matter, I think the Domestic Council should defer to the judgment of the State Department and the Defense Department. FAA states that, technically speaking, the data on which the recommendations are based is accurate.

*Judy -
Boncally, are should avoid
"deferring" Guided, yls.
Refer, NO.*



Jim

THE WHITE HOUSE
WASHINGTON



Connor's office called
re. Connor action memo
due Tuesday at 10 which
they would like sooner
if possible.

It's on Scowcroft-Seidman
memo on approval of
International Jet Engine
Cooperative Arrangement.

Cristy

A large, stylized handwritten signature in dark ink, appearing to be "Cristy".

Option 2

Phoned to Hoopes 11/10.

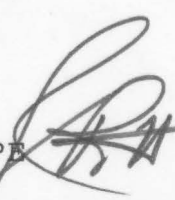
5:10

THE WHITE HOUSE

WASHINGTON

July 28, 1976

MEMORANDUM FOR: JAMES M. CANNON

FROM: JUDITH RICHARDS HOPE 

SUBJECT: Air Traffic Control Slowdown;
Potential TWA Strike on Friday, July 30

As I just informed you on the telephone, the Air Traffic Controllers Organization (PATCO) has begun a slow down, (although it is not called that because slowdowns are illegal), due to a long pending dispute with the Civil Service Commission. This will substantially delay flights into and out of important cities throughout the country. If continued for any period of time, it will result in flight cancellations and serious disruptions of air service.

Due to union disputes, there is a strike anticipated against TWA, headquartered in Kansas City, beginning Friday or Saturday of this week.

I will collect information from the FAA in the regular course. However, as I understand it from you, Bill Seidman and the EPB have the responsibility for both these issues.

cc: Art Quern
David Lissy

