Change, Challenge and Competition

THE NATIONAL COMMISSION TO ENSURE A STRONG COMPETITIVE AIRLINE INDUSTRY

A Report to the President and Congress

August 1993

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COMMISSION BACKGROUND

The National Commission to Ensure a Strong Competitive Airline Industry was created April 7, 1993, by Public Law 103-13. The Commission's mandate was to investigate, study and make policy recommendations about the financial health and future competitiveness of the U.S. airline and aerospace industries. The report was due 90 days after appointment of the commissioners.

The Commission's membership consists of 15 voting and 11 non-voting members. Five voting members were appointed by the President, five by the Senate leadership and five by the House leadership. It is bipartisan, with members appointed from "among individuals who are experts in aviation economics, finance, international trade and related disciplines and who can represent airlines, passengers, shippers, airline employees, aircraft manufacturers, general aviation and the financial community."

The chairman of the Commission is a voting member appointed by the President, in consultation with the Speaker of the House of Representatives and the majority leader of the Senate.

At the Commission's opening session, President Clinton and Transportation Secretary Peña challenged the Commission to review all aspects of the airline and aerospace industries to develop recommendations to ensure their strength and competitiveness in the domestic and global marketplaces.

"I think there is a real consensus in America that the people who make airplanes and equipment and the people who run our airlines are critical to our economic future," the President said.

Commission Chairman Gerald L. Baliles said the Commission "should be prepared to question some of the most basic assumptions that have formed the foundation of policy toward this industry —and behavior within it —for the past half century."

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CHAIRMAN'S SUMMARY

This nation's civil aviation system is a vital national resource. That is why the National Airline Commission exists. The Commission's tasks are to investigate the status of the industry and identify any "impediments to a strong and competitive airline industry." Where we find impediments, the Commission is to make recommendations to the President, Congress, the industry and the nation about how to clear away those impediments.

The members of the Commission set aside almost all other interests beginning on May 24, 1993, when we held our first meeting. We spent countless hours gathering information through testimony, conversation, debate, reading and thinking about the civil aviation industry's condition and about the importance of air transportation to the social and economic well-being of our country. The members of the Commission are as knowledgeable and experienced as any ever brought together to study these problems. The individual Commissioners, who have brought differing experiences and varying viewpoints, have worked well together as a team. The chemistry has been good and the spirit constructive.

As we began our study, we found an airline industry that:

- Is more competitive than before deregulation in 1978 in that there is more head-to-head, city-pair competition; and,
- Charges travelers and shippers less in real dollars than it did in 1978.

At the same moment, it is an industry that has:

- Lost huge amounts of money in the past three years, and it has never made a sustained, substantial return on investment;
- Lost a large number of its most skilled workers, especially among equipment manufacturers and suppliers;
- Suffered cancellations, deferrals and reductions in orders for new aircraft, shortly after it went on an unprecedented aircraft buying binge. These huge swings caused tremendous disruption in the manufacturing sector;
- Become uncertain about its freedom to compete in international markets because of foreign government restrictions and concerned about the erosion of its full participation in the fastest growing sector of the civil aviation marketplace.

In perspective, these characteristics apply to other industries in our economy and have applied to the airline industry in the past. For example, a 1974 initiative by the U.S. Department of Transportation (DOT) set forth a seven-point plan to "save the industry." In another part of this report, there is a quote from a Truman Administration commission which was formed to develop recommendations on how to stanch the financial hemorrhage of the airline industry more than 40 years ago.

So why are this Commission's mandate and effort different? Why have a series of administrations and politicians found it critical to spend so much time studying an industry that has been volatile throughout its history?

The answer is simple: The air transportation system has become essential to economic progress for the citizens and businesses of this nation. Without it, our country will be hamstrung in its ability to participate in an increasingly global community and marketplace. Air transportation makes possible the quick movement of millions of people and billions of dollars worth

"The air transportation system has become essential to economic progress for the citizens and businesses of this nation."

of goods to markets around the world. We need to be able to compete in those markets, and there is often no practical alternative to air transportation. Similarly, the growth of a competitive domestic economy depends more and more on our ability to move by air.

In addition, the U.S. air transportation system is being hobbled by self-imposed and government-mandated attitudes and policies that are dysfunctional and deprive the system of its natural potential to be a more powerful engine for the nation's economy.

For this country to prosper in a global marketplace, the U.S. air transportation system must:

- Be efficient and technologically superior;
- Have the financial strength to respond to rapid change and opportunity; and,
- Efficiently move people, products and services to markets, wherever they exist.

Just as our nation's economic challenge has changed over the past 20 years, so has the context in which the U.S. air transportation system operates. There are obvious signs for concern: airlines are liquidating, merging or filing for bankruptcy protection. Delays and other system inefficiencies are costing the American economy billions of dollars per year. Manufacturers of aerospace products are consolidating and even leaving the business entirely. Jobs in these high-wage, high-skill sectors are being lost by the thousands. Airline debt levels are reaching historic and unsustainable proportions. Airline access to international markets is corseted in a system crafted a half-century ago, one that has outlived its time.

These are the defining principles that have shaped the recommendations of the Commission:

First, the U.S. air transportation system must be efficient and technologically superior.

For too long, too many people and products have been spending too much of their time sitting on the ground in airplanes and not enough time flying in them. This is true despite the fact that a new air traffic control technology is available that would reduce delays and increase efficiency. New technology lies within our grasp but has been thwarted by a federal funding and procurement process that is the antithesis of a rapidly changing, high technology-driven air transportation system.

This new technology will bring vast improvement in the operating efficiency of the airline industry (and thereby the airlines' bottom line), and present a new and promising export opportunity for the U.S. in the high-wage, high-technology sector. But the Federal Aviation Administration (FAA) is unable to respond to the need. FAA is severely limited by the ebbs and flows of the federal budget process, and the ability to build an air traffic control, (ATC), system for the 21st century depends on a stable, predictable source of revenue that can be leveraged for future improvements.

While the federal budget system keeps the FAA from responding rapidly to technological change, the federal regulatory system produces too many requirements that impose unwarranted costs and inefficiencies on the industry. It is no longer acceptable for the nation to run its air transportation system with rules, procedures and technology developed for an obsolete generation of aircraft and a less complex time. Conclusion:

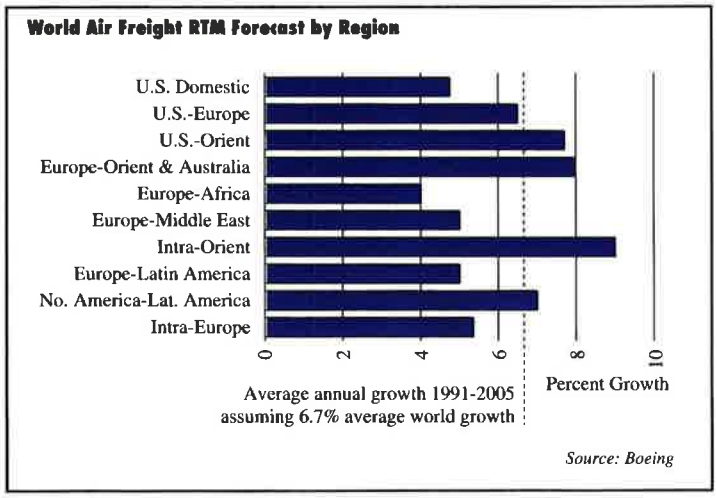
The FAA must be reinvented. The new structure of FAA must be designed to produce a stable and predictable source of funds and to allow that funding stream to be leveraged to finance strategic capital investments, as well as a regulatory system that is cost-effective, enhances safety and efficiency and does not impede the ability of the industry to manage its affairs.

Second, the U.S. air transportation system must have the financial strength to respond to rapid change.

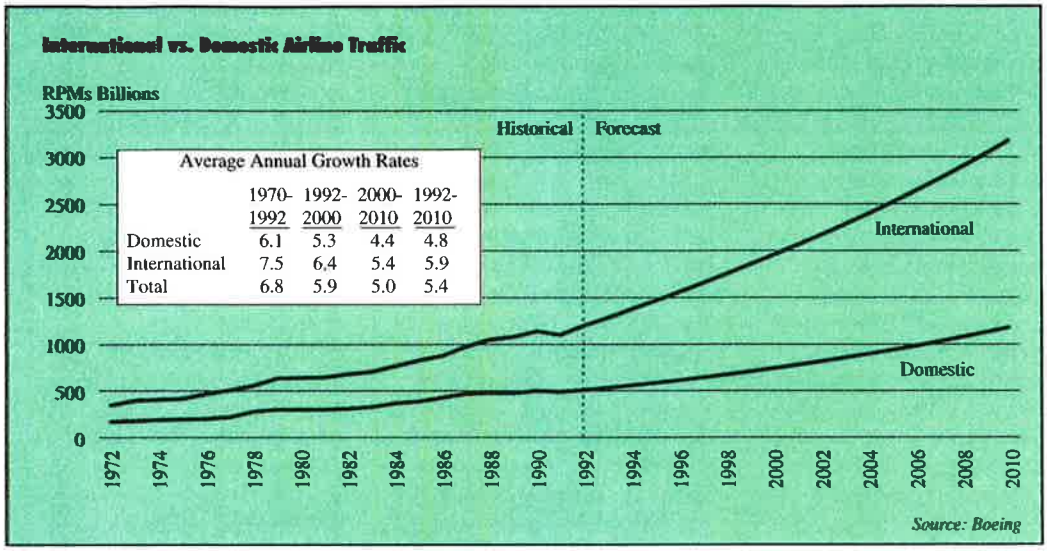
The U.S. airline industry has lost $10 billion in the past three years and is only now showing signs of partial, fitful and inadequate recovery. After a decade of growth in the 1980s, these recent losses have contributed to large-scale layoffs by airlines, aircraft manufacturers and suppliers.

The debt accumulated by the airlines now is of astronomic proportions. This level of debt, more than $35 billion, means most U.S. airlines will be financially weakened for years to come. Further, the airlines are required by law or regulation to spend heavily on new, quieter jet aircraft to reduce noise and to retire or modify aging equipment. Airlines also must make substantial investments to improve their reach into international markets.

In today's economy, the competition for highly skilled, high-wage jobs is fierce and global. As the airline industry struggles with its financial problems, the result is almost always lost jobs for some of the economy's most skilled workers. The bankruptcies among airlines have created dislocation and hardship in the industry's work force. Skilled, highly trained workers, such as those in the airline industry, are important to the strength of our economy.



The Asia-Pacific region will lead future air freight growth.



International travel outdistances domestic.

Conclusion:
The financial health of the civil aviation industry is important to the nation and to maintenance of a healthy, stable, highly skilled work force.

Third, the U.S. air transportation system must efficiently move people, products and services to markets, wherever they exist.

A major criterion for measuring the success of the air transportation system should be our ability to use air transportation to competitive advantage in a global economy. U.S. airlines, which are lower-cost and more efficient than most of their foreign competitors, are in a good position to do this but are constrained by an archaic international system of protections and regulations that must be reformed. Today's economy can present commercial opportunities at any time and in any place. To remain competitive and take advantage of those opportunities, U.S. airlines must be able to move people and products anywhere in the world safely, quickly and conveniently.

U.S. businesses face the imperative to sell and compete around the world — not just in their home towns, not just in the United States and not just in traditional centers for commerce such as London, Toronto, Tokyo and Frankfurt. Markets are now in Manchester, Santiago, Osaka and Moscow. Goods being produced in Louisville might be shipped to Lima or Lagos. Although Canada and Mexico are two of our largest trading partners, U.S. companies and business executives also must be able to reach markets in Latin America, Africa, Asia-Pacific and Central and Eastern Europe. If they cannot, this nation's commerce and prosperity will suffer.

The current bilateral system for obtaining the rights for U.S. airlines to fly to these regions is anachronistic and is badly fraying under the pressures of a global economy. The bilateral system of aviation agreements has become increasingly contentious and often results in agreements or relationships that are little more than an exercise in zero sum economics. It is too rigid, too time consuming and too limiting. To put it simply, the bilateral agreement system stymies growth in the global marketplace; it does not encourage it.

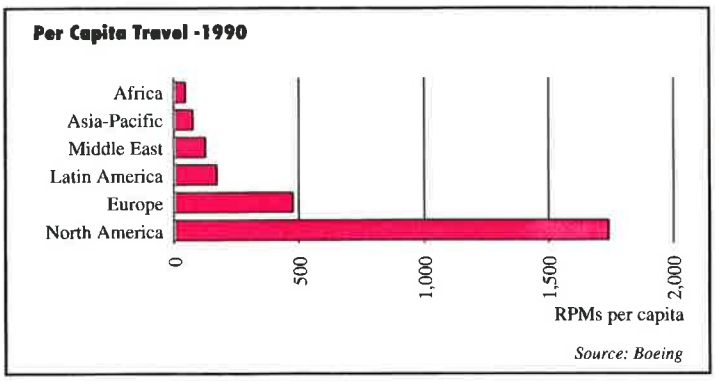
Conclusion:
The bilateral system must be replaced with an open and comprehensive multi-national regime that has as broad a geographic base as possible and that allows people and products to move freely and efficiently.

In summary, the Commission has considered hundreds of proposals and options. Some of the issues that we were asked to study, such as computer reservations systems and frequent flyer programs, after careful examination required no action by this Commission. Nonetheless, this report contains many recommendations that reach into virtually every aspect of the civil aviation industry. Each one of the recommendations made by the Commission is important and part of a complete structure which will allow the industry to move more smoothly from the present to the future.

The United States has had the best air transportation system in the world. But we must remember that transportation — particularly the technologies involved — is not a static industry. Advances are made every day, and this country needs to set the pace. Air transportation in the next century will have a changed face and we have the opportunity to shape that face. The effort will require more than just action from government; it also requires corporate actions to increase efficiency, reduce costs and plan for a profitable future.

Three principles — **efficiency and technological superiority, financial strength and access to global markets** — have shaped the work of this Commission. This report describes and explains the methods we believe should be used to implement these principles. Our public policy should be defined in terms that promote a strong, capable, efficient and productive air transportation system in a highly competitive global economy. The Commission hopes that all of its recommendations will be considered and urges they be implemented promptly to prepare the aviation industry and the nation for full participation in the global economy.

North Americans lead the world in travel.



A BRIEF HISTORY

"The air lines, the most important element of civil aviation, are passing through one of the most serious crises of their history. The domestic trunk lines of the country suffered an operating loss of approximately $22,000,000 in the fiscal year ending June 30, 1947."

The President's Air Policy Commission
1947

The odyssey of air travel in the United States began with the Wright Brothers' flight at Kitty Hawk in 1903. The journey since has been meteoric, if at times bumpy.

The Wrights flew the first air freight from Dayton to Columbus (a bolt of silk) in 1908, and Tony Janus flew paying passengers across Tampa Bay in 1914. But regular commercial use of the skies didn't begin until 1918 when the mail began to fly, thanks to Army aviators and later Post Office pilots. Charles E. Lindbergh was among those early pioneer aviators, 34 of whom died flying the mail low and slow in all kinds of weather.

World War I sped progress with the development of new airplanes. Then the Air Mail Act of 1925 gave the mail business to the airlines and the Air Commerce Act a year later gave the Bureau of Commerce jurisdiction to regulate commercial aviation, propelling the nation's airlines into the skies to stay. At the time, there was little thought given to carrying passengers. Airlines that did often seated them atop the mail sacks.

Lindbergh's 1927 solo trans-Atlantic flight focused the attention of the world on aviation. With the introduction of new planes like the Ford and Fokker trimotors in 1928, and later the first "modern" airliners, the Boeing 247 and the Douglas DC-3, passenger traffic took off. From 6,000 passengers in 1926, the number zoomed to 1.5 million in 1938.

In 1934, the Army began carrying the air mail again, after the cancellation of air mail contracts on the grounds the airlines had conspired to overcharge for the service. Within three months there were 66 accidents and 12 Army pilots died. Mail delivery was quickly turned back to the private carriers.

On June 23, 1938, President Roosevelt signed the Civil Aeronautics Act, establishing the Civil Aeronautics Authority (later the Civil Aeronautics Board or CAB). This act gave the CAB the power to regulate route awards and rates. The 1958 Federal Aviation Act moved safety and technical regulation from the CAB to the Federal Aviation Authority (later the Federal Aviation Administration).

Airline traffic leveled off as the airlines and the nation went to war in the early 1940s. Industry turned out tens of thousands of new bombers, fighters and transports between 1941 and 1945 and thousands of these transports, mostly DC-3s and -4s, came home to work for the airlines.

Following the war, growth really took off. Airports developed as great centers of business enterprise and long distance tourism became a major U.S. industry. Airlines thrived as did U.S. aircraft manufacturers, who provided high-quality American jobs and a flood of new technology.

The most revolutionary change in the brief history of commercial aviation came in 1958, when American-built turbojets — the Boeing 707, the Douglas DC-8 and Convair 880 — began carrying passengers and cargo. They dominated the world market for more than two decades and revolutionized scheduled air service.

Airlines carried 49 million passengers in 1958. Twenty years later, they carried 275 million.

In 1976, the CAB asked Congress to dismantle the economic regulatory system and allow the airlines to operate under market forces, something that changed the face of commercial aviation for good. Congress passed the Airline Deregulation Act in 1978, easing the entry of new companies into the business and giving them freedom to set their own fares and fly whatever domestic routes they chose.

Deregulation of the industry was followed quickly by new low-fare offerings and the opening of new routes and services to scores of cities. By the end of 1979, the airlines, now with more than 300,000 employees, carried 317 million passengers and 4.5 million tons of freight and were responsible for 85 percent of the passengers traveling between our cities.

The healthy growth in air traffic brought on by deregulation's first two years screeched to a halt in 1981, the year of the professional air traffic controllers' strike. The dismissal of 11,000 striking controllers that year significantly slowed down the nation's air traffic control system.

Traffic surged again after 1981, adding 20 million new passengers per year in the post-strike period, reaching a record 466 million passengers in 1990. Airlines were now operating between 6.5 million and seven million flights annually and boarding more than a million passengers each day. The CAB ended its notable service in 1984, with many of its remaining functions transferred to the DOT.

But in 1990 a series of events began that carried through 1992 and severely damaged the economic underpinning of the industry. The Persian Gulf crisis and the gathering recession caused the airlines to lose billions of dollars. The airlines experienced the first decrease in passengers in a decade and by the end of the three-year period had lost about $10 billion. Great airline names like Pan American and Eastern disappeared while others reorganized or merged.

The financial deterioration continued in 1992. Although a record 473 million passengers were boarded, many of them were lured by sharply reduced fares that failed to cover airline costs.

On May 24, 1993, President Clinton and the Congress appointed the National Commission to Ensure a Strong Competitive Airline Industry. Its mandate was to report, within 90 days, to the President and Congress its recommendations to strengthen the U.S. airline industry. ➢

THE ECONOMIC IMPACT OF AVIATION

Today, air transportation is the preeminent means for commerce and communication among people, with long-range jet aircraft providing nonstop air service to all of the world's major cities. The overall impact of aviation on the U.S. economy is enormous.

- U.S. airline and aerospace industries directly employ about 1.5 million people in high-skill, high-wage jobs which contribute to the nation's economy and technological strength;
- The U.S. aerospace manufacturing industry is the nation's largest exporter in the manufacturing sector and one of the few sectors producing a positive balance of trade;
- Airlines and aircraft manufacturers are leaders in the movement toward a global economy;
- Tourism, which depends on the airlines, is among the top three employers in 37 of the 50 states and employs eight percent of the total population. It contributes 6.4 percent of our gross domestic product;
- Worldwide, travel and tourism is a $3 trillion per year business employing approximately 127 million people and providing tax revenues exceeding $300 billion;
- U.S. scheduled airlines carried 473 million passengers in 1992, 43 million of whom took flights to foreign destinations;
- More than 13 million freight ton miles were flown, almost equally divided between domestic and international traffic;
- In 1992, international traffic of U.S. scheduled airlines accounted for 25 percent of total revenue, compared to 16 percent in 1982. U.S. domestic traffic constitutes almost 40 percent of the world total in any year;
- From 1982 to 1992, airline employment increased by 64 percent, to 540,000 people.
- A total of 2,433 U.S.-manufactured airliners were on order at the end of 1992.
- Between now and 2010, Boeing forecasts U.S. airlines will take delivery of 4,200 passenger jets worth $285 billion. During that same period, foreign airlines will take delivery of 7,700 units worth $535 billion. Sixty-five percent of those aircraft could be U.S.-built — if historical patterns persist.
- Airports serving the 30 largest metropolitan areas generate more than $250 billion in economic activity, $80 billion in wages and four million in direct and indirect jobs.

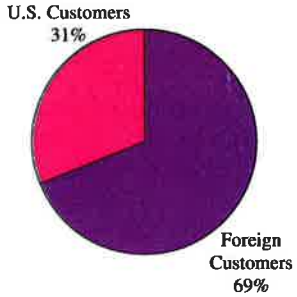
No U.S. citizen has to look far to find a friend, neighbor or relative associated with civil air transport. From the tires on the airplanes to the seat-belt restraints that protect passengers, the reach of the commercial air transportation industry in the creation of jobs and economic activity in the U.S. is immense. ➢

Growth in Travel & Tourism (1985 $)

Into U.S.	1985	1990	Change
People	25.4 mil.	39.1 mil.	54%
Money	22.0 bil.	44.5 bil.	103%
Overseas			
People	35.3 mil.	43.6 mil.	24%
Money	31.8 bil.	40.1 bil.	26%

Source: U.S. Travel and Tourism Admin.

Backlog of Orders of U.S. Jet Transport Manufacturers Year-End 1992

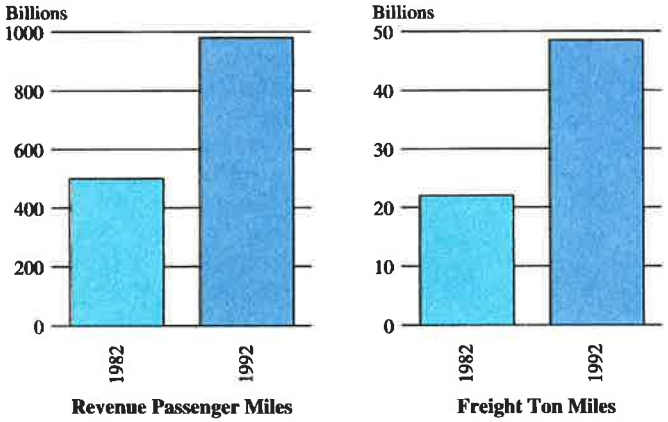


Aviation Industry Employment

Year	Airline Industry	Aerospace Industry (000)
1972	278,468	944
1973	289,231	962
1974	288,433	973
1975	281,082	925
1976	283,350	898
1977	290,881	820
1978	314,198	900
1979	344,490	1,035
1980	350,691	1,107
1981	341,848	1,116
1982	322,321	1,027
1983	317,752	1,027
1984	324,861	1,097
1985	339,065	1,206
1986	364,394	1,272
1987	385,649	1,300
1988	399,922	1,311
1989	419,059	1,331
1990	452,177	1,270
1991	430,125	1,180
1992	432,650	1,050
1993 est.	NA	942

Source: ATA, AIA

World International Scheduled RPMs and FTMs



Source: ICAO

THE NEED FOR Efficiency and Technological Superiority

The outmoded air traffic control system is costing airlines and consumers billions of dollars each year in delays, and it badly needs to be modernized. Current air traffic control equipment is out of date, overworked and incapable of providing the full range of services and efficiencies that could make our entire economy more competitive. Even the sustained efforts of a talented and dedicated FAA work force have not been able to overcome the problems inherent in the current structure.

To understand the central role of the air traffic control system in the operational functioning and economic well-being of the airline industry, it is important to recognize that virtually everything an airline does — from pushing off the gate and taking off and landing airplanes, to selecting and changing flight paths — can be done only with the prior approval of a federal air traffic controller. Thus, in a very real sense, the federal government controls the production line of the U.S. airline industry. In the history of American business, there has never been a major commercial industry whose minute-by-minute operating efficiency was capped by the daily operating efficiency of the federal government — except for the airlines.

The Commission believes there is a fundamental inconsistency between the processes of government and the operation of a 24 hour-a-day, high-technology, capital-intensive air traffic control system. The individuals responsible for FAA activities are highly knowledgeable and motivated, but their talents and determination are stunted by the structure in which they are forced to operate.

To illustrate:

In 1982, the FAA began implementation of the National Airspace System Plan (NAS Plan). It was to be completed in 11 years and cost $12.6 billion. Not only has that plan not been implemented in full, but major elements are three to five years late. The plan has been revised substantially to add 155 new projects and a new name, the Aviation System Capital Investment Plan.

The new plan is expected to cost $32 billion.

There is some reason to believe that this system, which was intended to bring 1960s technology into the 1980s, might not even be ready for the next century.

The method by which air traffic control is funded and implemented—through annual budget allocations subject to cuts and changes — virtually assures that any planned "new" technology will be obsolete by the time it is operational.

GLOBAL POSITIONING SYSTEM

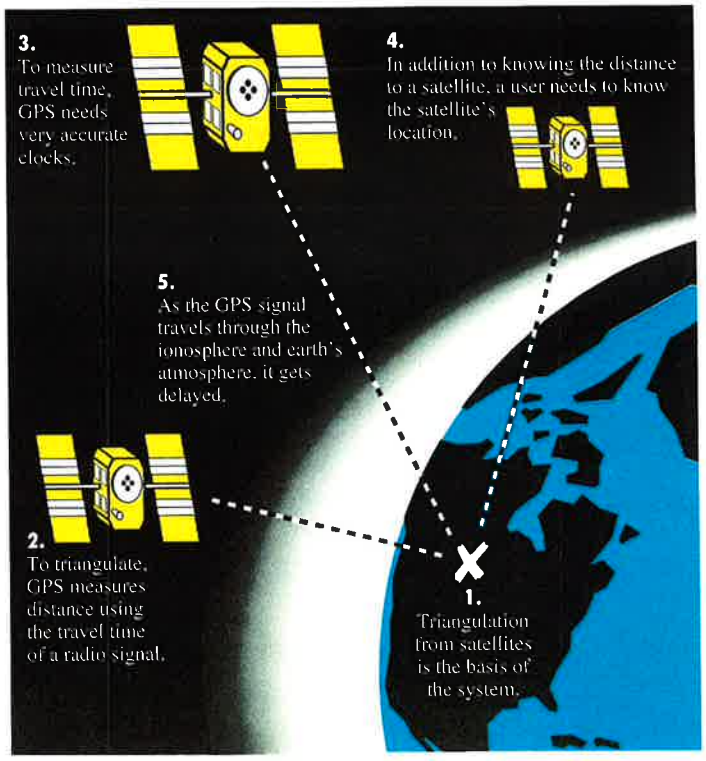
The U.S. already has in place a Global Positioning System (GPS) — a satellite-based navigation system — which could increase system capacity and provide a basis for a revolutionary new method of air traffic control and navigation. Such a system would reduce delays and permit more direct flight routings, thereby producing substantial savings for airlines — by some estimates as much as $5 billion per year. The savings would be even larger for travelers.

Precise satellite navigation and communication and the extraordinary advances in computers and data processing present a tremendous opportunity to improve the air traffic control system. A satellite-based navigation system like GPS can provide users around the world with instant and extremely precise position information. The data will be far more accurate than that provided by traditional, earth-based navigation in every phase of a flight — including the position of an aircraft taxiing at an airport. To grasp those opportunities in a timely way, the nation must make dramatic changes in the institutions that operate the system and the way its employees view and perform their jobs.

GPS is already at work and should be applied to air traffic control at the earliest practicable moment. The military and ships at sea use it routinely, as do some aircraft, but FAA regulations do not allow its use as a substitute or alternative to older, less exact systems for precision approaches to airports. To be fully effective, GPS must be integrated with a modernized air traffic control system.

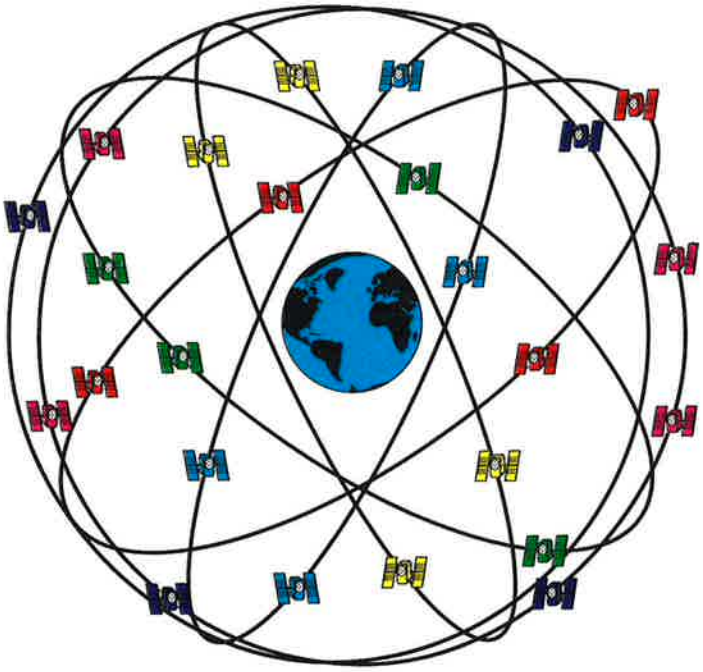
There are other issues involved. The rest of the world has been reluctant to adopt GPS because it is a U.S. military system rather than a civilian system, which calls into question issues of national sovereignty and security. The Defense Department's promises to keep the system available except in the most dire circumstances, and a DOT offer to permit its operation for 10 years without charge to users, have not been believed or accepted so far. GPS can be a component of the internationally proposed Global Navigation Satellite System (GNSS) or it can be one of the system's cornerstones, depending on the approach taken by the U.S.

The Commission believes it is critical to pursue the earliest possible application of the GPS to commercial air transport for precision navigation and departure, enroute and approach control. A fully



How the Global Positioning Satellite System Works

Source: FAA

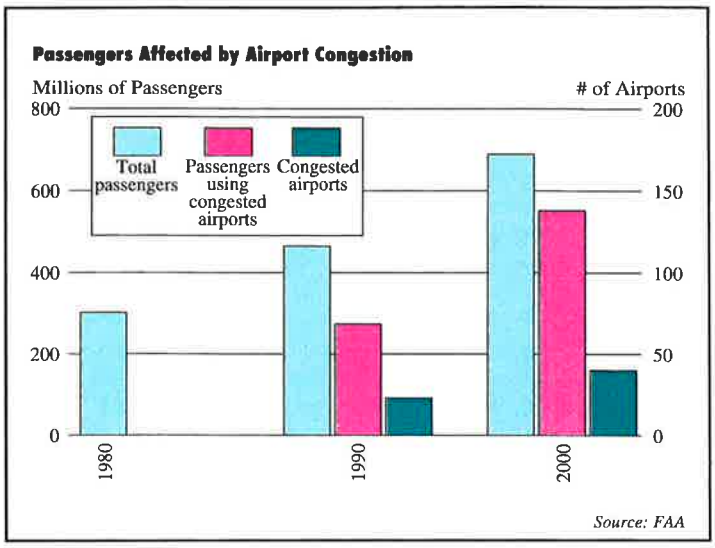


The Global Positioning System is comprised of 24 satellites operating on six orbital planes (four satellites per orbit) at a height of 10,900 nm.

modernized air traffic control system is central to these improvements. To achieve this, *we recommend:*

- **Setting the goal of changing the air traffic control system to a satellite-based navigation system by 1996, integrated with a modernized ATC system by the end of 1997.**
- **Accelerating the implementation of GPS and air traffic control modernization through such means as a public-private consortium, designed for expeditious development and implementation of improved technology.**

We will not get there, however, until several problems are addressed. ➢



"In the history of American business, there has never been a major commercial industry whose minute-by-minute operating efficiency was capped by the daily operating efficiency of the federal government…except for the airlines."

RESTRUCTURING FAA

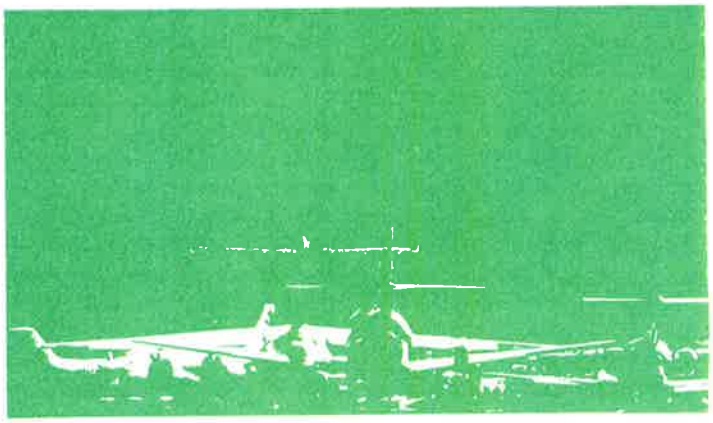
To ensure the timely and efficient implementation of state-of-the-art technology for the operation and funding of the air traffic control system, the FAA must be established as an independent government corporation and removed from the federal budget process. That process provides neither a stable, predictable source of revenue nor the ability to leverage that revenue, both of which are required to fund the high-technology capital improvement program needed for a state-of-the-art air traffic control system. Put simply, the federal budget process cannot be relied on to provide adequate, continuing funds for FAA's operations or capital programs. The improvements we believe are necessary in our air traffic control system cannot be accomplished without a stable, predictable source of revenues and the ability to use those revenues to secure long-term financing.

The Airport and Airway Trust Fund was designed to provide a dedicated source of user funding to pay for airport and airspace improvements. It should not serve as a general fund asset for the federal government. User demand and the stability and growth of user revenues must drive air traffic control operations and modernization. A recent Office of Management and Budget (OMB) memorandum contemplates hundreds of millions of dollars in operating and maintenance budget reductions for FAA in fiscal year 1995. These cuts would have a devastating impact and illustrate how the vagaries of the federal budget undermine the funding stability necessary to provide efficient air traffic control services.

Few high-technology, capital-intensive businesses attempt a pay-as-you-go approach to major capital investment projects. The existing user-fee revenue stream must be used rationally to fund the massive capital projects needed to keep our air transportation system the most efficient and technologically advanced in the world.

Unfortunately, federal agencies like the FAA operate under severe limitations. These include total dependence on a political and unpredictable budgetary process; a cumbersome procurement system designed to prevent fraud but even better at thwarting the timely and efficient acquisition of sophisticated and rapidly evolving high-technology goods and services, and, a federal personnel system that makes it unnecessarily difficult to attract and retain a talented and technically sophisticated work force.

The FAA must be restructured fundamentally if we are to take full advantage of new developments in air traffic control technology. If it is, the U.S. can ensure that its air traffic control system remains efficient and the world's best, and provides an important export opportunity in a



high-technology, high-wage sector.

Adoption of the following recommendations would create a self-funding and leading-edge system capable of meeting the needs of travelers, shippers and airlines in a high-technology environment. The Commission also emphasizes that it believes the federal government should maintain policy control of the air traffic control system and its oversight of system safety.

Specifically, *we recommend:*

- **Creation of an independent federal corporate entity within the DOT to manage and fund air traffic control and related functions, including system development, procurement and maintenance. Policy control of the air traffic control system and safety oversight should stay with the federal government;**
- **Establishment of a panel of FAA and industry experts, with the participation of the Department of Defense, which will report in 90 days on the specific structure and method of implementation, and which will draft legislative proposals for creation of the corporate entity; and,**
- **The following principles should be embodied in the federal corporate entity's implementing act:**
  - **Ability of the corporate entity to create and use a predictable, stable source of revenue for operations, maintenance and capital investment;**
  - **Ability of the corporate entity to issue long-term bonds for capital purchases;**
  - **Removal of current expenditures and revenues from the federal budget in equal amounts for a fiscally neutral effect;**
  - **Sufficient management flexibility and compensation to attract and retain high-caliber leadership and staff;**
  - **Flexibility to create systems for procurement, staff and budget consistent with best practices in the private sector;**
  - **Flexibility in an orderly transfer of operating functions to the reorganized entity; and,**
  - **Continued air traffic control service to the Defense Department, meeting national security requirements.** ➢

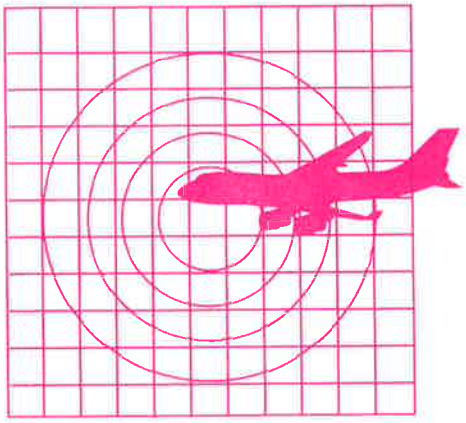
OTHER SYSTEM CAPACITY ISSUES

The Commission gave high priority to examining ways to make our air transportation system more efficient and technologically advanced. Our recommendations to restructure the FAA and accelerate the use of GPS for air traffic control are critical to achievement of that goal.

The Commission also examined other options for improving system capacity issues and developed these recommendations. *We recommend:*

- **FAA review the rule that limits operations at "high density" airports with the aim of either removing these artificial limits or raising them to the highest practicable level consistent with safety requirements. (Washington National Airport's legislated limits would not be affected.)**
- **Congress fully fund system capacity elements — facilities and equipment; airports; research, engineering and development, and FAA operations — as long as these remain within the federal budget process.**

Finally, the Commission urges the FAA and the Department of Defense to cooperate actively to make maximum possible joint use of airspace and military airfields. In addition, we believe costs related to system capacity improvements could be lowered significantly if airport bonds were classified as public-purpose bonds, as recommended by the Anthony Commission. ➢



THE PROCUREMENT PROBLEM

Federal procurement procedures obstruct the ability to resolve urgent air transportation needs in a timely manner. The basic process takes five to six years — or seven to 10 years if protests are made by losing bidders.

- In 1986, the airline industry identified the need for instrument landing systems (ILS) to reduce delays at selected airports. Congress responded with a supplemental appropriation in 1987, underscoring the urgency for this simple procurement of off-the-shelf equipment.

Delivery of the first ILS did not occur until fiscal year 1990 because the process would not allow the FAA to procure the needed systems immediately from its historical supplier.

- In 1971, initial R&D began for a data processing system used by flight service specialists to process and file flight plans and obtain weather data for pilot and air crew briefings. The contract was awarded in 1980, and the last system (based on 1970s technology) will be installed in 1993.
- In 1984, FAA signed a full production contract for a system to reduce signal interference between aircraft and establish a clear message channel between the aircraft and ground facilities. The first operational system was received in 1993.
- In 1981, the National Airspace System Plan identified the Oceanic Display and Planning System (ODAPS) as the means by which ocean air traffic control would be improved. The contract was awarded a year late in 1984 for $12.2 million. ODAPS was deployed four and a half years late to the Pacific coast and almost seven years late to the Atlantic coast with a critical element missing. According to GAO, the cost of the fully operational system will be $51 million.

An FAA study identified 250 government documents that levied requirements on acquisition officials, 140 of which were FAA generated. The documents were 11 feet in height when stacked and included 4,500 citations that were identified as "required activities." FAA has reduced these to 1,400 action steps that represent 84 feet of a Program Evaluation Research Technique (PERT) chart. Operating under this system, delays and cost overruns for FAA's ATC modernization program are almost inevitable. We can no longer afford them. ➢

REGULATORY BURDEN

The U.S. air transportation system is the safest in the world — so safe that it can be extremely expensive to achieve even small, incremental improvements in safety through the imposition of new rules and procedures.

Federal regulations impose a massive cumulative burden on airlines. The government has never quantified that burden. By the Commission's addition of individual FAA estimates, major rules imposed have added more than $3.5 billion to airline costs since 1984. This amount does not include $900 million to comply with airworthiness directives from 1989 through 1992 and $200 million for heightened security during the Persian Gulf crisis. These rules and their costs have a direct and adverse impact on the airlines'

NOISE

In 1990, Congress enacted legislation designed to address airport noise problems. The legislation requires replacement of older, Stage 2 aircraft with newer, quieter planes by the end of 1999, an expensive but widely-supported solution. The law calls for a phased approach to aircraft replacement, although a brief and limited waiver of the requirement may be provided in individual cases.

The Commission took note of the lengthy House and Senate floor debates on aircraft noise. Several members of Congress with whom we met stressed the need for the Commission to consider the effects of aircraft noise on communities.

The Commission believes it is important to phase out the Stage 2 fleet on schedule to provide noise relief to millions of people who live near airports. The noise problem is one of the most significant restraints on increased airport capacity. We recognize new aircraft will be needed

financial condition and the air transportation system.

Neither Congress nor federal agencies know the magnitude of the total costs they impose on airlines and, indirectly, on travelers. Ad hoc and organized special interest groups create pressure to craft regulatory measures which may be driven purely by the perceived "crisis du jour" without regard for the cumulative impact of such costs.

The Commission believes more rigorous cost/benefit analyses should be undertaken before new rules are adopted. To accomplish this:

- Industry and the FAA must exchange data and information in a more timely manner; and,
- Congress and the DOT must be better informed about the regulatory burden their proposals add to the mix.

High-level attention should be focused on rationalizing the FAA's system of aviation regulation. To accomplish this, all FAA regulatory functions relating to aircraft design and certification, airline certification and flight operations, maintenance and other safety-related operations should be placed under the authority of a single FAA official. That official should have no other responsibilities and should report directly to the FAA administrator.

Calculating the size of the regulatory burden FAA will impose on the industry in a given year is a short-term action that will help bring common sense and order to the regulatory process and help set priorities.

Specifically, *we recommend:*

- **FAA subject regulations to an annual regulatory cost budget — except for emergency safety regulations needed to address a direct and immediate threat to the traveling public.**
- **Congress and the Department of Transportation be informed of the annual costs their own proposals would impose on the industry.**
- **Congress, the DOT and FAA more clearly define legislative and regulatory proposals to address problems effectively and efficiently.**
- **Establishment of an ongoing and independent mechanism to provide objective outside guidance and expertise to FAA to assist in cost/benefit analysis methods and to review cost/benefit disputes.**
- **FAA seek cost impact data from industry early, and industry should provide requested data so the agency can make an informed decision on proceeding with a proposal.**
- **FAA/DOT undertake a short-range regulatory review — in close consultation with industry and other interested parties — to eliminate or amend existing regulations to reduce regulatory burdens consistent with safety and security considerations.**
- **The random drug testing rate be established immediately at 25 percent, which is the rate used for FAA's own safety-related staff, including air traffic controllers. FAA should complete a review within 12 months to reduce the rate to the lowest level possible without reducing the deterrent effect or the statistical reliability of sampling.**
- **New pre-employment alcohol testing rules not be adopted, and any random alcohol testing of airline employees be at no more than a 10 percent rate.** ➢

by the industry, as will modifications to some Stage 2 aircraft, if the Stage 3 deadline is to be met by 1999.

In order to maintain current fleet levels, approximately 1,800 aircraft will have to be hush-kitted, re-engined or replaced by the end of 1999. The net cost of fleet conversion for noise compliance alone is estimated by the FAA to be up to $4.5 billion.

With regard to noise, *we recommend:*

- **Maintaining the existing provisions of the 1990 Noise Act which protect the carriers' investment in Stage 3 aircraft by prohibiting enactment of local noise restrictions on Stage 3 aircraft without FAA approval.**
- **The federal government not enact any provision to mandate the replacement, retirement or modification of Stage 3 aircraft for noise purposes.** ➢

SECURITY ACCESS: RULEMAKING RUN AMOK

- This FAA rule required the installation of systems, methods and procedures to control access at all points of entry to the air operations area, i.e., the area where airplanes park and operate, at many commercial service airports.
- The implementation deadlines contained in the rules were extremely ambitious, with reliable technology not readily available at the time of promulgation.
- Serious questions have been raised about whether the requirements will have significant security benefits.
- FAA's initial cost-benefit analysis of this rule indicated that it would cost $168 million to implement. Airports and airlines said it would cost $658 million, plus $220 million for recurring operations and maintenance over 10 years.
- To date, industry figures show that the cost has risen to $500 million and is mounting, with the total expected to pass $700 million.
- Once the major airports had already installed their systems, FAA clarified the rule to reduce the area which had to be covered by the systems and procedures — after industry had already spent more than $400 million.
- FAA claims the clarification has saved five airports $5 million, and that this is indicative of the potential savings nationwide.
- If such savings are still available to a significant number of airports, FAA could wind up claiming savings which exceeded its initial estimate for the entire cost of the rule.
- At airports which had already installed the systems, the only savings still available might be from reduced operating and maintenance costs — an element which was vastly understated in FAA's initial cost analysis. ➢

THE NEED FOR

Financial Strength

A strong air transportation system, able to respond rapidly to change, is critical to the nation's strategy of competition through growth in global markets. U.S. airlines must be able to react to and pursue new opportunities; and to acquire and apply new, more productive technologies as they become available. The air transportation system is also a source of highly skilled, high-wage jobs for Americans.

FURTHERING FINANCIAL STRENGTH

Today, many U.S. airlines can be described as heavily leveraged, financial weaklings. Only one of the nation's eight largest passenger airlines carries an investment grade rating from all of the rating agencies. Airlines have suffered huge losses over the past three years, with only modest profits posted for the second quarter of 1993.

The weakened financial condition of the airline industry can be traced to several sources. Many of the airlines' problems result from their own decisions, particularly those which led to the accumulation of over $35 billion in debt. But other factors have also contributed to the industry's problems. Anemic performance by the economies of the U.S. and its large trading partners, for example, depressed traffic and contributed to excess capacity and lower-than anticipated revenues.

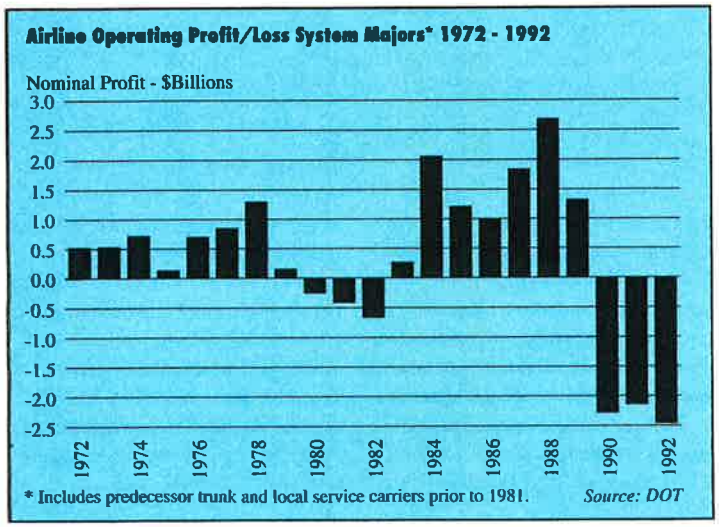
Leveraged buyouts also hurt the industry, although their adverse effects are not unique to the airlines. Rather, they reflect economy-wide effects of financial industry excesses during the 1980s. When the economy entered a recession, the resulting debt loads and depressed asset values crippled once profitable companies in the airline industry.

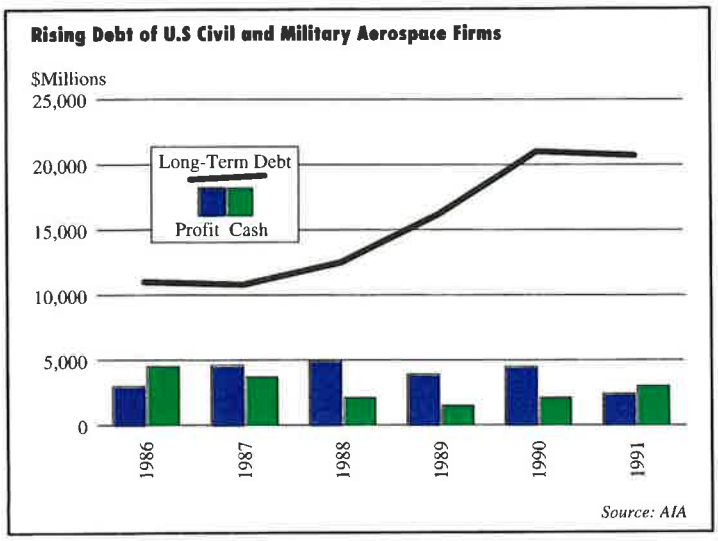
"To return their balance sheets to respectability, most airlines would have to achieve profit margins that are almost unprecedented in their history, and sustain those margins for years."

Rating History

Company	June 16, 1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Alaska Air Group Inc.			BBB	BB+	BB+	BB+	BBB-	BBB-	BBB-	BB+	BB-
Alaska Airlines Inc.	BBB-	BBB	BBB	BBB-		BB+				BB+	BB-
America West Airlines Inc.				B+	B	B	B	B	D	D	D
AMR Corp.	BB+	BBB	A-	A	A	A	A	A-	BBB+	BBB	BB+
American Airlines Inc.	BB+	BBB	A-	A	A	A	A	A-	BBB+	BBB	BB+
Australian Airlines Ltd.								A-1	A-1	A-1	A-1
British Airways PLC										A	A
Continental Airlines Holdings Inc.	B	B	B	B	B	B	B	D	D	D	N.R.
Continental Airlines Inc.	D	D	D	B	B	B	B	D	D	D	N.R
Delta Air Lines Inc.	A-	A-	A	A	A-	A	A	A	BBB+	BBB-	BB
Greyhound Lines Inc.						B	B	D	B+	B+	BB
Japan Air Lines Co. Ltd.									AA-	A+	A+
NWA Inc.			A	BBB	BBB	BBB	B+	B+	B+	B	B-
Northwest Airlines Inc.	A-	A	A	A-	A-	A-	B+	B+	B+	B	B-
Southwest Airlines Co.	A-	A	A-	A	A-	A-	A-	A-	A-	A-	A-
Trans World Airlines Inc.	B+	B+	B+	B+	B-	B-	B-	B-	D	D	D
UAL Corp.		BBB-	BBB-						BBB	BBB-	BB
United Air Lines Inc.	BB+	BBB-	BBB-	BBB-	BBB	BB	BBB	BBB-	BBB	BBB-	BB
USAir Group Inc.					A-2	A-2	A-2		BB	BB-	BB-
Piedmont Aviation Inc.	BB+	BB+	BBB	BBB	BBB	BBB+	BBB+	BBB-	BB	BB-	BB-
USAir Inc.	BBB+	A	A	A	BBB+	BBB+	BBB+	BBB-	BB	BB-	BB-
WorldCorp Inc.					B+	B+	B+	B+	B+	B+	B+

Source: S& P





Rising debt, losses stalk airlines and aerospace.

Government policies, legislative initiatives and regulatory actions have also contributed to the deterioration of the airlines' financial condition. As discussed elsewhere in this report, substantial increases in taxation beginning in 1990, very costly regulatory requirements and the failure to modernize the air traffic control system have all imposed substantial, unnecessary and largely unrecoverable costs on airlines.

It is also important to recognize that, from the industry's inception, airlines have been poor financial performers and often burdened by heavy debt. In fact, ours is not the first commission to study the industry and its financial problems. Only once in the past quarter century have the airlines achieved the average profit margin for U.S. industry.

Airlines are undergoing a substantial restructuring in an attempt to restore financial health. After a decade of fighting over market share and the presumed growth it produced — backed by billions of dollars in aircraft orders to maintain it — carriers are reassessing their growth aspirations and reviewing their operations:

- Unprofitable smaller hubs and other services are being reduced or eliminated;
- Capacity growth is being curtailed by grounding equipment, delaying deliveries and canceling orders;
- In many instances, seating on current equipment is being increased by reducing the proportion of first and business class sections;
- Productivity is being increased through more efficient equipment utilization and modified labor agreements; and,
- Spoke routes are being handed off to regional partners which operate aircraft better-matched to market size.

These actions — by themselves — will not solve the airlines' financial problems. Airlines carry high fixed costs, including equipment, investment in infrastructure, computer systems and debt service. The industry is also confronted with substantial future capital requirements to meet noise and aging aircraft maintenance mandates and to

purchase new equipment. U.S. airlines plan to spend tens of billions of dollars for new fleet and other equipment by the end of the decade. It is not clear under what terms this capital will be available.

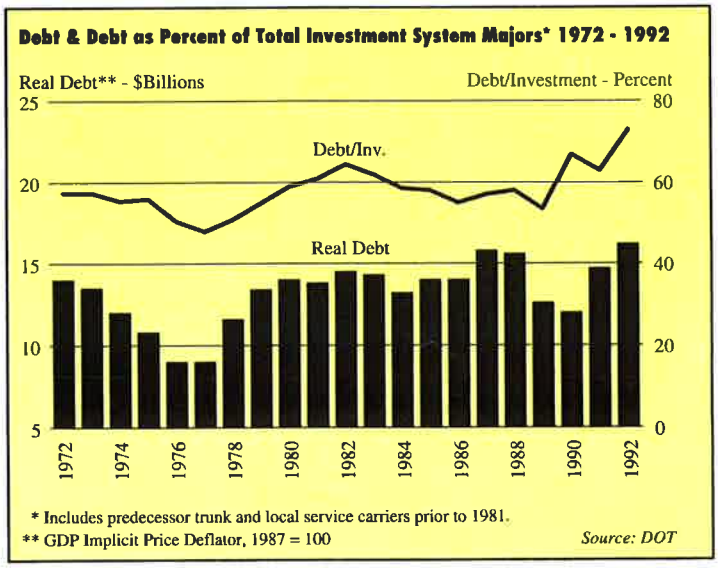
While a stronger economy undoubtedly will help, it will not provide a quick cure. Still, we do not believe the government should attempt to provide a cure through re-regulation of routes and fares. The process would be slow, cumbersome and mired in litigation and challenge, and would lack the flexibility to permit rapid response to changing conditions. However, the federal government should vigorously enforce prohibitions against anti-competitive mergers and acquisitions.

As noted earlier, many of the industry's problems result from its own actions, particularly those which led to accumulation of enormous debt. To return their balance sheets to respectability, most airlines would have to achieve profit margins that are almost unprecedented in their history, and sustain those margins for years.

The Commission believes that strengthening the financial condition of the airline industry is in the public interest. We note that while DOT has ample authority to review the financial condition of airlines, that authority was not exercised when the airlines were creating large debt burdens and engaging in leveraged buyouts. We believe that DOT can and should do a better job of monitoring airlines' financial conditions. Therefore, *we recommend:*

- **A presidentially appointed airline financial advisory committee be created to further the financial health of the airline industry; to review the financial condition of individual airlines composing such industry, and to advise the Secretary of Transportation when an airline's financial condition poses risks to the public or to the industry. The committee should be bipartisan and include senior members from finance, industry and labor.**
- **DOT should monitor and review the financial health of the airlines. If necessary, the Secretary could review a company's business, capital or financial plans with the advisory committee's assistance. The Department should continue to review in advance major changes in an airline's ownership**

"While a stronger economy undoubtedly will help, it will not provide a quick cure."



and control (e.g., leveraged buyouts). If there are concerns, the Secretary would raise them directly with the airline's management or board.

- **If an airline repeatedly fails to heed warnings or concerns of the Secretary, the DOT can exercise its existing authority. New DOT regulatory authority is not recommended.**

The committee would be purely advisory. Its influence would come from the quality of its membership, the strength of its analyses and the utility of its advice in helping DOT monitor and assist airlines in efforts to strengthen their financial positions. ➢

BANKRUPTCY

The issue of bankruptcy has received more attention than almost all others in the course of the Commission's work. Airline bankruptcies make news, affect thousands of people and generate heated argument.

The Commission recognizes that the financial problems facing the airline industry have been caused by a number of factors and that bankrupt carriers have been one of those factors. The Commission does not believe any airline prefers bankruptcy as a condition of doing business. While Chapter 11 protection does provide some cost advantages, such as suspension of debt payments, it can also lead to reduced consumer (especially business flyer) confidence, marked loss of traffic and reduced revenues. Bankruptcy also imposes substantial costs for professional fees, diverts the time and attention of top management and hampers an airline's ability to do business with its suppliers on other than a cash-up-front basis.

Airlines operating under the protection of Chapter 11 often lack the resources to make effective use of limited-entry international route authority. This reduces the public benefit a stronger U.S. carrier might generate for the economy, workers and the traveling public.

It is also clear that airline bankruptcies take too long, although the same can be said for bankruptcies in other industries. There is little question that comprehensive bankruptcy code reform is overdue, and the Commission urges the Congress to begin such a review promptly.

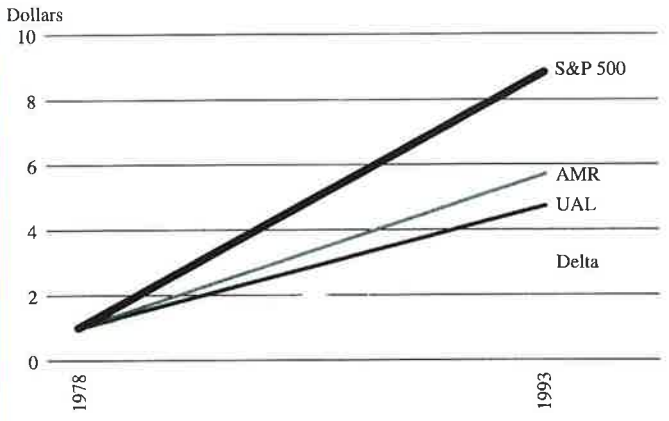
There are several other bankruptcy issues the Commission believes should be addressed. In some bankruptcies, scarce airport gates at capacity-constrained airports have been tied up for extended periods of time to the detriment of airports, the traveling public and surrounding communities.

Large, unfunded pension liabilities are almost always part of bankruptcy. Yet the Pension Benefit Guaranty Corporation (PBGC) is unable to sit on creditors' committees. Airports also are barred from creditors' committees. Government agencies, in general, are barred based on the fact that government tax claims receive priority in bankruptcy. This rationale does not apply to government agencies whose claims are not tax related, such as PBGC, whose claims are based on unfunded pension liability, or airports, whose claims are based on a commercial landlord-tenant relationship involving lease and use agreements for gates, counter space, and other facilities. Each is, in effect, an unsecured creditor.

To address these problems, *we recommend:*

- **Bankruptcy judges be required to make findings, subject to judicial review, for granting an extension of the current 120-day limit and impose an absolute limit of one year on the exclusive right of a bankrupt carrier to file a reorganization plan.**

Airline Equities Compared to the S&P 500, 1978 - 1993



A dollar invested in airline stocks in 1978 would be worth from $3 to $6 today. That same dollar invested in the S&P 500 would be worth almost $9.

Source: S&P

- **Limits on the time period for bankrupt airlines to assume or reject their leases for scarce airport gates. These public assets should not be tied up and underutilized for extensive periods of time to the detriment of surrounding communities and the traveling public.**
- **Allowing government bodies, such as the PBGC and airports, whose claims are not based on tax liability, to sit on creditors' committees.**
- **Clarification of provisions in the bankruptcy code with respect to aircraft leases. Lessor concern about potential impacts of bankruptcy on their leases should be allayed, allowing other airlines to obtain better lease terms for aircraft.**
- **Making the Secretary of Transportation a statutory party to airline bankruptcy proceedings.** ➢

TAX POLICY

Tax policies often have had a major and adverse effect on the industry. As a result, there were some who advised the Commission to simply recommend enough tax reductions to provide the savings needed for the industry's return to profitability. Annual federal user taxes and fees paid by airlines are estimated at more than $5 billion, and it would have been easy to target a list of taxes and propose enough reductions to reduce or eliminate airline tax obligations. The Commission rejected that approach.

We took very seriously our charge to examine tax policy and the many fees imposed on the industry. Although the Commission concluded that tax changes alone will not restore the industry to profitability, we believe there are several tax provisions that impede the ability of the industry to return to financial health. We believe those provisions violate reasonable principles of common sense and good public policy and we are of the opinion changes must be made to relieve the airline industry's unfair tax burden.

From 1990 to 1992, the airline industry lost $10 billion yet paid $670 million in Alternative Minimum Tax (AMT). AMT was enacted in 1986 as a way to ensure that corporations with economic income could not use excessive deductions to avoid taxation. The need for large capital expenditures, despite very low profit margins, combined with the way AMT treats aircraft deductions, force airlines to pay millions in taxes at the same time they are suffering billions of dollars of losses. Some airlines have had to borrow to pay taxes.

We recommend:

- **Amending the AMT so that airlines and other capital intensive industries are not forced to pay taxes at a time when they report losses.**

In 1990, Congress increased passenger ticket and waybill taxes by 25 percent. A passenger now pays 10 percent of the price of a ticket in tax, rather than eight percent. Shippers pay 6.25 percent of the waybill amount in tax, rather than five percent. This has cost airlines, passengers and shippers an additional $900 million per year since 1990. The original intent of such taxes was to place them into a trust fund to be used solely for aviation-related projects. The 1990 increase was used to reduce the size of the federal deficit, contrary to the purpose of this trust.

In addition, the increase has exacerbated the financial problems of the industry. While the additional amount now goes into the Airport and Airway Trust Fund, the Commission believes the tax should be rolled back to its prior level. The Commission also believes the 75 percent share of the FAA budget paid from the trust fund should be reduced to 70 percent so long as FAA remains part of the federal budget and appropriations process. Domestic air carriers and freight air carriers already pay more than their fair share of FAA's budget through user taxes. *We recommend:*

- **Rolling back the ticket tax and cargo waybill tax to their pre-1990 levels of 8 percent and 5 percent, respectively.**
- **Reducing the FAA budget allocation from the trust fund from 75 percent to 70 percent in recognition of the overpayment by airline users, and the public benefits of aviation.**

A new tax on transportation fuels has been proposed which, if applied to commercial aviation fuel, would cost the industry $506 million per year. At a time when the United States is looking for ways to strengthen the airline industry, an additional tax seems ill-advised.

We recommend:

- **Exempting airline fuel from any proposed transportation fuel tax.**

The Commission gave priority to the major tax issues it believes would have a significant positive impact on the industry. There are several additional areas we believe worthy of the attention of the Congress.

Flight crew per diem is an allowance paid for the cost of meals when flight crews remain away from home overnight pursuant to FAA rest requirements. Under the tax code, these payments are treated as "meals and entertainment expenses," and are presently only 80 percent deductible, and a pending proposal would make such expenses only 50 percent deductible. *We recommend:*

- **Full deductibility for airline employee per diem payments.**

Several fees are imposed on airline users to fund the activities of various federal agencies. In many cases, these fees have not been used to pay for the activities for which they were imposed. Airline users are willing to pay such fees, but they should be used to improve passenger and cargo handling in rough approximation to the amounts collected. Travelers are paying for the privilege of being inconvenienced at U.S. international gateway airports by failure to use these funds for inspectors and equipment needed to meet the 45-

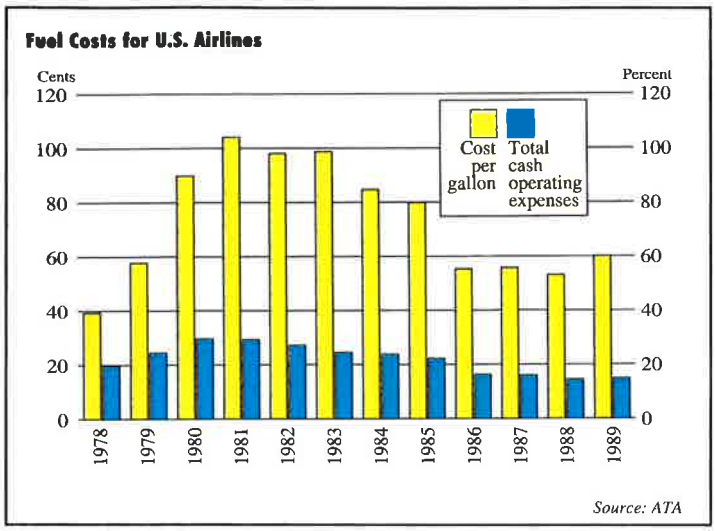
"...there are several tax provisions that impede the ability of the industry to return to financial health."

U.S. Effective Tax Rates

Effective tax rates expressed as a percent of income

	1986	1987	1988	1989
Airlines	-43.5	25.7	36.4	110.3
Railroads	-113.2	15.6	11.8	15.1
Trucking	28.4	30.7	18.2	26.1
Avg. (weighted by income)	18.6	27.8	31.3	32.9

Source: GAO



minute processing deadline set by Congress for passengers entering the U.S. *We recommend:*

- **Expenditure of funds on improving facilitation of passengers and cargo arriving in the U.S. should be in rough approximation to the amounts collected in Customs, INS and Agriculture inspection fees.**

Some municipalities, most notably Los Angeles, have proposed diversion of funds from their self-supporting commercial airports to pay for general municipal functions unrelated to airport operations. Federal law currently prohibits such diversion at any airport that has received an Airport Improvement Program (AIP) grant. If Los Angeles is directly or indirectly successful in its efforts to divert funds, the precedent might have a devastating impact on commercial aviation in the U.S. *We recommend:*

- **Rigorous enforcement of existing AIP grant assurance language barring diversion of airport revenues to non-airport purposes.**

Passenger Facility Charges (PFCs) of up to $3 per airport and $12 per passenger roundtrip may be imposed by airports for projects to preserve or enhance safety, security or capacity or to mitigate noise impacts. PFCs cannot be imposed or used to fund specific projects without consultation with airlines and the approval of FAA. We recommend:

- **Continued close scrutiny of PFC applications and approval of only those projects which meet the PFC statute's criteria.**

Extraordinary increases in jet fuel prices, such as the extreme price spike during the Persian Gulf crisis, have an immediate impact on airline finances. Those increases affect the nation's entire economy, and after the 1973 oil price and supply crisis, that realization led to the establishment of the Strategic Petroleum Reserve. Upon a presidential declaration, crude oil held in that reserve is to be released to ameliorate the effects of fuel shortages and short-term price surges on the nation's economy. While only crude oil, not refined products such as jet fuel, is held in reserve and the release of crude oil would obviously have wide economic effects, the peculiarly harsh and immediate impact of changes in energy prices on the airline industry merit strong consideration in a presidential decision on whether to release crude oil from the reserve. *We recommend:*

- **When jet fuel prices rise substantially due to war or other national emergency, the President consider releasing crude oil from the reserve as a means of addressing the adverse impact of those price spikes on the airlines and our economy.** ➢

NEW ENTRANTS

Since its earliest days, the airline industry has never lacked for individuals wanting to start airlines. Although entry was severely restricted prior to deregulation, the airline industry attracted a flood of new entrants in the years following deregulation in 1978. By the mid-1980s, however, almost all of these new airlines had either failed, merged, or been acquired by other airlines or were operating in bankruptcy.

In the last two to three years, the flow of new airline certificate applications has grown. We believe this influx of new carriers can be an important element in sustaining future competition. It is apparent that the entry of new carriers and new competitors creates downward pressure on ticket prices, reduces expenses for business and individual travelers, and stimulates total traffic.

The Commission also noted that new entrant carriers which begin operations after interim Stage 3 phase-in deadlines will not be subject to any Stage 3 requirements until the next interim deadline.

Regarding treatment of new entrants, *we recommend:*

- **The DOT continue to be receptive to certificating new applicants who can meet the rigorous scrutiny of the Department under its fitness standards.**
- **New carriers be required to meet the same requirements for fitness, operations and maintenance, including Stage 3 fleet requirements, as existing carriers.** ➢

THE ROLE OF THE WORK FORCE

IN A FINANCIALLY STRONG AIR TRANSPORTATION SYSTEM

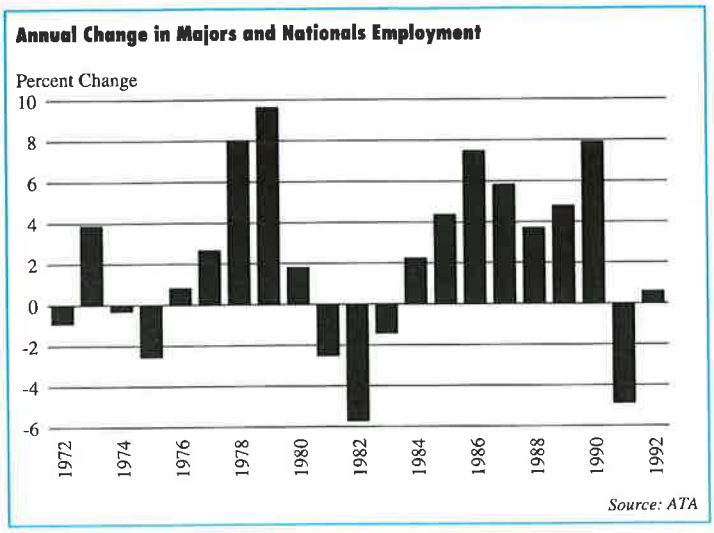
Employees are a vital part of the aviation industry and are among the nation's most highly skilled and best-paid workers. At a time of intense global economic competition, our economic fate depends largely on the capabilities and skills of America's work force. *We recommend:*

- **Policies which promote the retention and expansion of aviation industry jobs should be developed to the extent they are consistent with our international obligations.**

The Commission recognizes that a number of transactions, ranging from mergers and acquisitions to the sale of assets or route authorities, can have a detrimental impact on the work force of the company whose assets are being acquired. Believing that the work force is in and of itself a tremendous asset, *we recommend:*

- **DOT require acquiring airlines, in the purchase of substantial assets or routes, to advise the Department of plans to protect potentially displaced workers.**

Neither the airline industry nor the American economy as a whole can afford to continue the traditional pattern of confrontation that has often characterized airline labor-management relations. Maintaining the livelihood of highly skilled workers is an important public policy concern.



Employment ups and downs characterize airlines.

News reports are full of stories about airlines sitting down with their employees to negotiate wage and benefit concessions and employee ownership arrangements. Unfortunately, those discussions normally occur only after an airline begins experiencing grave financial peril. Despite some differing views and philosophies, employers and employees share a fundamental interest in the survival and success of their airline. Management should seek real worker input, not just concessions in times of dire financial need.

This Commission believes strongly that employees can and should play an important role in ensuring a strong, competitive air transportation system and that expanded employee participation in ownership can make a significant contribution to that strength. *We recommend:*

- **The airlines and the federal government make a top priority the adoption of policies that encourage a new, cooperative partnership between labor and management.**

Changes should be made to allow flexibility in offering employer debt securities in limited situations where collective bargaining agreements provide negotiated concessions by employees in return for future compensation by the employer (this should apply to the following three recommendations). *We recommend:*

- **The Employee Retirement Income Security Act (ERISA) and appropriate Internal Revenue Code provisions be amended to allow a company to offer its own debt securities to employees as part of a qualified plan.**

Also, Section 415 of the Internal Revenue Code, which limits the amount of annual aggregate contributions that can be made to qualified benefit plans to the lesser of $30,000 or 25 percent of a participant's annual W-2 compensation, creates a formidable obstacle to employee ownership. All defined contribution plans, including an Employee Stock Ownership Plan (ESOP) and 401(k) plans, are subject to this limit. To eliminate this obstacle to employee ownership, *we recommend:*

- **Amendment of Internal Revenue Code (Section 415) provisions that limit qualified stock plans to 25 percent of an employee's income in certain cases.**

Finally, Section 1042 of the Internal Revenue Code allows shareholders of privately held companies to defer capital gains taxes if at least 30 percent of the shares are sold to the company's employees and if proceeds from the sale are reinvested in certain qualifying securities. The same shareholder treatment should be permitted in public companies. *We recommend:*

- **Deferral of taxes on capital gains on shares sold to employees in public companies if certain conditions are met.** ➢

THE NEED FOR

Spanning the Globe

The system of bilateral aviation agreements has served the U.S. well over the past half-century. The 1,200 agreements that grew out of the 1944 Chicago Convention govern a regime that moves millions of people and billions of dollars in goods around the world every day.

A major criterion for measuring the success of our air transportation system should be our ability to use air travel as a competitive advantage in a global economy. The ability of Americans to transport their goods, services and themselves to markets wherever they exist should be an important goal of U.S. public and foreign policy.

The Commission believes the current bilateral system is no longer sound or sufficiently growth-oriented in the global trade environment. U.S. airlines face significant restrictions in international markets that hamper competition and efficiency and damage the American economy as a whole. For example, under most bilateral agreements the cities that airlines can fly to are specifically named. This practice causes U.S. airlines to participate in expensive and timely route proceedings to obtain this authority. At one point, the Commission examined the concept of auctioning these restricted route rights to U.S. airlines to speed the process, but that idea after some discussion was not approved.

U.S. aviation interests will continue to erode under the bilateral system. This is illustrated by looking at the air service markets with two of our largest trading partners.

- **Canada** — One analysis conducted for 36 U.S. and Canadian cities showed only 30 percent of the 264 major trans-border markets

were allowed scheduled nonstop service; only eight percent were allowed competitive service, and air travel with Canada had grown only 16 percent over the past 10 years compared with an average of 64 percent with all other U.S. trading partners.

- **Japan** — Only 15 U.S. cities are allowed scheduled nonstop service to Japan. The fact that more than 40 states have trade and investment offices in Tokyo demonstrates that many more U.S. markets could benefit from such service. ➢

TOWARD A MULTI-NATIONAL REGIME

U.S. efforts to create a more open, competitive international aviation environment have been stymied repeatedly by nations determined to reduce the rights of more efficient U.S. airlines and defend their home airlines. The French termination of its U.S. bilateral and Chancellor Helmut Kohl's letter to President Clinton threatening termination of the German bilateral are only two of the most prominent examples of the problems the U.S. government faces in trying to preserve and expand competition internationally.

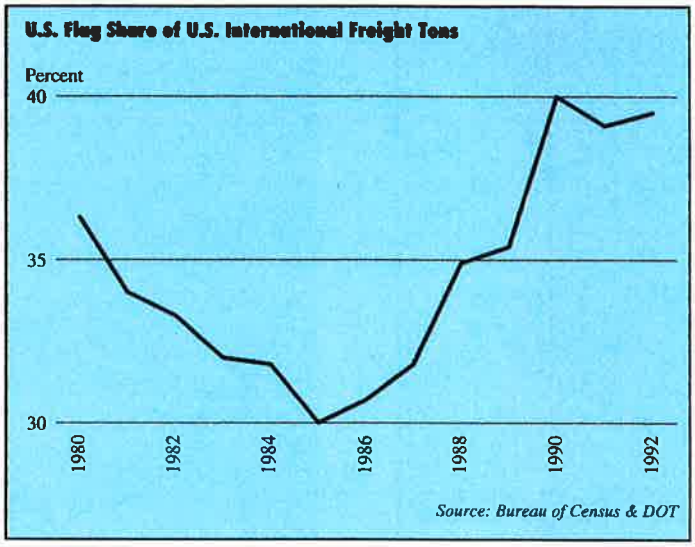
Increasingly, our bilateral partners insist on limiting both competition and the U.S. share of the market. Although the U.S. has negotiated some pro-competitive agreements, several key bilateral partners — including Canada, France, Germany, Japan and the U.K., have been unwilling to accept less restrictive, more competitive bilateral agreements. These actions suspend growth in international markets and in some cases threaten existing service levels on which U.S. passengers and shippers have come to rely.

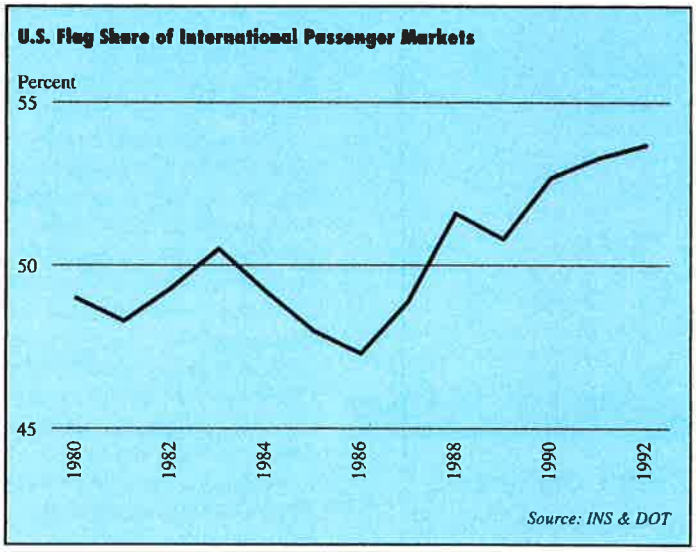
The Commission believes airline managements, not government, should make airline pricing and entry decisions. Air service agreements should be competitive, covering a wide range of aviation issues. These include passenger and cargo services, charters, ownership of carriers by nationals of one or more countries in multi-national groups, comparable traffic rights and beyond rights. The list also should include elimination of barriers to operating efficiency, such as airport access limitations, maintenance and ground-handling charges and availability, marketing and distribution freedom, and possibly even matters relating to aircraft manufacturing, including government subsidies.

The Commission also believes bilateral agreements cannot adequately protect or enhance U.S. interests and that continued reliance on that approach will erode those interests. The increasingly contentious bilateral relationships already mentioned are resulting in agreements or de facto relationships either markedly more rigid and protectionist than before, or seriously out of balance. Bilateral negotiations have become an exercise in zero-sum market division.

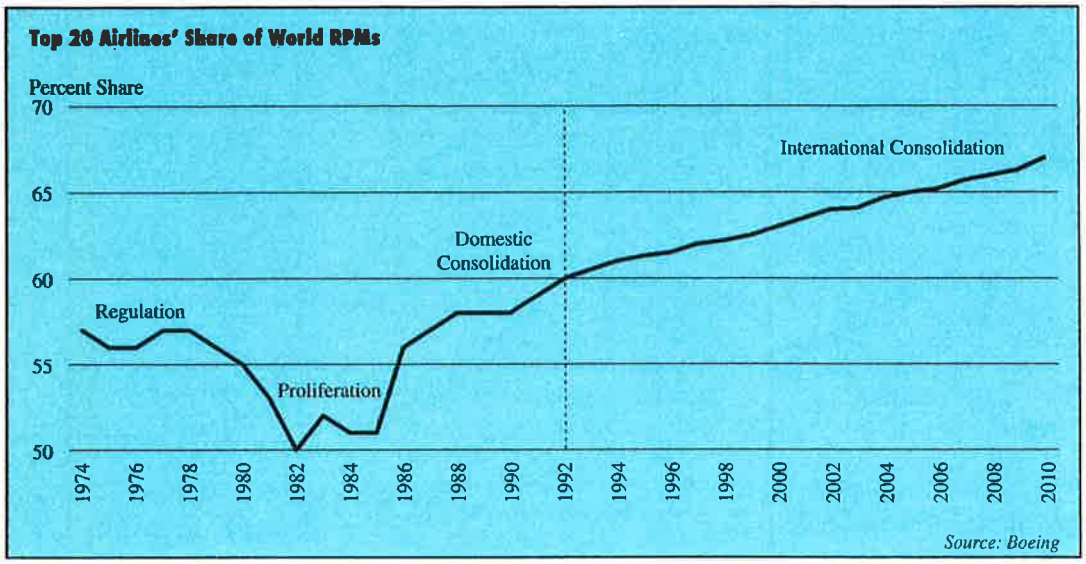
Because of our country's geographic size and population, bilateral agreements can result in the U.S. granting foreign carriers greater access to the immense and diverse U.S. air travel market without corresponding competitive opportunities for U.S. carriers. In most cases, the bilateral partner simply does not have a significant domestic market to offer in exchange. In order to compensate for the imbalance in a specific country market, the U.S. often seeks "beyond" rights for U.S. airlines. However, foreign governments often reserve those markets for their own airlines or have agreements with other bilateral partners to restrict the ability to grant beyond rights to U.S. and other third-country airlines.

The principal challenge for our country is to fashion a new, growth-oriented international aviation framework that allows U.S. airlines to use their competitive strength and international air services to realize their full potential. This goal will require a clear and decisive shift in





U.S. international market share shows sharp increase.



policy by the United States away from the present system of bilateral regulation of air services to one based on multi-national arrangements that may be regionalized at first, but eventually cover the globe. Achieving this goal will require great patience, because trading blocs of similar philosophy have not yet materialized, even in the European Community.

The Commission believes the United States should lead the way in vigorously pursuing this new multi-national approach to governing international aviation. We believe the ability of the U.S. and other like-minded nations to protect and enhance the interests of competition and a free range of air services in a purely bilateral setting has been seriously eroded. *We recommend:*

- **U.S. negotiating efforts focus on creating a multi-national operating environment for airlines free of discrimination and restrictions.**

The Commission also believes that multi-national negotiations should cover a broad range of issues affecting international aviation, including the conditions governing transborder investment in airlines. Capital markets are global in nature and the financial health of U.S. airlines may be adversely affected if restrictions on transborder investments are not liberalized both in the United States and elsewhere in the world. In the context of multi-national agreements, all other issues affecting the air transportation system should also be on the table.

We recommend:

- **Liberal, multi-national agreements be negotiated that encompass provisions for passenger and cargo services; charters; cross-border investment and ownership; comparable traffic rights; fifth/sixth freedom traffic rights; fair market access and doing business opportunities; system capacity; government subsidies, and customs and immigration facilities.** ➢

SHORT-TERM ISSUES

The Commission appreciates that conclusion of such multi-national agreements will take time, perhaps several years. We believe it is critical, however, for the United States to see the future and shape its strategy today.

While we envision a future in which cross-border airline investment would flow more freely in a more open system, we also believe there is an opportunity today to permit expanded access to international capital markets by allowing larger investments from foreign investors under the current bilateral system. The United States should approve foreign investment of up to 49 percent voting equity in U.S. airlines, in the context of bilateral agreements which are reciprocal and enhance the prospects of securing the ultimate goal of pro-competitive, multi-national agreements. The Commission also believes that in any such 49 percent or other sizable ownership situation, adequate safeguards should be in place to protect the rights of the remaining shareholders.

We recommend:

- **The Federal Aviation Act be amended to allow the U.S. to negotiate bilateral agreements that permit foreign investors to hold up to 49 percent voting equity in U.S. airlines, providing those bilateral agreements are liberal and contain equivalent opportunities for U.S. airlines; the foreign investor is not**

"The Commission believes the United States should lead the way in vigorously pursuing this new multi-national approach to governing international aviation."

government-owned; there are reciprocal investment rights for U.S. airlines, and the investment will advance the national interest and the development of a liberal global regime for air services.

The Commission considers it essential to enforce our currently held rights, particularly when so many of our trading partners are aggressively defending their flag carriers against our more efficient airlines. In addition, the Commission believes the status of air service agreement negotiations should be elevated in our government.

At the moment, U.S. bilateral negotiating teams are chaired by career foreign service officers who are assigned for a temporary period and are taken out of a specific career path to work in the Office of Economic and Business Affairs at the Department of State. This practice of staff rotations robs the U.S. of continuity and expertise at the negotiating table. Further, most other countries attach a higher importance to aviation negotiations and in those countries delegations are led by higher-level officials.

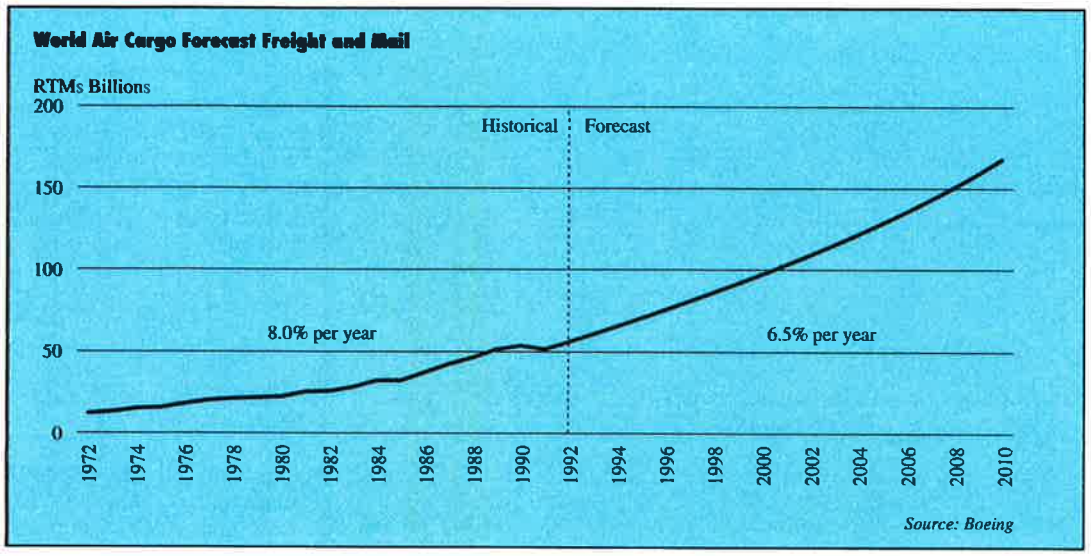
The Commission believes that the job of negotiating these important international agreements should be led by an experienced aviation and international negotiations professional who would carry the rank of ambassador-at-large. To accomplish these objectives, *we recommend:*

- **Enforcement of current bilateral aviation rights through all means, including renunciation and suspension of privileges and services when violations occur;**
- **Elevation of the stature of international air service negotiations and appointment of an ambassador-at-large to lead them; and a strengthening of the aviation career track at the Department of State to enhance continuity and expertise in the field;**
- **Conclusion of interim agreements liberalizing air cargo and charter services if those agreements support the overall objective of multi-national liberalization; and,**
- **Avoiding the use of unilateral sanctions against international air services unless passenger safety concerns are involved. This would not preclude sanctions for violations of a bilateral agreement.** ➢

OTHER INTERNATIONAL AIRLINE ISSUES

The Commission believes U.S. airlines are burdened with an antiquated global damage liability system. The present level of compensation permitted under the provisions of the prevailing multilateral treaty — the Warsaw Convention — is $75,000 per passenger. To gain higher compensation, families of victims and survivors must prove "willful misconduct" on the part of the airline through expensive litigation. High priority should be given to establishing modern liability systems which adequately serve the interests of passengers, shippers, airlines and manufacturers.

The Commission believes Montreal Protocols 3 and 4 and a supplemental compensation plan should be ratified by the Senate. The Montreal Protocol 4 also would establish a modern, strict liability system for air cargo and streamline the cargo documentation requirements. We believe it would be preferable to include protection for both airlines and aircraft and component manufacturers in a



Air cargo continues solid growth.

supplemental compensation plan. *We recommend:*

- **The U.S. amend the Warsaw Convention by ratifying Montreal Protocols 3 and 4 and approve a supplemental compensation plan.**

The availability of civil aircraft to meet emergency airlift requirements is vital to national security, as demonstrated during the recent Persian Gulf crisis. While the importance of the Civil Reserve Air Fleet (CRAF) program may not be widely understood or appreciated, the Commission believes that CRAF is a significant part of the National Airlift Policy of the United States, which must be maintained and fostered. *We recommend:*

- **Protecting national security and defense interests by assuring that cross-border investment and ownership do not adversely affect the availability of aircraft for the CRAF program.** ➢

AEROSPACE MANUFACTURING

As the Commission considered several key aerospace manufacturing issues, the global context of the industry became clear. There are fewer competitors, and none can survive without an eye toward the world market. Given the state of competition in aerospace manufacturing today, these issues must be considered a part of the nation's strategy to develop and maintain international markets.

Advances in aerospace technology, many stimulated by programs at the National Aeronautics and Space Administration, have benefitted all of American society. A strong, technologically superior aerospace manufacturing sector is important to the nation because of its contribution to technology development, the growth of knowledge, national defense, maintenance of a highly skilled work force and a positive balance of trade.

U.S. manufacturers are highly competitive in world markets and the work force is among our most well-trained and skilled. But despite its size and position, U.S. aerospace manufacturers and suppliers are under increasing financial pressure from the weak world economy, reduced defense spending, cancellation of airline orders and growing international competition in almost all disciplines.

U.S. aerospace manufacturers are at some disadvantage in both world and domestic markets from various international practices which distort trade. These include excessive subsidies, the need to provide large offsets to win orders, discriminatory purchasing regulations and other unfair trade practices.

A further disadvantage, particularly in aircraft and engine sales, is lack of adequate financing support from sources like the Export-Import Bank and costly, conflicting standards and rules in international airworthiness certification.

Aerospace manufacturing employment declined by more than 40,000 people in 1992 alone, and tens of thousands of additional layoffs have been announced in 1993. The federal government should encourage U.S. manufacturers to enter into commercial agreements which maintain or increase U.S. jobs and any government actions in this regard should be consistent with the General Agreement on Tariffs and Trade (GATT) and other international agreements. While most testimony the Commission heard from aerospace manufacturers concluded the best thing this body could do to help them was to help the airline industry, there are several steps the Commission believes should be taken to assist the manufacturing sector in the near term. *We recommend:*

- **Strengthen and expand the coverage of international agreements that contain disciplines on government subsidies and government involvement in**

"A strong, technologically superior aerospace manufacturing sector is important to the nation because of its contribution to technology development, the growth of knowledge, national defense, maintenance of a high-skill labor force and a positive balance of trade."

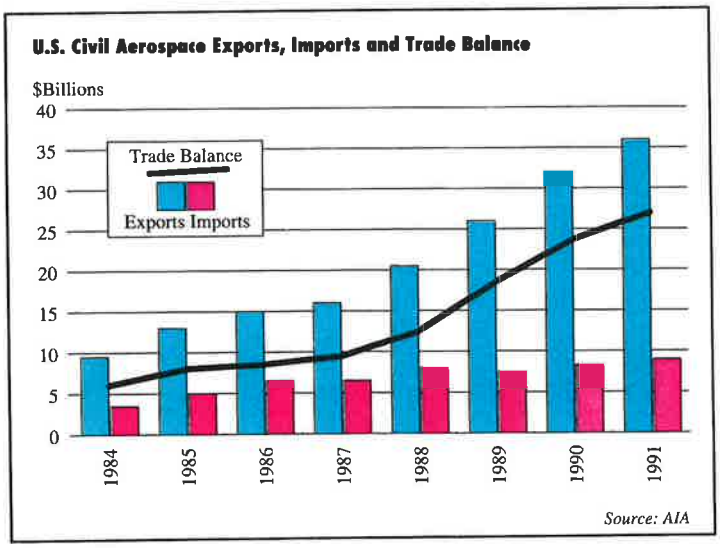
aircraft manufacturing projects.

- **Proper enforcement of international trade obligations and U.S. trade laws and elimination of subsidies, offsets, purchasing and sourcing incentives and unfair international trading practices.**
- **The Department of Commerce, with the Secretary maintaining full discretion, should use the maximum means available under the GATT to counteract illegal subsidies.**
- **Adopt explicit goals and devise policies to encourage domestic and international cooperation among airframe, component and engine manufacturers in order to increase their ability to attract sufficient investment capital to support new product development, manufacture and marketing of new products.**
- **Increase Export-Import Bank funding levels and lending authority for large and small aircraft to the extent necessary to provide parity in financing for U.S. manufacturers compared with their foreign competitors.**
- **Increase efforts to harmonize international standards for the manufacture and initial certification of aircraft and encourage further cooperation between U.S. and foreign certification and inspection agencies.**
- **Avoid placing unilateral sanctions on manufacturers' export of aerospace products unless those sanctions are necessary to protect the national security.**

The U.S. should aggressively pursue the enforcement of current aerospace sector trading agreements and expand those agreements to other nations and trading blocs where possible.

Only by aggressive pursuit of a fair and free trading environment for U.S. air services and aerospace products will the nation be able to maintain or expand its share in the enormous potential of the global aviation marketplace. To allow its competitive position to wither in the face of obstacles would be to abandon the effort to preserve and create jobs in this highly skilled, high-wage sector of our economy. ➢

The Boeing aircraft delivery line.



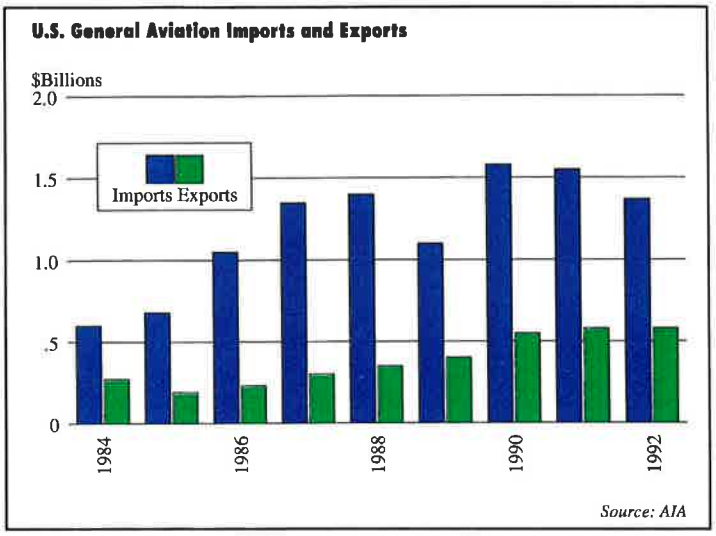
GENERAL AVIATION AIRCRAFT PRODUCTION

The United States was once the world leader in the production of general aviation aircraft, those used other than by the military, the airlines and the government. Although the U.S. remains a world leader in production and sale of business jets, production of light piston aircraft has been reduced to a trickle by the enormous ongoing cost of open-ended product liability.

Annual piston aircraft sales, which averaged 13,000 per year from 1965-1982, have decreased to barely 500 per year. Many factors are at play, but the added costs of liability insurance forced prices up, causing sharply increased costs for personal and short-range business flying. More than 100,000 jobs have been lost in manufacturing, sales, service and related industries.

Historically, at least 30 percent of the general aviation aircraft produced in the United States have been exported. This country has lost this important contribution to its trade balance. The enactment of legislation limiting the liability of general aviation manufacturers to 15 years from the date of manufacture would help regenerate a once-healthy industry and help create thousands of jobs. *We recommend:*

- **Enactment of a statute of repose for general aviation aircraft which would limit the liability of manufacturers of these aircraft to 15 years from the date of manufacture.** ➢



ASSURING SERVICE TO SMALL COMMUNITIES

If the nation's economy is to be competitive in the new century, our communities must be able to reach markets for their goods and products, wherever those markets may exist.

Convenient access to airline service is essential for the economic growth and development of small communities. Connecting these small communities to the national air transportation system provides economic benefits to the nation as a whole.

While airlines' hub-and-spoke networks have increased the quality and availability of service to small communities and provided them access to the national air transportation system, many smaller cities — once served by jets — are increasingly being served by smaller turboprop aircraft. Some cities vigorously oppose this change. We recognize that some communities which put large sums of money into airport development have found themselves without the service they once were promised by government and airlines.

Congress enacted legislation recognizing smaller communities' need for air service. The legislation designates a large number of these communities as eligible for that support for as long as it is required to maintain service. The Commission notes that of 500 communities guaranteed service under Section 419 of the Federal Aviation Act, only 129 require support. *We recommend:*

- **Development of policies which encourage service to small communities.**
- **Maintenance of the federal Essential Air Service program at sufficient levels to serve its legislated purpose.** ➢➢

MEMBERS

THE NATIONAL COMMISSION TO ENSURE A STRONG COMPETITIVE AIRLINE INDUSTRY

Chairman:

Gerald L. Baliles, Partner in the law firm of Hunton & Williams; Governor of Virginia, 1986-1990; Attorney General of Virginia, 1982-1985.

Members:

Bette B. Anderson, President, Kelly, Anderson and Associates, Inc., management consultants; Undersecretary of the Treasury for Administration, 1977-1981.

Capt. J. Randolph Babbitt, President, Air Line Pilots Assn.; Executive Administrator of ALPA, 1986-91; Captain, Eastern Air Lines.

Charles M. Barclay, President, American Association of Airport Executives; Staff Member, Aviation Subcommittee of the U.S. Senate Committee on Commerce, Science and Transportation, 1977-1983.

Robert F. Daniell, Chairman and Chief Executive Officer, United Technologies Corporation; President and Chief Operating Officer of United Technologies, 1984-1992.

Sylvia A. de Leon, Partner in the law firm of Akin, Gump, Strauss Hauer & Feld; Adjunct Professor of Law, Georgetown University Law Center, 1987-1989; Coordinator of Transportation Issues, Clinton-Gore Presidential Transition, 1992.

Daniel M. Kasper, Vice President and Director of Transportation Practice, Harbridge House, which merged with Coopers & Lybrand, August 1, 1993; Director of the Bureau of International Aviation, U.S. Civil Aeronautics Board, 1979-1983.

Herbert D. Kelleher, Chairman, President and Chief Executive Officer, Southwest Airlines; Chairman, Partnership for Improved Air Travel, 1989-1991.

Russell W. Meyer, Jr., Chairman and Chief Executive Officer, Cessna Aircraft Company; Chairman of the Board, General Aviation Manufacturers Assn., 1974 and 1982.

John F. Peterpaul, Vice President for Transportation, International Assn. of Machinists and Aerospace Workers; airline mechanic and commercial pilot, 1959-1968.

Sandra Pianalto, First Vice-President and Chief Operating Officer, Federal Reserve Bank of Cleveland; Economist, Federal Reserve Board of Governors; Staff, Budget Committee, U.S. House of Representatives.

John H. Robson, Lester Crown Fellow, Yale School of Organization and Management and Co-Chair, Advisory Council on Regulatory Reform, Heritage Foundation; Deputy Secretary of the Treasury, 1989-1992; Chairman, U.S. Civil Aeronautics Board, 1975-1977.

Felix G. Rohatyn, Senior Partner, Lazard Freres & Co., investment bankers; Chairman, Municipal Assistance Corporation for the City of New York; Member of the Board, Pfizer, Inc., Pechiney S.A. and Howmet Corporation.

Abraham D. Sofaer, Partner in the law firm of Hughes, Hubbard & Reed and Distinguished Visiting Scholar, The Hoover Institution; Legal Adviser, U.S. State Department, 1985-1990; U.S. District Judge for the Southern District of New York, 1979-1985.

Gina F. Thomas, Managing Attorney, International Regulatory Office, Federal Express Corp.; Attorney, Office of the General Counsel, U.S. Department of Transportation, 1983-1992.

PROCESS

MONDAY, MAY 24, 1993

WEEK I: BRIEFINGS/KNOWLEDGE BASE

Indian Treaty Room, Old Executive Office Building, Monday, May 24, 1993

THEME: A GOVERNMENT VIEW OF THE U.S. AIRLINE INDUSTRY

Convene, Swearing In, Ethics Briefing
Remarks by the President
Remarks by Secretary Federico Peña, Department of Transportation
Chairman outlines charge, reviews recommended work schedule and agenda
Adopt Rules, Procedures and Authorizations

OVERVIEWS OF THE DOMESTIC AND INTERNATIONAL AIRLINE INDUSTRY

The financial condition, state of competition, market position and other relevant information on domestic and international airline operations.
Patrick V. Murphy, Acting Assistant Secretary for Policy and International Affairs, Department of Transportation.

TUESDAY, MAY 25, 1993

WEEK I: BRIEFINGS/KNOWLEDGE BASE

U.S. Department of Commerce Auditorium, Tuesday, May 25, 1993

THEME: A GOVERNMENT VIEW OF THE AEROSPACE INDUSTRY

Chairman's Opening Remarks

Overview of the Manufacturing Industry

The financial condition of the manufacturing industry, the General Agreement on Tariffs and Trade, the status of Stage 3 fleet conversion, the global nature of the airframe and engine manufacturing industries

John Menes, Acting Assistant Secretary, Trade Division, Department of Commerce
Dr. Wesley L. Harris, Associate Administrator, Office of Aeronautics, NASA
Steve Falken, Director, Aerospace & Automotive, United States Trade Representative
Anthony Broderick, Assistant Administrator, Regulations and Certification, FAA
Dale McDaniel, Acting Assistant Administrator for Policy and International, FAA

THEME: WHAT THE FINANCIAL MARKETS ARE SAYING — AN OVERVIEW OF THE FINANCIAL CONDITION OF THE AIRLINES AND THE MANUFACTURERS

Session One: How did we get here?

Wall Street analysts representing the airline and aerospace sectors discuss the effects of debt, taxes, federal regulations and policies, U.S. Bankruptcy Code, user fees, leveraged buy-outs, fare wars, management compensation, corporate governance activities and labor costs/work rules of both industrial sectors.

Session Two: How do we get out?

Wall Street analysts representing both sectors discuss prospects for new entry, capital formation, changes in federal regulation and policies, foreign investment and tax/user fee relief for the financial and competitive condition of the industries.

Phillip Baggaley, Standard & Poor's
Paul Karos, First Boston Corp.
Jack Modzelewski, PaineWebber
Cai von Rumohr, Cowen & Co.
Rose Ann Tortora, Donaldson, Lufkin
Tim Pettee, Alliance Management Corp.

WEDNESDAY, MAY 26, 1993

WEEK I: BRIEFINGS/KNOWLEDGE BASE

U.S. Department of Commerce Auditorium, Wednesday, May 26, 1993

THEME: INTERNATIONAL NEGOTIATIONS, HOW THEY WORK

The Policy and Process of International Negotiations

How U.S. delegations develop positions for negotiations and the current status of key bilateral relationships

Aerospace Trade Agreements

Steve Falken, Director Aerospace & Automotive, USTR

Air Service Agreements

James R. Tarrant, Deputy Assistant Secretary for Transportation Affairs, Department of State

Paul L. Gretch, Director of the Office of International Aviation, Department of Transportation

How Interested Parties Influence U.S Negotiating Policy

Discussion by interested parties on how, when and where they influence U.S. Government bilateral aviation agreement negotiations, the adequacy of the process and their members' major interests.

First Panel:

Nat Wilson, Air Transport Association

Ed Driscoll, National Air Carrier Association

Diane Peterson, Airports Council International - NA

Capt. Duane Woerth, Air Line Pilots Association

Second Panel:

United States Airports For Better International Air Service USA - BIAS

Representatives from member airports/communities will discuss the needs of communities for international air service development

Leo J. Schefer, Washington Airports Task Force

Judith M. Trent, Global Aviation Associates

Robert W. Kneisley, Galland, Kharash, Morse & Garfinkle

Michael Goldman, Klein & Bagileo

John A. Nammack, J.A. Nammack Associates

Brian M. Campbell, Leeper, Cambridge & Campbell

THURSDAY, MAY 27, 1993

WEEK I: BRIEFINGS/KNOWLEDGE BASE

U.S. Department of Transportation, Room 2230, Thursday, May 27, 1993

THEME: IS THERE A SHORTAGE OF AIRPORT AND AIRWAY CAPACITY?

The Status of System Capacity (Airport and Airway)

The condition of the air traffic control system and the budgetary constraints on expanding it, noise and environmental concerns, the working of the High Density Rule/slots, adequacy of airport airside capacity.

Joseph M. Del Balzo, Acting Administrator, FAA

John Burt, Executive Director for System Development, FAA

William H. Pollard, Associate Administrator for Air Traffic, FAA

Quentin S. Taylor, Acting Assistant Administrator for Airports, FAA

Dale E. McDaniel, Acting Assistant Administrator for Policy and International Aviation, FAA

David Tornquist, Office of Management and Budget, FAA Budget Examiner

TUESDAY, JUNE 1, 1993

WEEK II: A DIALOGUE WITH THE INDUSTRY'S EXPERTS

U.S. Department of Commerce Auditorium, Tuesday, June 1, 1993

THEME: QUESTIONS ABOUT DEREGULATION, PUBLIC INTERESTS AND SOLUTIONS

How Has Airline Deregulation Worked from 1978 to Today?

Discussion by academic experts of such topics as the history of deregulation, the effectiveness of economic regulation of industry, current state of the industry (airlines, aerospace and traveling and shipping public interests), overview of competition issues.

Prof. Steven A. Morrison, Department of Economics, Northeastern University

Prof. Paul Stephen Dempsey, College of Law, University of Denver

Kenneth M. Mead, Director Transportation Issues, GAO

Dr. Frank Mulvey, Assistant Director Competition and Consumer Protection, GAO

Has the Public Interest Benefitted?

Organizations representing the traveling public and travel trade industry will discuss such topics as where are the benefits, where are the short comings, fares, choice, service, reliability, what should be done in the interests of the traveling public.

Cornish Hitchcock, attorney, Public Citizen

Paul Ruden, American Society of Travel Agents

Richard Knodt, American Society of Travel Agents

David S. Stempler, International Airline Passenger Association

Paul Bessel, Association of Retail Travel Agents

Jeff Gilbert, ARTA President, Village Travel, Brookline, Mass.

John Hintz, National Business Travelers Association President; Travel Manager, Price Waterhouse

Paul A. Verkuil, American Automobile Association

Does the Industry Have Agreed Solutions?

A presentation by the leaders of a group formed by the aviation community on issues where there is consensus that a solution to airlines/manufacturers' financial and operational problems must be found. The group was asked to offer detailed recommendations to the Commission.

The National Aviation Associations Coalition

John W. Olcott, Co-chairman, President, National Business Aircraft Association

George Howard, Co-chairman, President, Airports Council International - NA

WEDNESDAY, JUNE 2, 1993

WEEK II: A DIALOGUE WITH THE INDUSTRY'S EXPERTS

U.S. Department of Commerce Auditorium, Wednesday, June 2, 1993

THEME: THE WORKFORCE AND AIRPORTS' VIEW OF THE INDUSTRY

The Critical Role and Needs of Airports

Capital improvements, expansion, funding (municipal bonds, user fees, PFCs), capacity, stake in the system, agreements, access, noise and environmental concerns, air carrier ground handling/bilateral infringements (proprietary rights).

George F. Doughty, Chairman, ACI; Executive Director, Lehigh Northampton Airport Authority, Allentown, Pa.

James A. Wilding, General Manager, Metropolitan Washington Airports Authority

David Z. Plavin, Director of Aviation, Port Authority of New York & New Jersey

George J. Bean, Executive Director, Hillsborough County Aviation Authority, Tampa, Fla.

David Mosena, Commissioner of Aviation, Chicago, Ill.

George Howard, President, Airports Council International - NA

Issues for the Work Force

Labor leaders and PBGC discuss wage levels, work rules, route transfer/employee security, pension funds, bankruptcy, safety/drug testing, labor protection provisions of the Airline Deregulation Act.

Dee Maki, President, Association of Flight Attendants

William Hoffman, Vice President, International Association of Flight Attendants
Gordon Ingraham, International Representative-Aerospace Division, United Auto Workers
Marvin Griswold, Director, Airline Division, International Brotherhood of Teamsters
Ellen Hennessy, Chief Negotiator, Pension Benefit Guaranty Corporation
Carol Flowe, General Counsel, Pension Benefit Guaranty Corporation

Noise and Environmental Concerns
Interested parties discuss their concerns about the noise and other environmental concerns of neighborhoods near airports.
Sharron Spencer, Councilwoman, Grapevine, Texas
Patrick Russell, National Airport Watch Group, Mudge, Rose, Guthrie, Alexander & Ferdon
Barbara F. Lichman, National Airport Watch Group, Jackson, DeMarco & Peckenpaugh
Charles F. Price, Executive Director, National Organization to Insure a Sound-Controlled Environment
The Hon. Paul Tauer, Mayor, Aurora, Colo.
Eliot R. Cutler, Cutler & Stanfield
Joseph Karaganis, Karaganis & White, Chicago, Ill.

THURSDAY, JUNE 3, 1993

WEEK II: A DIALOGUE WITH THE INDUSTRY'S EXPERTS
U.S. Department of Commerce Auditorium, Thursday, June 3, 1993

THEME: THE INDUSTRY'S VIEW OF THE INDUSTRY

Domestic Competition: Is There Enough? Is it Fair?
Industry leaders discuss the significant factors they believe affect their financial health and ability to compete, including airport access, CRS, frequent flyer programs, pricing, scheduling, capital formation issues, bankruptcy.

Majors
Robert L. Crandall, American
Michael Conway, America West
Robert R. Ferguson, Continental
Ronald W. Allen, Delta
Richard B. Hirst, Northwest
Robin H.H. Wilson, Co-Chairman, TWA
Glenn Zander, Co-Chairman, TWA
Stephen M. Wolf, United
Seth E. Schofield, USAir

New Entrants
David G. Neeleman, Morris Air
Robert W. Iverson, Kiwi
Patricia Will, UltrAir

Regionals
Rob Swenson, Mesaba
George Pickett, Atlantic Southeast

International Competition: Is There Enough? Is it Fair?
Discussion by U.S. and foreign airline leaders of the significant factors they believe affect their financial health and ability to compete, including foreign investment, cabotage, CRS, frequent flyer programs, airport access, foreign subsidy/state ownership, the EC and other trading blocs.

U.S. International Operators
Robert L. Crandall, American
Robert R. Ferguson, Continental
Ronald W. Allen, Delta
Richard B. Hirst, Northwest
Stephen M. Wolf, United
Seth E. Schofield, USAir
Robin H.H. Wilson, Co-Chairman, TWA
Glenn Zander, Co-Chairman, TWA
Morris Nachtomi, Tower Air
T. Coleman Andrews, World

Foreign Flag Operators
Hollis Harris, Air Canada
Bernard Attali, Air France
Sir Colin Marshall, British Airways
Dr. Cheong Choong Kong, Singapore

FRIDAY, JUNE 4, 1993

WEEK II: A DIALOGUE WITH THE INDUSTRY'S EXPERTS
U.S. Department of Commerce Auditorium, Friday, June 4, 1993

THEME: AEROSPACE AND AIR CARGO: HOME RUNS FOR COMMERCE AND TRADE

The Manufacturing Side of the Equation
Leaders of the airframe and engine manufacturing industries on such topics as how to maintain competitiveness, foreign subsidy, third country vendors, defense cut-back impact, airline financial condition impact, Stage 3 requirements, product liability, new technology interface with the ATC system.
Dean Thornton, Boeing Commercial Airplane Group
John Wolf, Douglas Aircraft Company
Brian H. Rowe, GE Aircraft Engines
Alan Boyd, Airbus Industrie, NA
Carl A. Albert, Fairchild Aircraft
E. Glenn Parr, Piper Aircraft Corp.
Don Fuqua, Aerospace Industries Association

The State of the Air Cargo Industry
Leaders of the small package express and air freight industry on such topics as the unique aspects for cargo operations (curfews, equipment), the international system/negotiating policies, facilitation issues, U.S. Postal Service contracting practices, access, intermodal operations, customs difficulties here and abroad, financing, the military commitment of the fleet, Fly America.
Steve Alterman, Air Freight Association
Richard Haberly, Arrow Air
Tom Weidemeyer, UPS
William Langton, Southern Air
Delford M. Smith, Evergreen
Joseph Hete, Airborne Express

JUNE 7-11, 1993

WEEK III: WORK TEAMS MEET TO IDENTIFY ISSUES AND OPTIONS

MONDAY, JUNE 14, 1993

WEEK IV: ISSUES AND OPTIONS
U.S. Department of Transportation, Room 2230, Monday, June 14, 1993

System Capacity Team Issues and Options Report
Charles M. Barclay
Bette B. Anderson
Daniel M. Kasper
Russell W. Meyer, Jr.

Domestic Aviation Issues Team Issues and Options Report
Herbert D. Kelleher
Sylvia A. de Leon
John F. Peterpaul

TUESDAY, JUNE 15, 1993

WEEK IV: ISSUES AND OPTIONS
U.S. Department of Transportation, Room 2230, Tuesday, June 15, 1993

International Issues Team Issues and Options Report
Abraham S. Sofaer
John E. Robson
Gina F. Thomas

National Aviation Associations Coalition Report on Consensus
24 Aviations Organizations Report to CongressConversations with Congress:
Sen. John McCain
Sen. Patty Murray
Rep. Michael Collins
Rep. Eliot Engel
Rep. Karen Shepherd
Rep. Richard Zimmer

WEDNESDAY, JUNE 16, 1993

WEEK IV: ISSUES AND OPTIONS
U.S. Department of Commerce Auditorium, Wednesday, June 16, 1993

Finance Team Issues and Options Report
Felix G. Rohatyn
Capt. J. Randolph Babbitt
Robert F. Daniell
Sandra Pianalto

Conversations with Congress:
Sen. John C. Danforth
Sen. Slade Gorton
Rep. Maria Cantwell
Rep. Bob Carr
Rep. Bob Franks
Rep. Dan Glickman
Rep. Norman Mineta
Rep. James Oberstar

TUESDAY, JUNE 22, 1993

WEEK V: DETAILED BRIEFINGS ON ISSUES AND OPTIONS
U.S. Department of Commerce Auditorium, Tuesday, June 22, 1993

THEME: OPTIONS FOR IMPROVING THE PROVISION OF SYSTEM CAPACITY

Global Positioning Satellites and Data Links
Suggested by the System Capacity Team. A discussion by experts on the cost savings and capacity improvements the use of GPS and full implementation of the AAS could provide the industry.
J. Roger Fleming, Senior VP Operations and Services, ATA
John R. Ryan, VP Air Traffic Management, ATA
Capt. William Cotton, Manager Air Traffic Systems, United Air Lines
Anthony Broderick, FAA Assistant Administrator for Regulation and Certification
Martin Pozesky, FAA Associate Administrator for System Engineering and Development

Alternate Approaches for Modernizing the Nation's Air Traffic Control System
Suggested by the System Capacity Team. A discussion by experts from other quasi-public corporations as to how the public interest and safety are assured under less than full government control of all aspects of operations.
Paul Volcker, former Chairman of the Federal Reserve Board
Thomas H. Stanton, Attorney at Law, Washington, D.C.
Alan L. Dean, Fellow, the National Academy of Public Administration
John L. McLucas, aerospace consultant

WEDNESDAY, JUNE 23, 1993

WEEK V: DETAILED BRIEFINGS ON ISSUES AND OPTIONS
U.S. Department of Commerce Auditorium, Wednesday, June 23, 1993

THEME: OPTIONS FOR ASSURING A STRONG COMPETITIVE DOMESTIC INDUSTRY

Antitrust Law and Enforcement — Is it Adequate?
Suggested by the Domestic Aviation Issues Team and the Financial Issues Team. Officials from the U.S. Justice Department discuss current policies, activities and concerns pertaining to the airline and aerospace industries.
Anne Bingaman, Assistant Attorney General, Antitrust Division
Mark Schechter, Chief Transportation, Energy and Agriculture Section, Antitrust Division

Does Strong Competition Require More or Less Antitrust Enforcement?
Officials from the major trade organizations and DOT discuss industry concerns about cooperative efforts.
James Landry, Air Transport Association
David O'Connor, Regional Director-US, International Air Transport Association
Don Fuqua, Aerospace Industries Association
Sam Podberesky, DOT Assistant General Counsel Enforcement

The Consequences of Chapter 11
Suggested by the Domestic Aviation Issues Team and the Financial Issues Team. Experts from academia and the legal profession discuss the aspects of the U.S. Bankruptcy Code as it affects labor and consumers, competition and financial health in the airline industry.
Darryl Jenkins, George Washington University
Dan Kaplan, Glassman/Oliver Economic Consultants
Kenneth P. Quinn, Winthrop, Stimson, Putnam & Roberts
Lynn LoPucki, Washington University Law School
Harvey Miller, Weil, Gotshal & Manges
Bruce Simon, Cohen, Weiss & Simon

Airline Fitness — How Does DOT Implement the Law?
Suggested by the Financial Issues Team. Experts from DOT explain the current rules and process for determining continuing economic fitness.
John Coleman, Director, DOT Office of Aviation Analysis
Sam Podberesky, DOT Assistant General Counsel
Patti Szrom, Chief Airline Fitness, DOT
Carol Szekeley, Deputy Chief Airline Fitness, DOT

THURSDAY, JUNE 24, 1993

WEEK V: DETAILED BRIEFINGS ON ISSUES AND OPTIONS
U.S. Department of Commerce Auditorium, Thursday, June 24, 1993

THEME: OPTIONS FOR ASSURING A STRONG COMPETITIVE INTERNATIONAL INDUSTRY

Can The Negotiating Process Be Improved?
Suggested by the International Aviation Issues Team. Negotiating experts provide their view of the possibilities for achieving the aspirations of U.S. airlines, such as equivalency of opportunities under open skies, multilateralism, pluralateralism and other isms.
Jeffrey N. Shane, counsel, Wilmer, Cutler & Pickering, former DOT Assistant Secretary for Policy
William Brock, The Brock Group, former U.S. Trade Representative
Marvin Cohen, former CAB Chairman
Franklin Willis, Group VP Rollins Environmental Services, former DOT and DOS Deputy Assistant Secretary

THURSDAY, JUNE 24, 1993, *CONTINUED*

THEME: HOW TO FINANCE THE FLEET

Sources of Capital for the Airline Industry

Suggested by the Financial Issues Team. Lenders and equipment providers to the industry discuss the availability of capital for the airline industry to acquire equipment and stay in business.

Joseph T. O'Donnell, Managing Director, Bankers Trust
Maurice H. Hartigan II, Senior Managing Director, Chemical Bank
Roy Clauss, Managing Director, Lehman Bros.
Warren Willits, Potomac Capital Investment
Denis Nayden, GE Capital Services

TUESDAY, JUNE 29, 1993

WEEK VI: MOVING TO CLOSURE ON THE ISSUES

U.S. Department of Commerce Auditorium, Tuesday, June 29, 1993

A CLOSING DISCUSSION WITH AEROSPACE MANUFACTURERS

Dean Thornton, Boeing Commercial Airplane Group
John Wolf, Douglas Aircraft Company
Brian Rowe, GE Aircraft Engines
Carl Albert, Fairchild Aircraft
Glenn Parr, Piper Aircraft

A CLOSING DISCUSSION WITH U.S COMBINATION AND CARGO AIRLINES

All-Cargo Carriers

Richard Haberly, Arrow Air
Fred Smith, Federal Express
William Langton, Southern Air Transport
Doug Kuelpman, UPS
Joseph Hete, Airborne

Combination Carriers

Ray Vecci, Alaska
Bob Crandall, American
John Timmons, America West
George Pickett, Atlantic Southeast
Bob Ferguson, Continental
Jim Callison, Delta
Bob Iverson, Kiwi
Rob Swenson, Mesaba
David Neeleman, Morris Air
Ben Hirst, Northwest
Jeffrey Erickson, Reno Air
Robin H.H. Wilson, TWA
Patricia Will, UltrAir
Jack Pope, United
Jim Lloyd, USAir
T. Coleman Andrews, World

WEDNESDAY, JUNE 30, 1993

WEEK VI: MOVING TO CLOSURE ON THE ISSUES

U.S. Department of Commerce Auditorium, Wednesday, June 30, 1993

MANUFACTURERS, AIRLINES AND THE WORKFORCE:

A Historical Perspective and Current Trends

Bob Daniell - The Manufacturers
John Robson - The Airlines
John Peterpaul - The Workforce

JULY 5-9, 1993

WEEK VII: WORK TEAMS PREPARE FINDINGS AND RECOMMENDATIONS FOR THE COMMISSION

JULY 12-16, 1993

WEEK VIII: WORK TEAMS DRAFT FINDINGS AND RECOMMENDATIONS REPORT

JULY 19, 1993

WEEK IX: PREPARING THE REPORT TO THE PRESIDENT AND CONGRESS

U.S. Department of Commerce Auditorium, July 19, 1993

A discussion of the findings and draft recommendations. The Commission debated and adopted 67 findings and 59 recommendations on a wide range of aviation issues. The findings are the basis for the text of the report.

AUGUST 2, 1993

WEEK X: ADOPTING THE REPORT TO THE PRESIDENT AND CONGRESS

Department of Commerce Auditorium, August 2, 1993

A discussion of the proposed final report, followed by adoption of the text as its official report to the President and Congress.

AUGUST 19, 1993

Week XII: RELEASE OF THE REPORT

August 19, 1993

The National Airline Commission presents its report to the President and Congress, on its 88th day and within its 90-day time limit.

ENABLING LEGISLATION

TEXT OF ENABLING LEGISLATION

Section 204 of the Airport and Airway Safety, Capacity, Noise Improvement and Intermodal Transportation Act of 1992 (49 U.S.C. App. 1371 note), As Amended by Public Law 103-13 (April 7, 1993)

SECTION 204. NATIONAL COMMISSION TO ENSURE A STRONG AND COMPETITIVE AIRLINE INDUSTRY.

(a) FINDINGS.—The Congress finds the following:

(1) The Nation's airlines must be part of an intermodal transportation system that will move people and goods in the fastest, most efficient manner.

(2) The Nation's airlines provide our connections with the global economy. A strong airline industry is essential to our Nation's ability to compete in the international marketplace.

(3) The Nation's airlines are in a state of financial distress, having lost more than $6,000,000,000 in 1990 and 1991. These losses threaten the ability of our airlines to accommodate the growing aviation traffic demands of the 1990's which threaten to undermine our Nation's ability to compete in the global economy.

(4) Because of the airline industry's financial distress and the absence of government policies to promote competition, there has been a precipitous decline in the number of major airlines. Of the 22 airlines which entered the industry following airline deregulation, only 2 are now operating. The rest have either gone out of business or merged with other carriers.

(5) Concentration in the airline industry has advanced rapidly in the past few years. The top 4 major airlines now control 67 percent of aviation traffic and the top 7 airlines now control 91 percent of aviation traffic. Three major airlines, carrying 19 percent of aviation traffic, are in chapter 11 bankruptcy and their survival is in doubt.

(6) The continued success of a deregulated airline system requires the spur of effective actual and potential competition to force airlines to provide high quality service at the lowest possible fares.

(7) Further reductions in the number of major airlines may leave the industry without sufficient competition to ensure a continuation of the benefits consumers have received under airline deregulation.

(b) ESTABLISHMENT.—There is established a commission to be known as the "National Commission to Ensure a Strong Competitive Airline Industry" (hereinafter in this section referred to as the "Commission").

(c) FUNCTIONS.—

(1) INVESTIGATION AND STUDY.—The Commission shall make a complete investigation and study of the financial condition of the airline industry, the adequacy of competition in the airline industry, and legal impediments to a financially strong and competitive airline industry.

(2) POLICY RECOMMENDATIONS.—Based on the results of the investigation and study to be conducted under paragraph (1), the Commission shall recommend to the President and Congress those policies which need to be adopted to— (A) achieve the national goal of a strong and competitive airline system which will facilitate the ability of the Nation to compete in the global economy;

(B) provide adequate levels of competition and service at reasonable fares in cities of all sizes;

(C) retard the flow of United States air carrier bankruptcies and accompanying loss of jobs for United States citizens;

(D) provide a stable work environment for airline industry employees; and

(E) continue to reduce noise for citizens around airports without damaging the economic or competitive positions of the air carriers.

(3) CONSIDERATION OF AIRCRAFT NOISE ABATEMENT.—In carrying out the study and investigation under paragraph (1), the Commission shall take into account aircraft noise abatement, a priority established by Congress by enactment of the Airport Noise and Capacity Act of 1990.

(d) SPECIFIC MATTERS TO BE ADDRESSED.—The commission shall specifically investigate and study under subsection (c)(1) the following:

(1) FINANCIAL CONDITION OF AIRLINE INDUSTRY.—The current financial condition of the airline industry and how the industry's financial condition is likely to change over the next 5 years, including—

(A) the profits or losses likely to be achieved by the airline industry over the next 5 years;

(B) whether or not any profits realized will be adequate to permit airlines to acquire the capital equipment necessary to meet the demand of the traveling public in a safe and efficient manner, while complying with environmental regulations; and

(C) whether or not any major airlines are likely to fail or sell major assets in order to survive.

(2) ADEQUACY OF COMPETITION.—The current state of competition in the airline industry, how the structure of airline industry competition is likely to change over the next 5 years, and whether or not the expected level of competition will be sufficient to continue the consumer benefits of airline deregulation.

(3) LEGAL IMPEDIMENTS TO A FINANCIALLY STRONG AND COMPETITIVE AIRLINE INDUSTRY.—Whether or not the Federal Government should take any legislative or administrative actions to improve the financial condition of the airline industry or to enhance airline competition, including whether or not any changes are needed in the legal and administrative policies which govern—

(A) the initial award and the transfer of international airline routes;

(B) the allocation of slots at high density airports;

(C) the allocation of gates, particularly at airports dominated by 1 or a limited number of airlines;

(D) frequent flier programs;

(E) airline computer reservation systems;

(F) the rights of foreign investors to invest in United States airlines;

(G) the taxes and user fees imposed on United States airlines;

(H) the regulatory responsibilities imposed on United States airlines;

(I) the bankruptcy laws of the United States and related fitness rules administered by the Department of Transportation as they apply to airlines; and

(J) the obligations of failing airlines to meet pension obligations.

(4) INTERNATIONAL AVIATION POLICY.—Whether or not the policies and strategies followed by the United States in international aviation are promoting the ability of United States airlines to achieve long-term competitive success in international markets, including—

(A) the Government's general negotiating policy;

(B) the desirability of multilateral rather than bilateral negotiations;

(C) whether or not foreign countries have developed the necessary infrastructure of airports and airways to enable United States airlines to provide the service needed to meet the demand for aviation service between the United States and such countries;

(D) the rights granted foreign airlines to provide service in United States domestic markets ("cabotage"); and

(E) the rights granted foreign investors to invest in United States airlines.

(5) ASSESSMENT OF AIRCRAFT MANUFACTURING INDUSTRY.—The state of the United States aircraft manufacturing industry and make recommendations to the president and Congress concerning policies that will help foster a healthy, competitive United States aircraft manufacturing industry.

(6) STUDY OF INCENTIVES FOR EXPEDITED FLEET CONVERSION.—The possibility of long-term loan guarantees and tax incentives for air carriers to expedite the conversion of the commercial airline fleet from Stage 2 to Stage 3 aircraft in advance of the deadlines established by the Airport Noise and Capacity Act of 1990.

(e) MEMBERSHIP.—

(1) APPOINTMENT.—The Commission shall be composed of 15 voting members and 11 nonvoting members as follows:

(A) 5 voting members and 1 nonvoting member appointed by the President.

(B) 3 voting members and 3 nonvoting members appointed by the Speaker of

the House of Representatives.

(C) 2 voting members and 2 nonvoting members appointed by the minority leader of the House of Representatives.

(D) 3 voting members and 3 nonvoting members appointed by the majority leader of the Senate.

(E) 2 voting members and 2 nonvoting members appointed by the minority leader of the Senate.

(2) QUALIFICATIONS.—Voting members appointed pursuant to paragraph (1) shall be appointed from among individuals who are experts in aviation economics, finance, international trade, and related disciplines and who can represent airlines, passengers, shippers, airline employees, aircraft manufacturers, general aviation, and the financial community.

(3) TERMS.—Members shall be appointed for the life of the Commission.

(4) VACANCIES.—A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

(5) TRAVEL EXPENSES.—Members shall serve without pay but shall receive travel expenses, including per diem in lieu of subsistence, in accordance with subchapter I of chapter 57 of title 5, United States Code.

(6) CHAIRMAN.—The President, in consultation with the Speaker of the House of Representatives and the majority leader of the Senate, shall designate the Chairman of the Commission from among its voting members.

(f) COMMISSION PANELS.—The Chairman shall establish such panels consisting of voting members of the Commission as the chairman determines appropriate to carry out the functions of the Commission.

(g) STAFF.—The Commission may appoint and fix the pay of such personnel as it considers appropriate.

(h) STAFF OF FEDERAL AGENCIES.—Upon request of the Commission, the head of any department or agency of the United States may detail, on a reimbursable basis, any of the personnel of that department or agency to the Commission to assist it in carrying out its duties under this section.

(i) ADMINISTRATIVE SUPPORT SERVICES.—Upon the request of the Commission or a panel of the Commission, the Secretary of Transportation shall provide the Commission or panel with staff and other support to assist the Commission or panel in carrying out its responsibilities.

(j) STAFF AND OTHER SUPPORT.—Upon the request of the Commission or a panel of the Commission, the Secretary of Transportation shall provide the Commission or panel with staff and other support to assist the Commission or panel in carrying out its responsibilities.

(k) OBTAINING OFFICIAL DATA.—The Commission may secure directly from any department or agency of the United States information (other than information required by any statute of the United States to be kept confidential by such department or agency) necessary for the Commission to carry out its duties under this section. Upon request of the Commission, the head of that department or agency shall furnish such nonconfidential information to the Commission.

(l) REPORT.—Not later than 90 days after the date on which initial appointments of members to the Commission are completed, the Commission shall transmit to the President and Congress a report on the activities of the Commission, including recommendations made by the Commission under subsection (c)(2).

(m) TERMINATION.—The Commission shall terminate on the 30th day following the date of transmittal of the report under subsection (l). All records and papers of the Commission shall thereupon be delivered by the Administrator of General Services for deposit in the National Archives.

(n) COMMISSION EXPENDITURES.—Amounts expended to carry out this section shall not be considered expenses of advisory committees for purposes of section 312 of the Department of Transportation and Related Agencies Appropriations Act, 1993.

(o) PREVIOUSLY APPOINTED MEMBERS.—Any appointment made to the Commission before the date of the enactment of this subsection shall not be effective after such date of enactment.

MEMBERS OF THE STAFF

COMMISSION STAFF

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Rosalind K. Ellingsworth, Staff Director
Thomas R. Devine, General Counsel
William E. Jackman, Director of Public Affairs
Arlene F. Keevill, Director of Operations
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Steve Falken, United States Trade Representative
MaryKay Fuller, Pension Benefit Guaranty Corporation
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Towanda Daniels, National Airline Commission
Kanisha Harris, Department of Transportation
Jodie Herbert, Department of Transportation (FAA)
Gloria Orenzow, National Airline Commission
Lisa Simmons, Department of Transportation
Kendolyn Wilson, Department of Transportation

ADDITIONAL VIEWS

Concurring and partial differing views of member

JOHN E. ROBSON

With few exceptions the analysis and recommendations of this Commission are sound and constructive. Particularly commendable are the Commission's explicit rejection of any revisitation of government fare or route regulation and its bold recommendations on restructuring the FAA and liberalizing the international air system. However, I am constrained to express these differing views on certain matters.

1. I oppose the Commission's recommendation to establish a new presidentially appointed airline financial advisory board. In my view, this new government body could be either a meddlesome kibitzer in the affairs of the airline industry, or, at worst, a possible Trojan Horse for airline re-regulation.

To begin with, in the current environment of huge budget deficits and excessive government spending, the taxpayers do not need another government entity and its inevitable staff, particularly when the Secretary of Transportation is already fully empowered to retain whatever outside advisors and experts are thought to be helpful. Our nation needs fewer government entities — not more.

Beyond that, the role of this "advisory" group is murky. For example, the Commission recommends that, "if necessary, the Transportation Secretary could review a company's business, capital or financial plans with the advisory committee's assistance." To me this looks pretty much like the "advisors" are right in the middle of the government decisional process. In fact, it looks dangerously like what the now-defunct Civil Aeronautics Board used to do back when the airline industry was regulated.

And human nature being what it is, it is altogether possible that this group of presidentially appointed wise men and women will not be content only to advise — they will want to DO something. Indeed, the sponsors of this idea indicated that this should be an activist body. That worries me and should worry all those who are suspicious of any step in the direction of airline re-regulation. History teaches us that from such small acorns sprout mighty regulatory oaks.

In fact, this committee, with its apparently Darwinian mission of promoting the survival of the financially fittest, could become a convenient instrument for protecting healthy, incumbent carriers and suppressing competition by advocating the elimination of carriers that temporarily fall on hard times or opposing the certification of new, low-cost entrants.

Finally, the new entity's private-sector members will enjoy unique access to the Secretary of Transportation and other corridors of power, and present inviting new targets of influence for special interests.

This is an idea whose time, if it ever came, did so under the airline regulatory regime of the past. We should not turn the clock back on airline deregulation, even a little bit. Surely, the Clinton Administration's concept of "reinventing government" to be more efficient and less wasteful does not suggest that we should establish a brand-new, unneeded government agency.

2. On the subject of bankruptcy, my concerns are that the Commission makes findings and recommendations that seem to rest on an interpretation of the evidence that ignores the substantial conflicts of data and opinion regarding the effects of bankrupt carriers on the current financial condition of the airline industry. It is entirely appropriate to re-examine and, if necessary, change the U.S. bankruptcy laws in light of the experience of their operation in all industries. But, I do not agree that the evidence before the Commission is sufficiently conclusive to support the Commission's findings.

Supplemental views of member

DANIEL M. KASPER

Although I would agree with the reservations expressed by John Robson about the financial advisory panel he describes, that is not what this Commission has recommended. The panel recommended by the Commission would be purely advisory, and we recommend no new regulatory authority for the Department of Transportation. As both the report of the Commission and John Peterpaul's dissent make clear, the Commission has rejected roundly proposals aimed at re-regulating the airline industry.

Far more significant, in my view, are the Commission's findings and recommendations with regard to international aviation and reforming the nation's air traffic control system. If adopted by the Administration and by the Congress, the changes the Commission recommends in these areas will transform commercial aviation and generate benefits to travelers, shippers, airlines and communities well into the next century — long after the current financial problems of airline industry are but a distant memory.

Editor's Note: *In lieu of filing a dissent in the allotted space, Mr. Peterpaul requested the Commission to publish the following statement:*

JOHN F. PETERPAUL

"Commissioner John F. Peterpaul submitted a dissenting opinion that was more substantial than could be accommodated by the allotted space for the Commission's report. Therefore, Mr. Peterpaul's dissenting opinion is being published under separate cover and can be obtained by corresponding with:

International Association of Machinists
Transportation Department
9000 Machinists Place
Upper Marlboro, MD 20772"

ACKNOWLEDGEMENTS

The following government agencies, industry organizations and companies have been most helpful to the Commission and its staff:

THE WHITE HOUSE

THE CONGRESSIONAL LEADERSHIP

U.S. DEPARTMENT OF COMMERCE
Secretary Ron Brown

U.S. DEPARTMENT OF DEFENSE
Secretary Les Aspin

U.S. DEPARTMENT OF JUSTICE
Attorney General Janet Reno

U.S. DEPARTMENT OF STATE
Secretary Warren Christopher

U.S. DEPARTMENT OF TRANSPORTATION
Secretary Federico Peña

U.S. DEPARTMENT OF THE TREASURY
Secretary Lloyd Bentsen

OFFICE OF THE U.S. TRADE REPRESENTATIVE
Trade Representative Mickey Kantor

Federal Aviation Administration
General Services Administration
National Aeronautics and Space Administration
Pension Benefit Guaranty Corporation
The Cleveland Federal Reserve Bank

Aerospace Industries Association of America
American Association of Airport Executives
Air Line Pilots Association
Air Transport Association
General Aviation Manufacturers Association
International Air Transport Association
The International Association of Machinists
National Air Carrier Association
National Business Aircraft Association
Regional Airline Association

Boeing
General Electric
McDonnell Douglas
United Technologies
Goldman Sachs
Lazard Freres & Co.

Without the help of these entities, the Commission would not have been able to finish its task in the 90 days allowed. The National Commission to Ensure a Strong Competitive Airline Industry thanks them, and those inadvertently overlooked in this list, for making our job easier.

"Three principles — **efficiency and technological superiority, financial strength and access to global markets** — have shaped the work of this Commission."

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