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INFORMATION

THE WHITE HOUSE

WASHINGTON

September 27, 1976

MEMORANDUM FOR: JIM CANNON
FROM: PAUL LEACH *Paul*
SUBJECT: More Recent Airline/
Aircraft News

Attached are several recent news items of note:

1. Report on disharmony that proposed McDonnell Douglas/
French Dersault Aircraft Co. deal has caused in
European airplane manufacturing cooperation.
2. Very recent aircraft order announcements.
3. Today's list of stock and bond offerings expected
this week, including \$50 million of convertible debt
by Pan Am and \$60 million of equipment trust certificates
by Flying Tiger. If completed, each deal would be the
first of its kind in several years.
4. Report on Tax Bill implications for United (which is
about to order 25 to 28 B-727s).



State

①

Europe Is Infuriated By French-U.S. Plan For Passenger Jet

By David Haworth

WASH.
POST

BRUSSELS, Sept. 26—The agreement in principle between the French Dassault Aircraft Manufacturing Company and the U.S. McDonnell-Douglas Corp., for the joint construction of a middle-range passenger aircraft, the Mercure 200, has caused widespread opposition among other European plane-makers, EEC governments and, not least, the European Community's engineering workers.

This proposed deal is a severe blow to those EEC governments, backed up by the European Commission, who want a much closer cooperation between European aircraft manufacturers in future. Indeed, the commission firmly believes that unless such cooperation is forthcoming soon a European-wide aircraft industry will find it impossible to flourish under the competitive weight of the U.S. companies.

EEC officials are convinced that unless their strategy for joint EEC production is adopted within the next five years, European countries will be forced to be almost entirely dependent on the U.S. for passenger aircraft in the 1980s—with all that that means in social and political terms of the community as a whole.

They are angry that the French initiative—taken

9-27-76

Boeing Gets Lufthansa Order

SEATTLE—Boeing Co. said Lufthansa German Airlines ordered a 747 "combination" passenger and cargo plane valued at about \$43 million. The plane is scheduled for delivery in December 1977.

②

Nigeria Airways Orders 9-24-76 Three Planes From Boeing

SEATTLE—Boeing Co. said Nigeria Airways ordered two advanced 727-200 jet aircraft and one 707-320C aircraft. The contract price wasn't disclosed, but industry sources valued the three planes at about \$37 million.

The 727s are scheduled for delivery in August and September 1977, and the 707 is to be delivered in November 1977.



3

Stock, Bond Offerings

Associated Press

Here is a list of the stock and bond offerings tentatively scheduled for this week:

STOCKS

Tuesday

Interstate Power Co., 400,000 preferred, BAA-BBB, bids.
Kimball International Inc., 500,000 common, Blyth-Eastman Dillon.

Wednesday

Atlantic City Electric Co., 1 million common, Blyth-Eastman Dillon.

Thursday

Gould Inc., 1 million common, Kidder Peabody.
Southwest Airlines, 461,242 common, EF Hutton.

BONDS

Tuesday

Arco Pipeline Co., \$150 million notes due 1982 and \$150 million of notes due 1986, AA, Smith Barney Harris Upham.
Austrian Bank, \$50 million notes due 1981, AAA, Dillon Read.
Interstate Power Co., \$25 million bonds due 2000, A, bids.

Southern Pacific Transportation, \$15,675,000 certificates due 1977-91, bids.

Wednesday

Pan American World Airways, \$50 million convertible debentures due 2001, CCC, Lehman Brothers.

Thursday

First Chicago Corp., \$125 million notes due 1986, AAA, Salomon Brothers.

Flying Tiger Line, \$60 million certificates due 1991, A, Salomon Brothers.

Montana-Dakota Utilities Co., \$10 million bonds due 1996 and \$10 million bonds due 2001, A, bids.

Baltimore & Ohio Railroad, \$12 million certificates due 1977-91, A, bids.



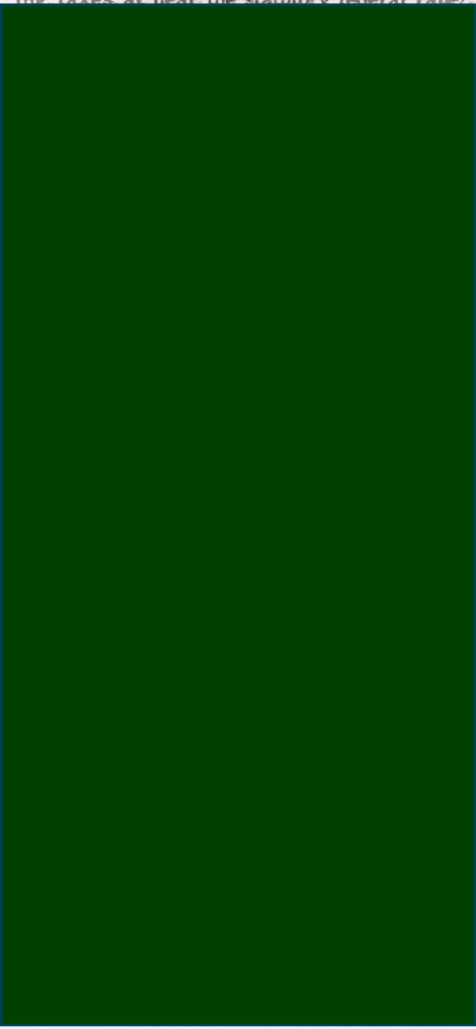
4

UAL's United Air Sees Signing of Tax Bill Cutting 1977 Taxes

By a WALL STREET JOURNAL Staff Reporter

PHILADELPHIA — If President Ford signs the new congressional tax legislation, United Airlines, a unit of UAL Inc., expects to pay just 4% to 5% of next year's pretax income in income taxes, Richard J. Ferris, president of the airline, told securities analysts here.

In an interview before his speech, Mr. Ferris said United expects to pay local, state and federal income taxes of 27% to 30% this year, and recently it had been paying taxes at near the statutory federal rate.



Av Noise

THE WHITE HOUSE
WASHINGTON

INFORMATION

YOUR REQUEST

September 28, 1976

1976 SEP 28 PM 3 06

July -
Frank
JRH
Jim

EYES ONLY

MEMORANDUM FOR: JIM CANNON
FROM: JUDITH RICHARDS HOPE
SUBJECT: Aviation Noise Policy Considerations

1. The pending proposal may criticize FAA for failing to Act. Compare: Representative Anderson's blast at the White House of 9-27, claiming that EPA, FAA, and DOT have presented noise reduction proposals but the White House has failed to act. In 1975, FAA's final recommendations (retrofit) were submitted for review by the Office of the Secretary of Transportation.
2. The carriers may be expected to view this as the worst of all possible worlds: they already contend that aviation regulatory reform will cause severe dislocations and economic hardships. They may contend that imposing additional noise requirements for which no financing method is provided is yet another economic blow.
3. Even with new FAA standards, "consumers," (residents impacted by aviation noise, as well as airport operators) will not obtain any noticeable improvements in noise for at least four years.
4. The present statement does not mention beneficial side-effects of a quiet-skies proposal: aerospace jobs and a new generation of aircraft.
5. The 50% noise reduction in perceived noise is correct.
6. There is no distinction drawn between noise standards for U.S. and for international carriers.



There's a Big distinction in how they are paid for.

092824/15

Noise

THE WHITE HOUSE
WASHINGTON

INFORMATION

REQUEST

September 28, 1976 ^{1976 SEP 28} AM 10 54

MEMORANDUM FOR: JIM CANNON
FROM: JUDITH RICHARDS HOPE *JRH*
SUBJECT: Aviation Noise Policy
(recent comment)

Judy -
Frank
Jim

In a September 24 speech to the Air Transport Association, Senator Birch Bayh accused the White House of foot-dragging on aircraft noise, and asserted that no decision was coming or considered likely. See Tab A.

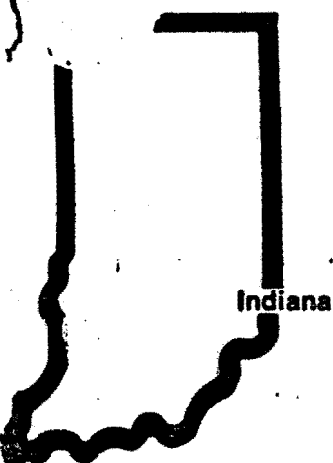
In a press release dated September 27, Representative Glenn Anderson (D-Calif.) accused the White House of gagging Secretary Coleman on aviation noise, and of insensitivity to the six million Americans who suffer from its effects. See Tab B.



092815

A





NEWS from BIRCH BAYH

for further information—phone (202) 224-5623
In Indiana phone (317) 269-6240

FOR RELEASE
65 - 76

WASHINGTON, D.C., SEPTEMBER 24 -- Senator Birch Bayh, chairman of the Senate Transportation Appropriations Subcommittee, charged today that the White House is dragging its feet by failing to respond to a proposal that would enable U.S. Airlines to replace aging passenger jets with quieter more fuel efficient planes while at the same time producing many thousands of jobs and helping the U.S. balance of payments.

In a speech to the Air Transport Association here today, Bayh said many older Boeing 707 and DC-8 aircraft which make up much of the U.S. commercial air fleet cannot meet federal noise regulations without being retrofitted with expensive noise abatement devices.

"The Council on Wage and Price Stability concluded in a report to the FAA on April 7, 1975 that retrofitting these aircraft cannot be justified on the basis of its financial and inflationary effects," Bayh said. "Retrofitting would cost more than a billion dollars and the industry would still be saddled with obsolescent aircraft that use more fuel, are more costly to operate and are more noisy even with retrofit than new aircraft."

Bayh said U.S. engine manufacturers are completing development on new technology engines that will enable future aircraft to meet noise standards even more stringent than those now in effect while simultaneously achieving a reduction in fuel used per seat mile of 15 to 20 percent.

"A proposal which would enable U.S. airlines to replace their older aircraft with a new generation of more efficient, quieter models was submitted to the Office of Management and Budget more than three months ago by Secretary of Transportation Coleman, but no decision has been made and there is every indication that none will be made in the



Such a replacement program, he indicated, would enable manufacturers to initiate new production programs which would employ tens of thousands of people and lead to the development of foreign sales of aircraft that would have a positive impact on U.S. balance of payments.

"At a time when the British, French and West Germans are dedicating themselves to taking away a large chunk of our aircraft production business, this makes a lot of sense," Bayh said.

Bayh indicated the proposal presented to OMB and the White House would allow Boeing 707 and DC 8 aircraft to be retired, replaced or retrofitted over a period of 10 years

(continued overleaf)

Page two

beginning in 1977 with the cost to be borne by airline passengers and air carriers. The price of an airline ticket, however, would not be affected since the effect of a special 2 percent ticket surcharge would be offset by reducing the ticket tax now in effect from 8 percent to 5 percent.

"The tax reduction is feasible," Bayh said, "because the current tax is producing revenues far in excess of projected airport development needs. Money from the 2 percent surcharge would be placed in an escrow account with entitlements of drawing rights for the air carriers set up on the basis of each carrier's actual passenger and cargo system revenues. Over a 10 year period the surcharge would produce about \$3.6 billion. The carriers would have to finance through their own revenues or private financing about \$3 billion to meet the \$6 billion cost of replacing some 320 707's and DC-8's."

Such a program would enable U.S. air carriers to modernize their fleets, operate more economically and meet noise reduction requirements while providing jobs for tens of thousands and helping our balance of payments through increased foreign sales, Bayh contended.

B



PRESS RELEASE

ANDERSON BLASTS FORD FOR IGNORING

AIRCRAFT NOISE PROBLEM

Washington, D.C. - September 27 - Representative Glenn Anderson (D-Calif.) today blasted the Ford Administration for gagging Secretary Coleman and preventing the Secretary from presenting a program designed to curb aircraft noise. This shows a "total lack of leadership, and disregard for the welfare of six million people who are being bombarded daily by aircraft noise."

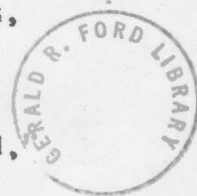
Anderson, the Chairman of the House Aviation Subcommittee, has consistently pressed the Administration to present a proposal for reducing aircraft noise, and has received assurances from Secretary Coleman that such a program would be forthcoming.

"Some six million people are being deprived of the full enjoyment of their property because of low-flying, noisy aircraft. The Federal government has the sole responsibility for curbing the engine noise, and thus, providing relief to the people who live around our nation's airports," he said.

"The Environmental Protection Agency, The Federal Aviation Administration and Secretary Coleman have made constructive proposals to reduce aircraft noise, but, the White House will not permit a move for fear of offending the airlines, the airport operators, the public -- or all three," Anderson continued.

"This timidity cannot be condoned and cannot be justified," he stated, "when leadership is needed to protect the health and welfare of at least 6 million people."

"Aircraft noise is one of the most pressing problems facing



aviation today. It is causing havoc to the lives of residents who live near our nation's airports; it is causing the airlines to operate with questionable procedures, which involves safety, to avoid residential areas; and it is threatening to interrupt our system of air transportation, yet, the White House chooses to ignore the problem - gag the Secretary - rather than attempt to solve it," he stated.

Anderson's subcommittee has conducted in-depth hearings on aircraft noise, but has delayed action awaiting recommendations from the Secretary of Transportation, which possesses the necessary technical expertise.

"This 'head-in-the-sand' posture assumed by the White House is indefensible and shows a total lack of the ability to make a tough decision," Anderson concluded.



THE WHITE HOUSE
WASHINGTON

September 29, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON *J. Cannon*
SUBJECT: Aviation Noise Proposal by Secretary Coleman

Attached at Tab A is my memorandum and draft policy statement on aviation noise which you asked for on September 18.

I regret that this has been delayed beyond the three days we asked for. I sent it to you on Friday, September 24, before your Southern Swing; and I did not realize you had not seen it.

The comments of Jack Marsh, Alan Greenspan and Paul O'Neill are at Tab B.

In addition, I thought it would be helpful if we had some indication of CAB's reaction to possible fare adjustments if airlines should need them to meet FAA standards. At my request Ed Schmults informally asked CAB Chairman Robson for his views. They are at Tab C.

attachments



THE WHITE HOUSE

WASHINGTON

September 24, 1976

INFORMATION
REQUESTED

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON *Jani*
SUBJECT: Aviation Noise Policy

When you discussed an Aviation Noise Policy Statement with Cheney, Marsh, Greenspan and me last Saturday, you suggested that your Policy Statement might take the form of a message to Congress, or a major address.

Since any message to Congress could be lost in the closing days of this session, I believe that a speech would provide a better opportunity for you to present your views.

Accordingly, I have drafted for your consideration an Aviation Noise Policy Statement in the form of a speech which might be given to a knowledgeable audience gathered at one of the noisiest airports:

<u>Airport</u>	<u>Serious Noise Affecting</u>
New York - La Guardia	1,000,000 persons
Chicago - O'Hare	771,000 persons
New York - John F. Kennedy	507,000 persons
Newark, New Jersey	431,000 persons
Boston - Logan International	431,300 persons
Los Angeles, International	293,600 persons

Since the New York metropolitan area has three of the noisiest airports, I would suggest you speak at one of them, preferably JFK.

The audience could include (by invitation) airport workers, pilots, homeowners in the area, community leaders, environmental leaders, airline executives, civic leaders, a cross-section of the community most directly affected by aircraft noise, and labor and management representatives of the airline and aircraft industries and their suppliers.



This draft attempts to get across these points:

- your concern for an environmental problem;
- your interest in preserving a healthy and competitive airline industry;
- your concern for jobs;
- your interest in energy conservation;
- your desire to avoid unnecessary Federal expenditures;
- your personal leadership in addressing a difficult, complex, and interrelated set of problems; and
- your decisiveness in proposing a balanced, practical and sound solution.

By the time of your return I will have reviewed this with Marsh, Greenspan and O'Neill.

10/10/76

2D DRAFT

QUIET SKIES

(Appropriate Salutation)

We have assembled here at _____ Airport today so that I could speak with you about two important and related national problems.

And in the process I am going to discuss a real-life case study of what is wrong with Washington -- and what must be done about it.

The first of these two national problems is aircraft and airport noise -- and I will today announce a plan to reduce the noise pollution around this and other major airports in the Nation.

The second problem is the need to ensure that the 200 million Americans who fly every year have the finest possible airline service. I will today describe the measures necessary to make certain that the American consumer will be served by a healthy and competitive system of commercial airlines.

Both of these problems and their resolution affect your lives, your jobs, your environment, your property, your future and your children's future, and the well-being and progress of the Nation.

For some 6 million Americans who live and work around 100 major airports in the U.S., the noise of jet planes is a very real and personal environmental problem. I know, because I used to live near Washington National, and sometimes the noise was so bad you could not read a newspaper, hear the T.V., or finish a conversation with the children.

For these 6 million Americans the problem of noise is getting worse as air travel increases -- and we want air travel to increase.

But we must also end the noise problem.

Since the 1960's, when the airlines introduced new jet airplanes into the fleet, noise has been recognized as a major constraint to commercial aviation. Through research and development, by the government and by private industry, we have learned how to make jet engines quieter, and more efficient in fuel use. The technology is ready.

We have taken the first steps to reduce the noise around airports. In 1969 the Federal Aviation Administration, one of the two Federal agencies that regulate the commercial airlines -- I know you are aware that Congress feels the airlines are so important that you need two Federal regulatory agencies to tell you what to do -- in 1969 the FAA issued standards that would cut in half the perceived noise of new jet aircraft effective at the start of 1975.

For the last two years, all commercial planes coming off the assembly lines in the United States have met these standards.

But the FAA did not act to correct the biggest part of the airport noise problem -- some 1600 older jet airplanes, or about 77 percent of the U.S. commercial airlines fleet.

These planes are still flying; and if you live near this or any other major airport in the United States, you are still listening to them.

Why, seven years after the FAA set aircraft noise standards, are these noisy planes still flying?

The answer, very simply, is that FAA knew that some of the airlines could not afford to pay for modifying or replacing their older planes to meet the new noise standards.

Why not? One reason, frankly, is that some of the airlines have not been well-managed.

But another important reason airlines could not afford to pay for noise reduction is that the Civil Aeronautics Board, the other Federal agency that regulates the airlines, could not look ahead and provide the revenues the airlines would need to pay for noise reduction.

The CAB is like that mythical bird which flew backward and knew where it had been, but not where it was going. Under their own regulations for setting airline fares, CAB looks backward at "historic costs," but not ahead to realistic future costs.

The CAB was created almost 40 years ago to promote and assist a young and hopeful airline industry. There were reasons then to allocate routes, set fares, and limit competition; at the beginning, the public need for good service required extensive government involvement to assure orderly growth of the airlines.

It is different now.

When the CAB began in 1938, domestic airlines carried a total of 1.3 million passengers, for 476 million passenger miles.

This year, U.S. airlines will carry more than 200 million passengers, for 128 billion passengers miles -- a growth of 26,800 percent. Airlines now carry more people between cities than any other form of public transportation.

The airline industry is no longer an infant; it is mature, big and fully capable of prospering in a free, open and competitive market.

It was for this reason that on October 8, 1975, I proposed to the Congress the Aviation Act of 1975, which



would have reduced economic controls, opened markets, reduced fares and made it possible for all airlines to better serve the American consumer.

My objective was to work with the Congress to ensure that the U.S. will have the most efficient airline system in the world, providing the American public with the best possible service at the lowest possible cost.

That was 11 months ago; but neither the House nor the Senate has acted on this important legislation, which is the first comprehensive updating of airline regulation in almost forty years. Nor has Congress proposed any alternative.

However, the blame does not all rest on Congress. Some airline executives, and their Washington lobbyists, have short-sightedly opposed this change. While they say publicly they are for free enterprise and open competition, they have privately lobbied against open competition, against the American consumer, and in fact against greater opportunity for the growth and prosperity of their airlines.



To do this, I am taking the following actions:

First, I am today directing the Secretary of Transportation to instruct the Administrator of FAA to extend its noise regulations to all U.S. commercial aircraft, to be phased in over an 8-year period.

Second, I am putting the Congress on notice that I will not accept its inaction. Congress must adopt the airline regulatory reform measure I proposed in 1975. Congress must act on this reform in the interest of the American public.

I want the members to know now that aviation regulatory reform will be on their doorstep when they come back in January.

Third, I propose that the present Federal tax on domestic passenger fares be reduced from 8 percent to 6 percent, and on domestic freight, be reduced from 5 percent to 3 percent. This tax on the consumer is now going to the Airport and Airway Trust Fund to provide Federal assistance to airport construction and improvement. There is now a surplus of \$1.4 billion in this fund. Passengers have a right to this tax reduction.



However, if the Congress does not act on regulatory reform for the airlines within 60 days after the new session opens, I shall have no choice but to propose the reimposition of that 2 percent as an environmental surcharge on passenger fares and freight bills. The funds from the surcharge would be directed into a special trust fund, administered by the Secretary of Transportation, to assist the airlines in financing the new and quieter planes that are necessary for the abatement of aircraft noise around our major airports.

I do not want to call for this environmental surcharge on passengers. Regulatory reform is a far better solution. But if Congress does not act on the aviation regulatory reform I proposed last October, there has to be another alternative.

Even then, an environmental surcharge would be a temporary expedient -- not a permanent solution to the real problem facing the airlines and other over-regulated industries in this country.

Such a surcharge would help end the noise problem. But it will not change the CAB's outdated methods of setting fares and controlling markets. It will not improve an airline's ability to compete and provide better service.



fed the hearths of an industrial revolution and now have renewed significance in the era of environmental and energy consciousness. Highways made us the most mobile population on earth, profoundly altered our land use patterns, and established the automobile, truck and bus as an important part of the Nation's mobility and economic activity. Mass transit provided the lifeline to city centers and now offers hope for their revival. Civil aviation extended its reach around the globe and helped design the interdependent world in which we now live. General aviation has greatly increased business and pleasure mobility and opened up formerly unreachable territories. Pipelines are vital to energy independence.

"To sustain and enhance our economic vitality and growth, the productivity of our commerce and the quality of our leisure, we need a healthy and responsive transportation system. National transportation policy must serve these broad goals of our society by helping to guide the development, financing and maintenance of a safe, efficient, accessible and diverse transportation system. Such

a system should meet the needs of all Americans -- as passengers, consumers, employees, shippers and investors -- in a way that is consistent with other national objectives. The values and priorities of our society are changing as the land on which we live is changing, and transportation must blend with other national goals in seeking heightened quality in the American way of life."

We have set our national goals for what is and what must continue to be the best airline system in the world. By working together we can reach those goals.

Thank you.

Jack Marsh

Concurs with the general approach of requiring Congress to either pass your Aviation Regulatory Reform or impose an environmental surcharge to assist the airlines in meeting FAA standards.

Alan Greenspan

Made three points:

1. He feels it is very important that you make a judgement on the politics of the proposal.
2. He believes it is bad long-term economic policy to provide part of the capital airlines need to finance equipment, and it would eventually lead to quasi nationalization.
3. He believes that aviation noise is not a compelling public issue of the dimension of abortion or jobs. He would like to see this decision delayed until after the election, which would give us time to review the financing alternatives.

Paul O'Neill

Made three points:

1. We should not say the FAA is holding up action on the extension of noise abatement regulations. The fact is that FAA has sent several proposals to Secretary Coleman to extend the noise regulations, but the Secretary has returned them for further study.
2. While the general public may respond favorably to your insistence that Congress either pass your Aviation Regulatory Reform or face an environmental surcharge, the aviation trade believes this is not a real threat. The airlines which have opposed deregulation would be likely to continue their opposition in order to get federal assistance for aircraft replacement.

3. OMB is strongly opposed to giving up the revenue from the present tax. A 2% reduction would cost them about \$300 million yearly.



THE WHITE HOUSE

WASHINGTON

1976 SEP 22 AM 10 22

September 22, 1976

MEMORANDUM FOR:

JIM CANNON

FROM:

ED SCHMULTS 

SUBJECT:

Telephone Call to the Chairman
of the CAB on DOT Noise and
Aircraft Financing Proposals

I called Chairman Robson this morning to inquire about CAB procedures if the airlines requested a fare increase to finance, in part, aircraft replacement required by FAA noise standards. At the outset, Robson said that the CAB had never been faced with the problem of authorizing fare increases to meet future costs. He said that such a request by the airlines would present novel questions to the CAB and would require adjustment to the Board's fare setting formula. If the ticket tax were reduced by 2 percent or so, this would at least give the Board something to work with.

Robson stressed several times that he thought any proposal should be directly linked to regulatory reform. He said that we should not lose the "lever" provided by any financing proposal without obtaining passage of reform legislation.

Robson also observed that if the DOT proposal involved any legislation, the airlines would undoubtedly be fighting in Congress for a mandatory fare increase.



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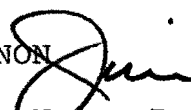
THE WHITE HOUSE

WASHINGTON

September 29, 1976

MEMORANDUM FOR THE PRESIDENT

FROM:

JIM CANNON 

SUBJECT:

Aviation Noise Proposal by Secretary Coleman

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The comments of Jack Marsh, Alan Greenspan and Paul O'Neill are at Tab B.

In addition, I thought it would be helpful if we had some indication of CAB's reaction to possible fare adjustments if airlines should need them to meet FAA standards. At my request Ed Schmults informally asked CAB Chairman Robson for his views. They are at Tab C.

attachments



THE WHITE HOUSE

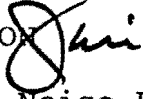
WASHINGTON

September 24, 1976

INFORMATION
REQUESTED

MEMORANDUM FOR THE PRESIDENT

FROM:

JIM CANNON 

SUBJECT:

Aviation Noise Policy

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New York - John F. Kennedy	507,000 persons
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Los Angeles, International	293,600 persons

Since the New York metropolitan area has three of the noisiest airports, I would suggest you speak at one of them, preferably JFK.

The audience could include (by invitation) airport workers, pilots, homeowners in the area, community leaders, environmental leaders, airline executives, civic leaders, a cross-section of the community most directly affected by aircraft noise, and labor and management representatives of the airline and aircraft industries and their suppliers.

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By the time of your return I will have reviewed this with Marsh, Greenspan and O'Neill.



QUIET SKIES

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And in the process I am going to discuss a real-life case study of what is wrong with Washington -- and what must be done about it.

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For these 6 million Americans the problem of noise is getting worse as air travel increases -- and we want air travel to increase.

But we must also end the noise problem.

Since the 1960's, when the airlines introduced new jet airplanes into the fleet, noise has been recognized as a major constraint to commercial aviation. Through research and development, by the government and by private industry, we have learned how to make jet engines quieter, and more efficient in fuel use. The technology is ready.

We have taken the first steps to reduce the noise around airports. In 1969 the Federal Aviation Administration, one of the two Federal agencies that regulate the commercial airlines -- I know you are aware that Congress feels the airlines are so important that you need two Federal regulatory agencies to tell you what to do -- in 1969 the FAA issued standards that would cut in half the perceived noise of new jet aircraft effective at the start of 1975.

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Why not? One reason, frankly, is that some of the airlines have not been well-managed.

But another important reason airlines could not afford to pay for noise reduction is that the Civil Aeronautics Board, the other Federal agency that regulates the airlines, could not look ahead and provide the revenues the airlines would need to pay for noise reduction.

The CAB is like that mythical bird which flew backward and knew where it had been, but not where it was going. Under their own regulations for setting airline fares, CAB looks backward at "historic costs," but not ahead to realistic future costs.

The CAB was created almost 40 years ago to promote and assist a young and hopeful airline industry. There were reasons then to allocate routes, set fares, and limit competition; at the beginning, the public need for good service required extensive government involvement to assure orderly growth of the airlines.

It is different now.

When the CAB began in 1938, domestic airlines carried a total of 1.3 million passengers, for 476 million passenger miles.

This year, U.S. airlines will carry more than 200 million passengers, for 128 billion passengers miles -- a growth of 26,800 percent. Airlines now carry more people between cities than any other form of public transportation.

The airline industry is no longer an infant; it is mature, big and fully capable of prospering in a free, open and competitive market.

It was for this reason that on October 8, 1975, I proposed to the Congress the Aviation Act of 1975, which

would have reduced economic controls, opened markets, reduced fares and made it possible for all airlines to better serve the American consumer.

My objective was to work with the Congress to ensure that the U.S. will have the most efficient airline system in the world, providing the American public with the best possible service at the lowest possible cost.

That was 11 months ago; but neither the House nor the Senate has acted on this important legislation, which is the first comprehensive updating of airline regulation in almost forty years. Nor has Congress proposed any alternative.

However, the blame does not all rest on Congress. Some airline executives, and their Washington lobbyists, have short-sightedly opposed this change. While they say publicly they are for free enterprise and open competition, they have privately lobbied against open competition, against the American consumer, and in fact against greater opportunity for the growth and prosperity of their airlines.



Consequently, we have this situation:

Too Much Noise:

The FAA, by not moving on noise standards, has shown a lack of decisiveness that must be changed.

Outdated Regulations:

The CAB, by following policies and procedures that are impractical and out of date, is clearly unable to assist the airlines in providing the best and cheapest service to the public.

Congressional Inaction:

The Congress, by its failure to act on aviation regulatory reform, is continuing a critical economic problem for the airlines and all the people who work for airlines and depend on them.

As President, I cannot tolerate inaction any longer.

We must end the noise pollution around American airports and bring quiet skies back to America again.

We must free aviation from arbitrary and unnecessary restrictions and regulations so that the airlines themselves can pay the cost of noise abatement.

To do this, I am taking the following actions:

First, I am today directing the Secretary of Transportation to instruct the Administrator of FAA to extend its noise regulations to all U.S. commercial aircraft, to be phased in over an 8-year period.

Second, I am putting the Congress on notice that I will not accept its inaction. Congress must adopt the airline regulatory reform measure I proposed in 1975. Congress must act on this reform in the interest of the American public.

I want the members to know now that aviation regulatory reform will be on their doorstep when they come back in January.

Third, I propose that the present Federal tax on domestic passenger fares be reduced from 8 percent to 6 percent, and on domestic freight, be reduced from 5 percent to 3 percent. This tax on the consumer is now going to the Airport and Airway Trust Fund to provide Federal assistance to airport construction and improvement. There is now a surplus of \$1.4 billion in this fund. Passengers have a right to this tax reduction.

However, if the Congress does not act on regulatory reform for the airlines within 60 days after the new session opens, I shall have no choice but to propose the reimposition of that 2 percent as an environmental surcharge on passenger fares and freight bills. The funds from the surcharge would be directed into a special trust fund, administered by the Secretary of Transportation, to assist the airlines in financing the new and quieter planes that are necessary for the abatement of aircraft noise around our major airports.

I do not want to call for this environmental surcharge on passengers. Regulatory reform is a far better solution. But if Congress does not act on the aviation regulatory reform I proposed last October, there has to be another alternative.

Even then, an environmental surcharge would be a temporary expedient -- not a permanent solution to the real problem facing the airlines and other over-regulated industries in this country.

Such a surcharge would help end the noise problem. But it will not change the CAB's outdated methods of setting fares and controlling markets. It will not improve an airline's ability to compete and provide better service.



The lasting solution is to give the free enterprise system its best chance to operate.

The genius of the American economic system throughout our history has been a partnership between government and free enterprise. The right role of the government in the American economic system is to help private enterprise accomplish needed objectives for the American people -- and not to hinder private enterprise.

Our national growth in 200 years has been phenomenal, and in no area of our lives has the partnership between government and private enterprise worked better than in transportation.

In the National Transportation Policy Statement of my Administration of September 17, 1976, we said:

"Transportation has substantially shaped the growth and development of the United States. Waterways led our ancestors to new frontiers. Today, our energy-efficient inland waterways and merchant marine seek out new markets. Railroads



fed the hearths of an industrial revolution and now have renewed significance in the era of environmental and energy consciousness. Highways made us the most mobile population on earth, profoundly altered our land use patterns, and established the automobile, truck and bus as an important part of the Nation's mobility and economic activity. Mass transit provided the lifeline to city centers and now offers hope for their revival. Civil aviation extended its reach around the globe and helped design the interdependent world in which we now live. General aviation has greatly increased business and pleasure mobility and opened up formerly unreachable territories. Pipelines are vital to energy independence.

"To sustain and enhance our economic vitality and growth, the productivity of our commerce and the quality of our leisure, we need a healthy and responsive transportation system. National transportation policy must serve these broad goals of our society by helping to guide the development, financing and maintenance of a safe, efficient, accessible and diverse transportation system. Such

a system should meet the needs of all Americans -- as passengers, consumers, employees, shippers and investors -- in a way that is consistent with other national objectives. The values and priorities of our society are changing as the land on which we live is changing, and transportation must blend with other national goals in seeking heightened quality in the American way of life."

We have set our national goals for what is and what must continue to be the best airline system in the world. By working together we can reach those goals.

Thank you.



Jack Marsh

Concurs with the general approach of requiring Congress to either pass your Aviation Regulatory Reform or impose an environmental surcharge to assist the airlines in meeting FAA standards.

Alan Greenspan

Made three points:

1. He feels it is very important that you make a judgement on the politics of the proposal.
2. He believes it is bad long-term economic policy to provide part of the capital airlines need to finance equipment, and it would eventually lead to quasi nationalization.
3. He believes that aviation noise is not a compelling public issue of the dimension of abortion or jobs. He would like to see this decision delayed until after the election, which would give us time to review the financing alternatives.

Paul O'Neill

Made three points:

1. We should not say the FAA is holding up action on the extension of noise abatement regulations. The fact is that FAA has sent several proposals to Secretary Coleman to extend the noise regulations, but the Secretary has returned them for further study.
2. While the general public may respond favorably to your insistence that Congress either pass your Aviation Regulatory Reform or face an environmental surcharge, the aviation trade believes this is not a real threat. The airlines which have opposed deregulation would be likely to continue their opposition in order to get federal assistance for aircraft replacement.

3. OMB is strongly opposed to giving up the revenue from the present tax. A 2% reduction would cost them about \$300 million yearly.



THE WHITE HOUSE
WASHINGTON

976 SEP 22 AM 10 22

September 22, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ED SCHMULTS 

SUBJECT: Telephone Call to the Chairman
of the CAB on DOT Noise and
Aircraft Financing Proposals

I called Chairman Robson this morning to inquire about CAB procedures if the airlines requested a fare increase to finance, in part, aircraft replacement required by FAA noise standards. At the outset, Robson said that the CAB had never been faced with the problem of authorizing fare increases to meet future costs. He said that such a request by the airlines would present novel questions to the CAB and would require adjustment to the Board's fare setting formula. If the ticket tax were reduced by 2 percent or so, this would at least give the Board something to work with.

Robson stressed several times that he thought any proposal should be directly linked to regulatory reform. He said that we should not lose the "lever" provided by any financing proposal without obtaining passage of reform legislation.

Robson also observed that if the DOT proposal involved any legislation, the airlines would undoubtedly be fighting in Congress for a mandatory fare increase.



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