The original documents are located in Box 1, folder "Aircraft Noise (5)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

file

THE WHITE HOUSE

WASHINGTON

August 14, 1976

MEMORANDUM TO: JIM CONNOR

FROM: JIM CANNON

SUBJECT: Proposed Aviation Noise Policy Statement

We cannot do the thorough job that needs to be done to consolidate and staff the Aviation Noise Policy Statement and have it ready for the 2 p.m. Courier on Tuesday, August 17.

We will have it ready for the Thursday Courier.

Aviation Noise

DRAFT DECISION

THE WHITE HOUSE

WASHINGTON

August 25, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Aviation Noise Policy and Aircraft Replacement

The purpose of this memorandum is to seek your decision on aviation noise policy and, if appripriate, aircraft replacement. Secretary Coleman is scheduled to testify on the Administration's position before the House Aviation Subcommittee September 1. He has developed a proprosal which not only would curb aircraft noise, but also would create a special trust fund for the purchase of replacement aircraft.

There are essentially two issues which require your consideration:

(1) What sort of federal aviation noise policy should be announced September 1?

(2) Should that policy include a role for the Federal government in assisting airlines to meet the costs of complying with the noise policy.

BACKGROUND

Six million people are significantly affected by aircraft noise at 100 airports. About 600,000 people near 26 major airports are seriously affected. Public officials, environmental groups, and airport neighbors have long pushed for federal action to reduce aircraft noise.

The main federal action to date has been the issuance of noise standards for all new aircraft built since 1969. However, because of the longevity of jet aircraft, 1600 airplanes (77% of the current commercial jet fleet) do not meet the standards. The oldest planes in the jet fleet -- about 500 B-707's and DC-8's (25% of the fleet) -- are the noisiest and least fuel efficient aircraft. Later model aircraft -- about 1,000 B-727's B-737's and DC-9's (50% of the fleet) -- are significantly less noisy but fail to meet the 1969 standards. About half the U.S.-owned B747's (50 planes) also fail to meet the standards.

There are a number of ways to reduce aviation noise which are

currently in practice:

- Modification (retrofit) of existing aircraft engines with sound absorbing material;
- Replacement of older, noisy aircraft with new, quieter planes;
- Imposition of jet "bans" on night curfews at airports (e.g. Washington National);
- Land acquisition and local zoning measures to create noise buffer zones; and
- Modified operational techniques to minimize ground noise.

Many of these techniques are being used in response to strong pressures at local levels. Lawsuits against local airports are increasing both in frequency and in damages sought. Over the last five years airport operators have paid $25 million on noise judgments and settlements, and have invested hundreds of millions in land acquisitions for noise buffer zones. The noise issue has seriously curtailed airport planning and expansion.

Apart from the noise issue, there are a number of related problems currently faced by the airlines and aircraft manufacturers. Secretary Coleman proposes to deal with these problems in a comprehensive fashion using the noise issue as a vehicle for instituting a special trust fund to be used for aircraft replacement or modification. He cites the following problems:

(1) Airlines have experienced a low return on investment in recent years and are unable to finance new airplanes they will need in the 1980's, with or without a federal noise policy.

(2) In the absence of new orders, U.S. aircraft manufacturers are unable to commit themselves fully to the development of the next generation of long range aircraft, threatening the traditional American superiority in this field (especially in the form of government subsidized competition from Germany and France);

(3) Unemployment, depressed earnings, and unused capacity continue to plague aircraft manufacturers and related industries.

(4) Many airplanes in the existing jet air fleet are inefficient users of fuel.

These concerns should not be ignored in the consideration of the two issues discussed below.

ISSUE I What sort of Federal Aviation Noise Policy should the Administration announce September 1?

There are three basic alternatives regarding what policy statement should be issued. The options differ in the emphasis placed on noise reduction methods. The options are:

(1) Issue a comprehensive policy statement which imposes strict standards on all aircraft (old as well as new).

(2) Issue a limited policy statement which confines the federal regulatory role to assistance on operational techniques and future aircraft noise reduction.

(3) Defer a policy statement until after September 1 to permit more thorough analysis of the merits of various noise abatement options.

Discussion of Options

Option #1 - Comprehensive policy statement.

This option embraces the regulatory components of Secretary Coleman's proposed policy, but does not include his related financing proposal (that proposal is discussed in Issue II below). This policy would require most commercial aircraft operating in the U.S. to meet the 1969 noise standards over the next 4 - 10 years.

The DOT proposal would require that the entire fleet of all domestic air carriers and the domestic portion of U.S. international air carriers' fleets meet the current noise standards, or be retired, according to a prescribed timetable. The intention is to force replacement of the oldest, noisiest jets (B-707's and DC-8's), and the modification of the later model, non-standard planes (B-727's, B-737's, B-747's and DC-9's).

The arguments in favor of this option are:

- It would clarify the Federal responsibility for reducing aircraft noise at its source.

- It would guarantee lower aircraft noise levels over 4 - 10 years -- 2 - 3 years sooner than presently scheduled fleet retirements.

- It would partially relieve the pressure on local airport authorities to impose disruptive operating restrictions.

- It would delineate the major responsibilities of carriers, airport operators, and the various levels of government.

- It would remove an existing air of uncertainity which impedes the ability of local authorities to plan for their long-range air service needs.

- It would promote public understanding of the economic costs associated with achievement of the socially desirable goal of aircraft noise abatement.

- It would generate new orders for aircraft, thus speeding the pace of technological investments, new aerospace industry jobs, energy savings, and preserved competitive advantage of U.S. manufacturers.

It should be noted that Option #1 would place severe financial pressures on the airlines which they may not be able to manage independently. This issue is discussed below as Issue II.

Option #2 - Limited policy statement

This option would limit federal actions to the promulgation of regulations for future aircraft types and the establishment of the quietest operating procedure consistent with a high safety standard.

Arguments in favor of this option are:

- It would minimize federal involvement and allow communities to decide on preferred noise abatement measures (This seems appropriate because: (1) about half the six million people seriously effected by airplane noise live near 5 major airports; and (2) the community is best equipped to trade off the degree and cost of service with the amount of noise it wished to accept. There is evidence that many areas prefer to tolerate noise rather than reduce air activity because of service and employment losses that operating restrictions can bring.)

- It would recognize the fact that the noise problem is taking care of itself. It is expected that most of the noisiest planes will be retured over the next ten years, and major federal intervention would serve only to reduce this timetable by 2 - 3 years.

- It would recognize the belief that action to control noise at the source does not greatly change people's perception of the annoyance caused by jet planes.

Option #3 - Delay issuance of a federal policy statement.

This option would postpone the announcement of the Administration's aviation noise policy until after September 1.

Arguments in favor of this option are:

- It would permit more thorough analysis of the asserted merits of Options 1 and 2, i.e.

  -- To what extent does Option #1 achieve the external benefits claimed (e.g. improved U.S. competitive position, job creation, energy savings, etc.)?

  -- Does Option #1 create an undesirable precedent for federal action?

  -- Does Option #2 encourage local action which disrupts air service and stalls airport and land use planning?

  -- Does Option #1 invite retaliatory action by international air carriers and their governments?

- It would permit consideration of alternative policy options not included here, e.g.

  -- A hybrid compromise incorporating elements of Option #1 and #2;

  -- Differential treatment of certain airports; or

  -- Establishment of a noise pollution tax linked to the degree of noise omitted by specific aircraft.

- It would recognize the fact that although there is pressure for federal action, there is no compelling reason for immediate action. Congress is not likely to act this year on any of the nine noise abatement measures currently before it.

- It would permit Secretary Coleman to hold public hearings of the type he has used so successfully on the Concorde and air bag issues.

RECOMMENDATIONS

DECISION

Option #1 Issue a comprehensive noise policy statement.

_____

Option #2 Issue a noise policy statement that presents a limited federal role.

_____

Option #3 Delay issuance of a federal policy statement.

_____

If Option #1 is selected, Issue II below on financing should be studied and decided.

ISSUE II Should the policy include a role for the Federal government in assisting airlines to meet the costs of complying with the noise policy.

If you decide to issue a comprehensive policy statement which imposes Federal rules affecting the rate of aircraft replacement and capital investment rate of the airliner, consideration should be given to a possible Federal role in helping, airlines to finance the costs of compliance.

Three options are included for your consideration:

(1) Propose the cration of a special trust fund as suggested by DOT.

(2) Propose no special Federal involvement in the financing problem (and continue to push for the Administration's proposed Aviation Act of 1975)

(3) Defer action on the financing problem (and push the Aviation Act of 1975)

The merits of these options are examined below.

RECOMMENDATIONS

Issue 1 — Authorize Secretary Coleman to initiate noise standards for all U.S. commercial aircraft.

Recommending Approval

Secretary Coleman strongly supports approval of Issue 1. He believes that it represents good policy, that a "better" policy is not achievable, and that the Administration's credibility (as well as his own) would be damaged by further delay.

Guy Stever supports approval on the basis that the "facts are relatively well known" and he finds it "difficult to perceive what the delay in issuing a noise policy statement would enable us to accomplish."

Bill Seidman and Bill Gorog are also strong in their support for approval. They are most concerned about the related problems of the airline and aerospace industries and view approval of Issue 1 as an important trigger to helping solve the related problems.

Approval is also recommended by NASA, State, and HEW.

Recommending Disapproval

Jim Lynn strongly supports disapproval of Issue 1. He questions whether any Federal action is needed at this time. He is particularly concerned that the noise policy will increase pressure for a Federal role in solving the airlines' and aerospace industries' financial problems.

CEA supports disapproval because of the unknown impact of this policy on competition in both the airline and airframe industries. He suggests the creation of an EPB Task Force to analyze the problem more comprehensively by November or December.

Disapproval is also recommended by Max Friedersdorf, CEQ, Justice, and the Council of Wage and Price Stability.

NSC is neutral on this issue.

Issue 2 — If Option 1 is approved, authorize proposals to Congress for a $3.5 billion Aircraft Replacement Fund.

Recommending Approval

Secretary Coleman strongly supports approval of Issue 2. He is convinced that Federal involvement is necessary, and

believes that alternative Federal financing roles have been adequately studied and can be rejected. He would be prepared to hold hearings on the issue, but would consider it a grave mistake not to at least announce the proposed noise policy.

Bill Seidman and Bill Gorog support approval because of their strong concern for the health of the affected industries and the U.S. competitive position. Gorog believes the problem "requires action, not study" and thinks the proposal will satisfy environmentalists, aircraft workers, industry management, and the bankers.

Guy Stever supports approval "with caveat of exploration of other schemes of financing" (a position which is not necessarily at odds with disapproval).

Approval is also supported by NASA, State, and HEW.

Recommending Disapproval

Jim Lynn firmly believes that a decision should be delayed until the need for Federal involvement has been better established and other alternative mechanisms studied. He also believes any financing proposal should be tied directly to the enactment of the air regulatory reform legisltaion.

CEA supports disapproval on the basis that economic analysis is lacking for "a reasoned decision at this time." They believe "there are too many conflicting views on the effects on both industries" to make a decision. They recommend an EPB Task Force study to be completed in November or December.

Disapproval is also recommended by Max Friedersdorf, CEQ, Justice, and COWPS.

DECISION

Option #1 Propose the DOT financing plan

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Option #2 Delay announcement of a financing plan

_____

THE WHITE HOUSE

WASHINGTON DECISION

August 25, 1976

Draft

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Aviation Noise Policy and Aircraft Replacement

The purpose of this memorandum is to seek your decision on aviation noise policy and the means for airlines to finance aircraft replacement and new aircraft development. Secretary Coleman is scheduled to testify on the Administration's position before the House Aviation Subcommittee September 2.

There are essentially two issues which require your consideration:

I. What position should the Administration take on aviation noise policy ?

II. If a noise policy is issued, should a financing mechanism to help airlines replace old aircraft and to stimulate the development of a new generation of aircraft by U.S. airplane manufacturers be included.

BACKGROUND

Six million people are significantly affected by aircraft noise at 100 airports. About 600,000 people are seriously affected. Public officials, environmental groups, and airport neighbors have long pushed for federal action to reduce aircraft noise.

The main federal action to date has been the issuance of noise standards for all new aircraft. Approximately 1600 airplanes (77% of the current commercial jet fleet) do not meet the standards. The oldest planes in the jet fleet -- about 500 B-707's and DC-8's (25% of the fleet) -- are the

noisiest and least fuel efficient aircraft. Later model aircraft -- about 1,000 B-727's B-737's and DC-9's (50% of the fleet) -- are significantly less noisy but fail to meet the 1969 standards. About half the U.S.-owned B-747's (50 planes) also fail to meet the standards.

The FAA has statutory authority and responsibility for setting noise standards for new and existing aircraft. It has so far failed to issue standards in existing airplanes, but is under pressure to do so from the EPA, interest groups, and at least one State (Illinois through litigation).

There are a number of ways to reduce aviation noise:

- Modification (retrofit) of existing aircraft engines with sound absorbing material;
- Replacement of older, noisy aircraft with new, quieter planes;
- Imposition of jet "bans" or night curfews at airports (e.g. Washington National);
- Land acquisition and local zoning measures to create noise buffer zones; and
- Modified operational techniques to minimize noise.

Many of these techniques are already being used in response to strong pressures at local levels. Lawsuits against local airports are increasing both in frequency and in damages sought. Over the last five years airport operators have paid $25 million on noise judgments and settlements, and have invested hundreds of millions in land acquisitions for noise buffer zones. The noise issue has seriously curtailed airport planning and expansion.

Secretary Coleman's Position (See Tab A)

DOT and FAA recommend that domestic air carriers and the domestic portion of U.S. international air carriers' fleets be required to meet Federal Aviation Regulations, Part 36, (FAR 36) noise levels or to be retired according to the following schedule:

- B-747's - within six years
- 4-engine narrow-body jets - as soon as possible, but within six to eight years
- 2- and 3-engine narrow-body jets - 1/3 within three years, 2/3 within six years, with 1/3 permitted to continue in use after six years at airports other than the major ones with substantial noise problems.

The imposition of noise standards on existing aircraft will place a financial burden on some air carriers. At the same time it is desirable to begin a new generation of U.S. aircraft. The aerospace industry, given the financially weak position of U.S. air carriers, does not have the economic incentive to go forward with these programs at this time.

The DOT/FAA noise policy statement, potentially a significant stimulus toward the needed new generation of aircraft, recommends that the Administration support a carrier agreement under which they would collect a 2 percent surcharge for 10 years, pool the surcharge revenues and redistribute them slightly. The fund would be used for replacement of aircraft that do not comply with FAR 36.

Apart from the noise issue, there are a number of related problems currently faced by the airlines and aircraft manufacturers. Secretary Coleman proposes to deal with these problems in a comprehensive fashion. He maintains that:

(1) Airlines have experienced a low return on investment in recent years and are unable to finance new airplanes they will need in the 1980's, with or without a federal noise policy.

(2) In the absence of new orders, U.S. aircraft manufacturers are unable to commit themselves fully to the development of the next generation of long range aircraft, threatening the traditional American superiority in this field (especially in light of government subsidized competition from Germany and France);

(3) Unemployment, depressed earnings, and unused capacity continue to plague aircraft manufacturers and related industries.

(4) Many airplanes in the existing jet air fleet are inefficient users of fuel.

ISSUE I. What position should the Administration take on aviation noise policy?

There are three basic alternatives regarding what position the Administration should adopt. The options differ in the emphasis placed on noise reduction methods. The options are:

(1) Issue a comprehensive policy statement that imposes noise standards on existing aircraft and recommends the DOT financing mechanism.

(2) Issue a noise policy statement and hold a hearing on a financing mechanism.

(3) Decide not to issue noise regulations for existing aircraft.

Discussion of Options

Option #1 - Issue a comprehensive noise policy statement

This option embraces the regulatory and financing components of Secretary Coleman's proposed policy. (That proposal is discussed in Issue II below).

The arguments in favor of this option are:

- This option is a limited Federal action that avoids pre-emption. It does not go as far as other federal agencies, the airlines and airport operators would like.

- It would clarify the federal responsibility for reducing aircraft noise at its source.

- It would guarantee lower aircraft noise levels over 4 - 8 years -- 2 - 3 years sooner than presently scheduled fleet retirements.

- It would partially relieve the pressure on local airport authorities to impose disruptive operating restrictions.

- It would delineate the major responsibilities of carriers, airport operators, and the various levels of government.

- It would remove an existing air of uncertainty which impedes the ability of local authorities to plan for their long-range air service needs.

- It would promote public understanding of the economic costs associated with achievement of the socially desirable goal of aircraft noise abatement.

- It could hasten new orders for aircraft, thus preserving the competitive advantage of U.S. manufacturers, while speeding the pace of technological investments, new aerospace industry jobs, and energy savings.

It should be noted that Option #1 would place increased financial pressures on the airlines, some of which may not be able to manage independently. This issue is discussed below as Issue II.

Option #2 - Issue a limited noise policy statement that contains a noise regulation and hold a hearing on financing.
This option would limit federal actions to FAA promulgation of regulations for existing aircraft types and FAA establishment of the quietest operating procedures consistent with a high safety standard.

Arguments in favor of this option are:

- It represents Administrative action in the aircraft noise problem.

- The hearing on financing allows all issues on that matter to be presented at once and does not commit the Administration to a final position.

- It would permit Secretary Coleman to hold public hearings of the type he has used so successfully on the Concorde and air bag issues.

Option #3 - Decide not to issue a federal policy statement at time.
This option would postpone the announcement of the Administration's aviation noise policy until after September 2.

Arguments in favor of this option are:

- It would permit more thorough analysis of the asserted merits of Options 1 and 2, i.e.

  -- To what extent does Option #1 achieve the external benefits claimed (e.g. improved U.S. competitive position, job creation, energy savings, etc.)?

  -- Does Option #1 create an undesirable precedent?

  -- Does Option #2 encourage local action which disrupts air service and stalls airport and land use planning?

It would recognize the fact that although there is pressure for federal action, there is no compelling reason for immediate action. Congress is not likely to act this year on any of the nine noise abatement measures currently before it.

RECOMMENDATIONS

DECISION ON ISSUE I

Option #1 Issue a comprehensive noise policy statement.

Option #2 Issue a limited noise policy statement.

Option #3 Delay issuance of a federal policy statement.

ISSUE II If a noise policy is issued, should a financing mechanism to help airlines replace old aircraft and to stimulate the development of a new generation of aircraft by U.S. airplane manufacturers be included.

If you decide on Option 1 on the issue discussed above, i.e., to issue a comprehensive noise policy statement with retrofit/replacement deadlines, Secretary Coleman urges that the Administration also endorse a $3.0 to 3.5 billion "environmental surcharge" collected by the carriers to help finance the required replacement and retrofitting of jets. In addition to assisting the domestic airline industry to modernize its jet fleet, Secretary Coleman argues that this program will stimulate earlier development of a new generation of aircraft by U.S. manufacturers and strengthen the position of U.S. airframe manufacturers in the world aircraft market.

There are two basic options regarding Federal involvement in financing the retrofit/replacement of existing airplanes and the development of new generation aircraft. These options are:

(1) Announce the financing plan recommended by DOT.

(2) Do nothing at this time except continue to push strongly for the Aviation Act and initiate a thorough review of the related airplane financing and new plane development situation to consider financing options.

Background

American scheduled airlines had about 2000 jet aircraft in their fleets at the beginning of 1976. Of these, about 300 are wide-bodied jets (B-747's, DC-10's and L-1011s) which will be used into the 1990s. Another about 1,225 B-727's, B-737's and DC-9's in the fleets are, for the most part, relatively new. Only about 300 of these will be replaced by 1985. Finally, about 475 older B-707's and DC-8's will be largely phased out by 1985.

The application of noise standards on older aircraft may effectively require some aircraft, now likely to be replaced by 1985, to be replaced at an earlier date. Thus, the impact of noise standards may be to increase capital outlays during the next several years while reducing outlays somewhat in the mid-1980's, but the magnitudes of these shifts has not been established.

If the airlines were to continue to earn the 5.7% rate of return which they have experienced over the past few years, certain carriers will have substantial problems obtaining the capital needed to finance the fleet replacement and expansion. However, if our airlines begin to earn a normal rate of return (10-12% for industry), they will generate $6-8 billion of earnings. This internally-generated capital plus the new debt and equity which would be available if the airlines were financially healthy would be sufficient to meet all the capital needs of the airlines over this 1976-1985 period.

Last fall you proposed the Aviation Act of 1975 which is designed to increase competition in the airline industry, decrease CAB involvement in the business decisions of the airlines and improve the financial health of the airlines. If enacted, it is anticipated that the Aviation Act will create an economic environment where the airlines earn a normal rate of return. Extensive hearings on this bill have taken place in both the Senate and House. Positive action on the Aviation Act or a similar bill is anticipated by the end of 1977. The Aviation Act phases in over a five year period.

A memorandum at Tab B provides some information on the Aircraft Manufacturing Industry.

Discussion of Options

Option #1 - The DOT proposal would couple the Noise Policy with legislation which would do the following:

-- Reduce the Federal air passenger ticket and freight way bill taxes collected for the Airport/Airway Trust Fund from 8% to 6% and from 5% to 3%, respectively.

-- Impose a 2% surcharge for 10 years on all domestic passenger tickets and freight waybills.

-- Deposit surcharge revenues (expected to be $3 to 3.5 billion over 10 years) in an Aircraft Replacement Fund, managed by intercarrier agreement.

-- Grant each carrier drawing rights to the Fund in proportion to its total system passenger and cargo revenue. Withdrawals would be permitted only for replacement of aircraft not meeting existing Federal noise standards for new aircraft. There would be no requirement that the money be used to purchase the next generation of jet aircraft.

-- Deposit any balances remaining in the Aircraft Replacement Fund after program objectives have been achieved in the existing Airport/Airway Trust Fund, dedicating them to noise control purposes (including land acquisitions and easements).

-- Authorize payment of the cost of retrofitting two- and three-engine aircraft ($250 to 300 million) from the Airport/Airway Trust Fund.

The arguments in favor of this option are:

- It would help finance about one-half the cost of replacing the oldest, noisiest B-707's and DC-8's while the later model B-727's, B-737's and DC-9's would be retrofitted.

- It would not adversely affect the Airport/Airway Trust Fund because the reduced rates are expected to be sufficient to cover all outlays chargeable to the Fund under the Airport Development Aid Program (ADAP) bill through FY 1980. DOT estimates that without a tax reduction, unused Trust Fund

balances will grow rapidly (to $1.7 billion by 1979) and become a target for other tax reductions or unjustified spending proposals already being advanced by the aviation industry.

- It would provide the air carriers with greater assurance of the financing needed to retrofit/ replace existing aircraft.

- It would help to reduce a financial burden (created by the imposition of noise standards on existing aircraft) on some air carriers that they cannot meet. Credit markets are now virtually closed to the industry, because the return on investment since 1967 has averaged 5.7%. Even with the loosening of CAB control over air fares, as you proposed last October in the aviation regulatory reform bill, some argue that it is unlikely that the industry can assume the full burden of meeting the noise standards within the proposed time frame.

- It would recognize the fact that the air carrier industry has several financially weak members (Pan Am, TWA, Eastern) which would find meeting the DOT standards very difficult within their existing resources. Redistribution of surcharge revenues would avoid an unduly severe impact on the four major carriers (Pan Am, TWA, American and United -- but not Eastern) that own 60% of the B-707's and DC-8's. This program would tend to help the "weak" carriers more than the "strong" carriers (such as Delta, Northwest and Continental) which, because of better management or more favorable route structures, have purchased newer, quieter planes and would thus tend to equalize the competitive position of most of the airlines.

- It could create sizable orders for new aircraft and might stimulate airframe manufacturers into beginning development of new, advanced aircraft types with improved fuel efficiency and quieter engines at a somewhat earlier date. There are now no U.S.-manufactured 140-200 passenger, medium/long range aircraft suitable to replace those reaching the end of their useful lives in the early 1980's. It is desirable to begin to develop within the next year or two a new

generation of U.S. aircraft. However, the aerospace industry does not have the economic incentive to go forward with these programs at this time. (Each new U.S. aircraft has a total production cost of as much as $1 billion). Employment in the aerospace industry would also rise substantially (each new aircraft program would add 10,000 new jobs within two years and 25,000 new jobs within six years) and the competitive advantage of U.S. manufacturers would be enhanced. This would help to maintain the U.S. preeminent position in the international aviation market in the face of stiff new government-subsidized competition from France and Germany. Failure to act may allow government-subsidized European manufacturers to preempt the next generation market, thereby reducing sales and jobs for the U.S. aerospace industry.

- It would finance the cost of reducing noise by taxing the user. Cutting taxes while initiating a surcharge also has the advantage of keeping air fares constant.

- It would have minimal inflationary impact (DOT estimates) primarily because private sector outlays would be spread over a 10 year period and would be in the airframe industry which has idle manufacturing capacity.

Option #2 - Do nothing at this time except continue to push strongly for the Aviation Act and initiate a thorough review of the related airplane financing and new plane development situation to consider financing options.

Factors in favor of this option are:

- If a problem exists, this will allow the Administration to examine alternative ways of dealing with it including, for example: the DOT financing proposal (Option 1 above) or some variation, loan guarantees, tax incentives, aircraft development grants to airframe manufacturers, DOD purchase of noisy planes for the air transport reserve fleet, Government purchase of new generation aircraft and special export incentives for foreign airlines willin to order new generation aircraft from U.S. manufacturers.

- To date, sufficient information on the aircraft needs of the airlines, the financing problems of the airlines, the new airframe development plans of the U.S. airframe manufacturers and the competitive situation posed by foreign manufacturers has not been developed by an interagency group charged with carrying out a factual analysis of the issues and developing appropriate alternatives for action.

- The airlines and airframe manufacturers are just coming out of a disastrous recession and thus there is risk of overreacting to a problem which may now be resolved by market forces. Deferring action would give additional time to assess whether the airlines and airframe manufacturers will solve any problems on their own.

Recommendations

THE WHITE HOUSE

WASHINGTON

August 25, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Aviation Noise Policy and Aircraft Replacement

The purpose of this memorandum is to seek your decision on aviation noise policy and, if appripriate, aircraft replacement. Secretary Coleman is scheduled to testify on the Administration's position before the House Aviation Subcommittee September 1. He has developed a proprosal which not only would curb aircraft noise, but also would create a special trust fund for the purchase of replacement aircraft.

There are essentially two issues which require your consideration:

(1) What sort of federal aviation noise policy should be announced September 1?

(2) Should that policy include a role for the Federal government in assisting airlines to meet the costs of complying with the noise policy.

BACKGROUND

Six million people are significantly affected by aircraft noise at 100 airports. About 600,000 people near 26 major airports are seriously affected. Public officials, environmental groups, and airport neighbors have long pushed for federal action to reduce aircraft noise.

The main federal action to date has been the issuance of noise standards for all new aircraft built since 1969. However, because of the longevity of jet aircraft, 1600 airplanes (77% of the current commercial jet fleet) do not meet the standards. The oldest planes in the jet fleet -- about 500 B-707's and DC-8's (25% of the fleet) -- are the noisiest and least fuel efficient aircraft. Later model aircraft -- about 1,000 B-727's B-737's and DC-9's (50% of the fleet) -- are significantly less noisy but fail to meet the 1969 standards. About half the U.S.-owned B747's (50 planes) also fail to meet the standards.

There are a number of ways to reduce aviation noise which are

currently in practice:

- Modification (retrofit) of existing aircraft engines with sound absorbing material;
- Replacement of older, noisy aircraft with new, quieter planes;
- Imposition of jet "bans" on night curfews at airports (e.g. Washington National);
- Land acquisition and local zoning measures to create noise buffer zones; and
- Modified operational techniques to minimize ground noise.

Many of these techniques are being used in response to strong pressures at local levels. Lawsuits against local airports are increasing both in frequency and in damages sought. Over the last five years airport operators have paid $25 million on noise judgments and settlements, and have invested hundreds of millions in land acquisitions for noise buffer zones. The noise issue has seriously curtailed airport planning and expansion.

Apart from the noise issue, there are a number of related problems currently faced by the airlines and aircraft manufacturers. Secretary Coleman proposes to deal with these problems in a comprehensive fashion using the noise issue as a vehicle for instituting a special trust fund to be used for aircraft replacement or modification. He cites the following problems:

(1) Airlines have experienced a low return on investment in recent years and are unable to finance new airplanes they will need in the 1980's, with or without a federal noise policy.

(2) In the absence of new orders, U.S. aircraft manufacturers are unable to commit themselves fully to the development of the next generation of long range aircraft, threatening the traditional American superiority in this field (especially in the form of government subsidized competition from Germany and France);

(3) Unemployment, depressed earnings, and unused capacity continue to plague aircraft manufacturers and related industries.

(4) Many airplanes in the existing jet air fleet are inefficient users of fuel.

These concerns should not be ignored in the consideration of the two issues discussed below.

ISSUE I What sort of Federal Aviation Noise Policy should the Administration announce September 1?

There are three basic alternatives regarding what policy statement should be issued. The options differ in the emphasis placed on noise reduction methods. The options are:

(1) Issue a comprehensive policy statement which imposes strict standards on all aircraft (old as well as new).

(2) Issue a limited policy statement which confines the federal regulatory role to assistance on operational techniques and future aircraft noise reduction.

(3) Defer a policy statement until after September 1 to permit more thorough analysis of the merits of various noise abatement options.

Discussion of Options

Option #1 - Comprehensive policy statement.

This option embraces the regulatory components of Secretary Coleman's proposed policy, but does not include his related financing proposal (that proposal is discussed in Issue II below). This policy would require most commercial aircraft operating in the U.S. to meet the 1969 noise standards over the next 4 - 10 years.

The DOT proposal would require that the entire fleet of all domestic air carriers and the domestic portion of U.S. international air carriers' fleets meet the current noise standards, or be retired, according to a prescribed timetable. The intention is to force replacement of the oldest, noisiest jets (B-707's and DC-8's), and the modification of the later model, non-standard planes (B-727's, B-737's, B-747's and DC-9's).

The arguments in favor of this option are:

- It would clarify the Federal responsibility for reducing aircraft noise at its source.

- It would guarantee lower aircraft noise levels over 4 - 10 years -- 2 - 3 years sooner than presently scheduled fleet retirements.

- It would partially relieve the pressure on local airport authorities to impose disruptive operating restrictions.

- It would delineate the major responsibilities of carriers, airport operators, and the various levels of government.

- It would remove an existing air of uncertainity which impedes the ability of local authorities to plan for their long-range air service needs.

- It would promote public understanding of the economic costs associated with achievement of the socially desirable goal of aircraft noise abatement.

- It would generate new orders for aircraft, thus speeding the pace of technological investments, new aerospace industry jobs, energy savings, and preserved competitive advantage of U.S. manufacturers.

It should be noted that Option #1 would place severe financial pressures on the airlines which they may not be able to manage independently. This issue is discussed below as Issue II.

Option #2 - Limited policy statement

This option would limit federal actions to the promulgation of regulations for future aircraft types and the establishment of the quietest operating procedure consistent with a high safety standard.

Arguments in favor of this option are:

- It would minimize federal involvement and allow communities to decide on preferred noise abatement measures (This seems appropriate because: (1) about half the six million people seriously effected by airplane noise live near 5 major airports; and (2) the community is best equipped to trade off the degree and cost of service with the amount of noise it wished to accept. There is evidence that many areas prefer to tolerate noise rather than reduce air activity because of service and employment losses that operating restrictions can bring.)

- It would recognize the fact that the noise problem is taking care of itself. It is expected that most of the noisiest planes will be retured over the next ten years, and major federal intervention would serve only to reduce this timetable by 2 - 3 years.

- It would recognize the belief that action to control noise at the source does not greatly change people's perception of the annoyance caused by jet planes.

Option #3 - Delay issuance of a federal policy statement.

This option would postpone the announcement of the Administration's aviation noise policy until after September 1.

Arguments in favor of this option are:

- It would permit more thorough analysis of the asserted merits of Options 1 and 2, i.e.

  -- To what extent does Option #1 achieve the external benefits claimed (e.g. improved U.S. competitive position, job creation, energy savings, etc.)?

  -- Does Option #1 create an undesirable precedent for federal action?

  -- Does Option #2 encourage local action which disrupts air service and stalls airport and land use planning?

  -- Does Option #1 invite retaliatory action by international air carriers and their governments?

- It would permit consideration of alternative policy options not included here, e.g.

  -- A hybrid compromise incorporating elements of Option #1 and #2;

  -- Differential treatment of certain airports; or

  -- Establishment of a noise pollution tax linked to the degree of noise omitted by specific aircraft.

- It would recognize the fact that although there is pressure for federal action, there is no compelling reason for immediate action. Congress is not likely to act this year on any of the nine noise abatement measures currently before it.

- It would permit Secretary Coleman to hold public hearings of the type he has used so successfully on the Concorde and air bag issues.

RECOMMENDATIONS

DECISION

Option #1 Issue a comprehensive noise policy statement.

_____

Option #2 Issue a noise policy statement that presents a limited federal role.

_____

Option #3 Delay issuance of a federal policy statement.

_____

If Option #1 is selected, Issue II below on financing should be studied and decided.

ISSUE II Should the policy include a role for the Federal government in assisting airlines to meet the costs of complying with the noise policy.

If you decide to issue a comprehensive policy statement which imposes Federal rules affecting the rate of aircraft replacement and capital investment rate of the airliner, consideration should be given to a possible Federal role in helping, airlines to finance the costs of compliance.

Three options are included for your consideration:

(1) Propose the cration of a special trust fund as suggested by DOT.

(2) Propose no special Federal involvement in the financing problem (and continue to push for the Administration's proposed Aviation Act of 1975)

(3) Defer action on the financing problem (and push the Aviation Act of 1975)

The merits of these options are examined below.

cc: Judy Hope

File

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

August 28, 1976

MEMORANDUM FOR: Director
Office of Management and Budget

SUBJECT: Aviation Noise Policy

The FAA has completed an evaluation of the inflationary impact of the replacement of four engine jets, as recommended by DOT and FAA, in the aviation noise policy.

The FAA has concluded that because of the excess capacity in the aerospace industry the replacement of four-engine aircraft will have only a slight inflationary impact, if any. The cost/benefit analysis indicates that over the long term the replacement program will produce a new benefit to the airlines.

/S/

William T. Coleman, Jr.

cc: James Cannon, Director
Domestic Council

[Sept. 1976]

OUTLINE: AIRCRAFT NOISE
-- "essay on the matter" with recommendations

I Something MUST BE DONE
-- NOISE
-- NEW PLANES

II Aviation Reform proposal
send to Congress
a) looking to the health of the industry and better service to the consumer, submitted reform proposal to Congress

b) Congress has not acted

c) If it had acted the noise problem & other problems of the airlines would be taken care of in the normal course

III CAB IS NON RESPONSIVE
-- going the way of the ICC
won't address the problems
won't give any guidance

IV Airlines: Themselves To Blame

-- have not supported reform
-- have not recognized problems

V NOISE: A REAL PROBLEM

-- law requires FAA action
-- long overdue
-- citizens are bothered

VI Direct Sec. of DOT IN TAN.

a) Submit reform again for prompt action

-- if no action is taken, then

b) we will go a route (the Coleman financing plan) that we do not really desire & but feel is necessary in the absense of Congressional action

[Sept. 1976]

DRAFT PRESIDENTIAL ANNOUNCEMENT

I have said before -- and I say again -- as your President, I am impatient with doomsday prophets who say we must stop our technological advances in order to save our environment.

We can enhance our environment, and we can do it through technological improvements. These two objectives are compatible. It takes only determination, intelligence, and some of that traditional American ingenuity, for which we have been noted, to accomplish them.

It is possible for Americans to live in healthful and more pleasant surroundings and at the same time to encourage the industrial progress so essential for real jobs for all who can work and so essential to a good standard of living for all.

The aviation industry offers a dramatic example.

The airplane and the aviation industry have been major factors in our growth as a great nation, in our national defense, in our foreign trade, and in employment for thousands of workers. Both directly, in air transportation, and indirectly, through the myriad of other supporting services and activities that aviation has created, this nation has prospered.

But every advance has its problems. In aviation, the noise of aircraft taking off and landing over populated areas is one of the most serious. The older generation of four-engine jets imposed the severest noise on airport neighborhoods -- about 25% more noise than the newer generation of jet planes.

Replacing these older, noisy jets with newer, quieter aircraft, and improving some present aircraft with new engines and noise suppressing elements, can drastically cut airport neighborhood noise.

In addition, the efficiency of the newer, quieter jets is such that they could provide as much as a 30% savings in fuel as well as add to passenger and neighborhood comfort.

A major program to replace these noisy aircraft and engines would give work to American aviation airframe, engine and other component manufacturers across the country. It would give them an incentive to come up with new designs and models for sale -- not only here in the United States, but abroad. And let's face it, there is strong competition from foreign aircraft manufacturers, not only for world markets but for our own airline services right here at home.

We need the kind of export of aircraft we have had in years past to further our trade and to help our international balance of payments.

This replacement activity would mean thousands more jobs -- real, well-paid jobs for Americans. The airlines of America, however, are not presently in a financial position to attract sufficient private capital.

Nevertheless, this can be done. It can be done without fueling inflation. It can be done without raising any taxes. It can be done without raising airfares for airline passengers.

It can be done by taking one quarter of the present air

ticket tax of 8% - that is 2% of the ticket value - and earmarking it for this environmental-improvement, employment-stimulation, and energy-saving program.

Or, the tax could be cut by 25%, air fares increased 2%, and the proceeds of this 2% put in a trust fund for this purpose. Either way the Congress may choose to go, there would be a trust fund administered by the Secretary of Transportation. These funds would be available to pay one-third of the cost of new, quieter equipment, with the airlines paying the remaining two-thirds of the cost.

The trust fund will accumulate $3.5 billion over the next 10 years, and will generate a $7-billion airline expenditure over the same period. This means a total of $10 billion. It is estimated that this program will generate 600,000 job-years of employment.

To ensure the program is carried out fully, each airline would submit to the Secretary of Transportation its plan for conversion to the quieter, more efficient equipment. After the plans are approved by the Secretary of Transportation, the funds would be made available and the implementation of the plan would proceed expeditiously.

Within a decade, we shall have accomplished the conversion to quieter aircraft with benefit to our communities, with great savings in petroleum fuels, with new opportunities for American industry, and with the creation of thousands of new jobs.

[Sept. 1976]

SUMMARY OF WHAT THE PROGRAM DOES
AND HOW IT WOULD WORK

1. Cuts airplane noise pollution.

2. Saves up to 30% of fuel consumption.

3. Provides 600,000 job-years of employment.

4. Increases passenger comfort.

5. Involves no additional Federal expenditure.

6. Involves no increase in cost of air travel to the passengers.

7. Will revitalize and restore America's pre-eminence in the aviation industry for sales at home and abroad.

How the Program is Financed

A. There are two alternative methods of financing -- either of which accomplishes the objective without any additional government assistance to general aviation.

   I. Allocate 2% of the 8% air traffic tax which the government now collects for airport development -- which is not being used and which Congress is considering repealing -- to cover 1/3 of the purchase of new, quieter planes.

   II. If Congress prefers to reduce the air traffic tax from 8% to 6%, then let the CAB, with the support of the Secretary of Transportation, add a 2% surcharge to air fares, and dedicate the funds collected to finance 1/3 of the cost of new, quieter planes in order to accomplish the noise-abatement program.

   III. Cost of financing the retro-fitting of limited number of existing planes with quieter engines would be met as called for under Secretary Coleman's plan.

B. In either case

I. There would be no net increase in travel cost to the users.

II. In both cases, it is the users who will be paying the cost of noise abatement.

III. How the plan would be administered:

1. The funds for the 2% of air-traffic tax dedicated to noise abatement would be put in a special fund under the management of Secretary of Transportation, to be used for the limited purpose of financing 1/3 of the cost of new, quiet equipment for U.S. airlines, based on equipment-purchase plans submitted by the airlines and approved by the Secretary of Transportation.

[Sept. 1976]

THE WHITE HOUSE
WASHINGTON

JMC

Here are two documents you may want for the Aviation Noise Paper.

(1) A brief analysis of Pan Am's financial situation.

(2) Leach's changes on the recent Coleman proposal.

Allen

Pan Am

Pan Am is an excellent example of an airline with major aircraft fleet replacement and expansion requirements and financing needs.

Fleet Needs

As of the end of 1975, Pan Am had 32 B-747s, 73 B-707s and 13 B-727s. It is estimated that over the 1976-1985 period Pan Am will have to retire all its B-707s while acquiring 26 regular B-747s and 20 B-747 SPs (long range).

Capital Needs and Resources

Over the 1976-1985 period, it is estimated that Pan Am will require $1.91 billion for this new flight equipment, $300 million for other capital expenditures and $343 million to retire outstanding debt. This is a total of $2.55 billion which will have to be financed.

Of this capital need, about $1.13 billion will be provided from cash generated by depreciation and amortization. An additional $211 to 506 million will come from net income retained ($211 million assuming a 7% return on investment and $506 million at 11% rate of return). The balance of Pan Am's estimated needs (from $1.20 billion to $920 million) will have to come from external debt and equity financings.

Aircraft Replacement and Leasing During 1976

Since the beginning of 1976, Pan Am has sold five B-707s at amounts above book value. In addition, it has agreed to sell four other B-707s for delivery during 1976 and expects to sell other aircraft during 1976 and later years.

During the first half of 1976, Pan Am leased five B-747 SPs and in July 1976 it leased a B-747 freighter. The B-747 SPs were leased for a two-year period, which may be extended under certain conditions for another 14 years. The freighter was leased for a 15-year period.

Pan Am has an option to acquire up to 12 additional B-747 SPs for delivery in 1979.

Exchange Offer

During the spring of 1976 Pan Am exchanged about $135 million of new convertible debentures for $250 million of older convertible debentures trading at substantial discounts from par. As a consequence of this exchange, (1) Pan Am reduced its debt. (2) increased its equity by the gain on the exchange, (3) increased its cash interest expense annually by $2.1 million and (4) increased the likelihood of conversion because the new convertible debt has a conversion price near the current market for Pan Am's stock (rather than 4 or 5 times its price as was the case with the old convertibles).

Much to the surprise of Lehman Brothers, Pan Am's investment bankers, a large interest in the new convertible debentures arose with arbitrageurs who exchanged old debentures for new debentures and then sold the new convertible debentures to speculative investors such as hedge funds, wealthy individuals and retail customers of wire houses.

New Financing

As a result of this substantial interest in the new high coupon Pan Am convertible debt and because of sizable interest in a TWA common stock financing which was being syndicated early this summer, Pan Am and Lehman Brothers have moved forward with a proposed new convertible debt financing intended to raise from $50 to 100 million of new capital for Pan Am.

A registration statement was filed in late August and Lehman Brothers is beginning to form a syndicate now in the hope of selling at least $50 million in late September or early October.

According to the head of Lehman's syndicate department and the corporate finance partner most familiar with Pan Am finances, there is a good chance that this deal will be successfully completed. While market interest in airline stocks has recently declined somewhat, it is anticipated that there will be sufficient interest for a successful deal at a coupon of 10% or more and a conversion premium over the market price of Pan Am's stock of 10% or less.

Implications

For Pan Am, a successful financing will mean that at least $50 million of new potential equity will have been raised. This will be a major first step toward raising the average of about $100 million per year which Pan Am must finance externally through 1985.

For other airlines, the Lehman Brothers syndicate people indicate an intense interest by other investment bankers who see this Pan Am deal as indicative of financing opportunities for their airline clients. Apparently, other deals (such as Eastern) are in the wings waiting the success or failure of the Pan Am financing.

Paul C. Leach
September 10, 1976

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MEMORANDUM FOR THE PRESIDENT:

Because of the concern among some members of your senior staff about my proposed aviation noise reduction and aircraft replacement program, I would like to propose a compromise solution, which, although less satisfactory from my point of view, would enable you to resolve this continuing disagreement and would enable us to proceed with our statutorily mandated requirements to address the aircraft noise problem.

Under my proposed compromise, the Department of Transportation would issue a noise policy in September without any specific provision for financing. The policy would include noise requirements for existing aircraft to be phased in over a six to ten year period, a timeframe substantially longer than the four years proposed by EPA or the five years proposed in pending legislation. Without this action it is my conviction that either we will be ordered by a court to establish a shorter time period or the Congress will pass such a requirement. The policy would also clarify the respective responsibilities of airport operators, air carriers, aeronautical manufacturers, federal, state, and local governments, and airport neighbors. By making clear the Federal action plan and timetable, we would enable the other parties to take the complementary actions called for in the policy statement, including compatible land use planning, zoning, and airport management measures. The policy also would include important but non-controversial elements such as the implementation of new airport development funding authorities, which you signed into law last July, to enable the acquisition of land around the airports and the purchase of noise suppressant equipment. We would also set forth proposed Federal actions to adopt new noise abatement takeoff and landing procedures and a general policy on local-federal relationships in the establishment of curfews and other airport use restrictions. Such a policy statement would reduce substantially the immediate pressure for federal action and be viewed as federal leadership in resolving a

controversial problem where all the parties -- the carriers, the airport proprietors, the airport neighbors and public officials -- agree that the federal government has been unresponsive in doing its part.

In addition the policy statement would include the following:

1. The Administration would propose a 2% reduction in the domestic ticket tax, thus capturing the initiative on this issue which otherwise inevitably will be taken by members of Congress or other parties.

2. We would indicate that Some financing ARRANGEMENT MIGHT be required to enable carriers to purchase replacement aircraft by the deadlines imposed by FAA regulation and that such financing, IF NEEDED, will be incorporated in the Administration's proposed Aviation Bill to be resubmitted to the new Congress NEXT YEAR. final financing proposal would be designed to meet the following criteria: consistency with regulatory reform, the user should pay, equity among the carriers, and minimum government involvement in private sector investment decision making.

3. We would make clear that the U.S. noise requirements will not apply to international air carriers for a four year period to enable the negotiation of an international solution through international organizations, thus alleviating the substantial concern of our European allies that the United States will act unilaterally.

WHETHER A

4. We would schedule a public hearing for ~~either October or~~ November to enable carriers and others to comment on ~~how the~~ financing proposal should be formulated. AND, IF SO, HOW IT IS NECESSARY

POSSIBLY

5. We would send a new Aviation Bill, including a financing proposal, to the Hill in January.

The advantages of this compromise proposal are as follows:

1. You will resolve a long standing intra-governmental controversy that has been widely publicized, and you will establish the clear blueprint for combined federal-local action that the Congress, carriers, airport operators and environmentalists are all calling for. Many of the elements in the plan are technical but necessary to clarify the respective responsibilities of each party.

2. Although EPA and the FAA have conducted numerous hearings on all the noise requirements and positions to be included in the policy statement, there has not yet been an opportunity for public comment on the financing SITUATION. Moreover, when the parties are able to see the proposed federal action plan and timetable, they will be in a better position to make their own plans and to comment upon what financial arrangements will be necessary. Thus, it is entirely appropriate for you to seek public comment and take this additional time to resolve the financing issue after a public hearing.

3. You can reaffirm support for aviation regulatory reform as the best long term solution to the problem and ~~by designing a financing formula as a part of the new bill~~ MAY help to broaden the base of support for regulatory reform in the next session of Congress, IF A FINANCING PROPOSAL IS INCORPORATED IN THE NEW BILL SUBMITTED EARLY NEXT YEAR, YOU

ANY NECESSARY

4. Although the Secretary of DOT would conduct the public hearing, you could set up an inter-agency task force to develop a financing proposal after the hearing.

This compromise approach would represent decisive leadership in aviation noise reduction while diffusing any liabilities that may accrue from the financing formula. By providing for the public hearing, however, there would be an opportunity to raise all the Administration's concerns about the development of new aerospace technology, the promotion of employment opportunities in the industry, and improved fuel efficiency.

William T. Coleman, Jr.

[Sept. 1976]

Regulation of Aircraft Noise and Free Markets

It is sometimes not recognized that there are built-in reactions to aircraft noise whether or not FAA regulations are put in place. Where noise levels increase, the value of surrounding property to those sensitive is reduced. Some of those most affected move farther away, thereby adding to the supply of saleable property near to airport and reducing its price. Those that buy these properties move in because it is cheap to them, or because they are less sensitive to noise. The transformation of neighborhoods around airports in many cases replaces homes with industry and with services closely related to transportation.

What happens then when FAA regulations reduce noise? Those that moved in earlier will not likely be greatly affected, because they were not as sensitive to the noise in the first place. They may move out, as they take the capital gains of rising land values. They may stay but experience rising costs associated with rising land values. Economic studies indicate that only in a very few locations in this country (such as Boston) would the benefits exceed the social costs of reduced noise.

[Sept. 1976?]

The Economics of Coleman's Proposal

Over a ten-year lifetime of the pool, the tax funds would support the purchase of at least 300 airplanes (300 airplanes x $30 million per plane = $9 billion, of which the pool provides $3 billion of "front end" money). Without much more stringent FAA noise standards, from 75 to 215 noisy four engine airplanes would still be in place by 1985 (75 being the DLJ predition with somewhat less stringent CAB rate regulations, the 215 being DOT's position with stringent CAB regulation). With the more stringent FAA noise standards, some part of this fleet would be replaced and the remaining would be phased out with a consequent reduction in service. There are no estimates of the proportion that would by phased out, but assuming generously that two-thirds are not replaced, then from 50 to 150 airplanes would be added by using funds in the pool. Thus, these are three conclusions:

(1) Only one-third of the equipment purchased would affect the quality of service in any dimension.

(2) Two-thirds of the equipment bought in part with funds from the pool would likely be purchased in any event, given stringent FAA standards.

(3) With on without the pool, noise levels will be reduced by the FAA standards in any event. What is effected is the ~~relevance~~ volume of service.

CC: Art [Sept. 1976]
Jim Lynn

SUMMARY OF WHAT THE PROGRAM DOES
AND HOW IT WOULD WORK

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2. Saves up to 30% of fuel consumption.

3. Provides 600,000 job-years of employment.

4. Increases passenger comfort.

5. Involves no additional Federal expenditure.

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A. There are two alternative methods of financing -- either of which accomplishes the objective without any additional government assistance to general aviation.

   I. Allocate 2% of the 8% air traffic tax which the government now collects for airport development -- which is not being used and which Congress is considering repealing -- to cover 1/3 of the purchase of new, quieter planes.

   II. If Congress prefers to reduce the air traffic tax from 8% to 6%, then let the CAB, with the support of the Secretary of Transportation, add a 2% surcharge to air fares, and dedicate the funds collected to finance 1/3 of the cost of new, quieter planes in order to accomplish the noise-abatement program.

   III. Cost of financing the retro-fitting of limited number of existing planes with quieter engines would be met as called for under Secretary Coleman's plan.

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DRAFT PRESIDENTIAL ANNOUNCEMENT

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Replacing these older, noisy jets with newer, quieter aircraft, and improving some present aircraft with new engines and noise suppressing elements, can drastically cut airport neighborhood noise.

In addition, the efficiency of the newer, quieter jets is such that they could provide as much as a 30% savings in fuel as well as add to passenger and neighborhood comfort.

A major program to replace these noisy aircraft and engines would give work to American aviation airframe, engine and other component manufacturers across the country. It would give them an incentive to come up with new designs and models for sale -- not only here in the United States, but abroad. And let's face it, there is strong competition from foreign aircraft manufacturers, not only for world markets but for our own airline services right here at home.

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Nevertheless, this can be done. It can be done without fueling inflation. It can be done without raising any taxes. It can be done without raising airfares for airline passengers.

It can be done by taking one quarter of the present air

ticket tax of 8% - that is 2% of the ticket value - and earmarking it for this environmental-improvement, employment-stimulation, and energy-saving program.

Or, the tax could be cut by 25%, air fares increased 2%, and the proceeds of this 2% put in a trust fund for this purpose. Either way the Congress may choose to go, there would be a trust fund administered by the Secretary of Transportation. These funds would be available to pay one-third of the cost of new, quieter equipment, with the airlines paying the remaining two-thirds of the cost.

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To ensure the program is carried out fully, each airline would submit to the Secretary of Transportation its plan for conversion to the quieter, more efficient equipment. After the plans are approved by the Secretary of Transportation, the funds would be made available and the implementation of the plan would proceed expeditiously.

Within a decade, we shall have accomplished the conversion to quieter aircraft with benefit to our communities, with great savings in petroleum fuels, with new opportunities for American industry, and with the creation of thousands of new jobs.

[Sept. 1976]

SUMMARY OF WHY THE PROPOSED NOISE POLLUTION/AIRCRAFT REPLACEMENT PROGRAM IS UNNECESSARY AND INADVISABLE

I. Noise Standards Consideration

- The proposal will promulgate unrealistically low noise level standards which present aircraft cannot meet; then proposes a financial program to enable airlines to purchase aircraft that will meet the standards.

- Airport noise is a local problem confined to five or six airports and perceived only by those residents directly under or adjacent to aircraft routes. It is not a national problem.

- Those localities that assign greater weight to the airport noise issue have been successful in addressing the problem by curfews, land acquisition near airports, etc.

- The aircraft noise standards proposed will not significantly reduce the noise as perceived by the public or by those who live near airports. Clearly the marginal benefit derived is not worth the cost involved.

II. Aircraft Financing Proposal Consideration

- Proposal prevents the consumer from receiving the benefits of lower airfares through a reduction of the ticket tax.

If the tax is <u>not</u> reduced, the proposal

- diverts a portion of the ticket tax contributed by millions of airline passengers to pay for an exceedingly small benefit to at most 6 million people who are affected by aircraft noise

- would increase the Federal budget deficit by $300 million annually or $3.5 billion over the life of the program since airport trust fund revenues will not be available to "sop up" government deficits.

- Trust fund resources are now available for maintenance of airport facilities, i.e. airport operations. Heretofore, trust fund monies were limited to capital expenditures.

- The financing proposal presumes that airline companies are or will be unable to finance the acquisition of such aircraft. In fact, within the past month 2 airlines have placed substantial orders for new aircraft and the financial community reports that there is considerable optimism that "equipment certificate financing" will be widely used in the airline industry in the future.

- European manufacturers have never been successful in penetrating the U. S. market -- by far the most significant component of the world market. It is most desirable to have a fleet composed of aircraft manufactured by the same manufacturer. It is much easier to maintain, parts inventory are reduced, etc. Therefore, foreign manufacturers have not been able to break into the U. S. market.

- If, indeed, Europeans are subsidizing aircraft production, it is preferable to face that issue squarely. If, as in the case of the Concorde, production costs far exceed the expected revenues, European governments will cease production. If on the other hand such assistance appears beneficial to foreign governments, then it would be far more preferable to directly subsidize American aircraft manufacturers to an extent equal to or greater than foreign manufacturers are subsidized by their governments; and to tell the American public forthrightly and directly that we are doing so to fight foreign competition.

- The financing proposal compels airline companies to take the 2% ticket diversion for the purpose of aircraft acquisition, therefore, precluding efficient companies from reporting the income as earnings and thereby enhancing the chance of issuing stock.

- For the reasons primarily related to the preceeding reason, Atlanta-based Delta Airlines -- an extremely efficient carrier -- has opposed this proposal.

- The financing proposal would create a high undesirable precedent for the government assistance to meet other environmental standards such as automotive, water pollution, etc.

- The financing proposal would require that present aircraft would be retired prior to the end of this useful life.

III. Foreign Policy Consideration

- Presently many foreign airlines fly aircraft which would not meet the proposed noise standard; to prohibit their landing in the U. S. could create severe foreign policy problems.

IV. Regulatory Reform Consideration

- The financing proposal is inconsistent with your regulatory reform effort in the airline area. The Administration is on record supporting deregulation of this industry and Secretary Coleman has testified that this deregulation effort will generate improved airline profitability; presumably, carriers would be better able to finance new aircraft acquisitions.

- Moreover, it is tactically imprudent to propose any assistance to the airline industry without linking the issue to industry support for the Administration's deregulation effort. This view is strongly held by CAB Chairman Robson.

V. Political Consideration

- This issue is likely to be perceived as a "bail out" to large aircraft manufacturers at least one of whom, Lockheed, is widely perceived as guilty of questionable business ethics.

- The political impact of this proposal on the airline and aircraft manufacturers labor force will be nil. The job impact will be felt, if at all, not before 1980.

- Moreover, the establishment of a pooling of revenues is contrary to antitrust policy and is contrary to all your procompetitive deregulation efforts.

- Thus, the public reaction is more likely to be negative rather than positive.

- Even if the reaction were to be positive, the plus would be minimal because the subject matter is way down the scale of voter concerns. The jobs aspect will never get across in any forceful way.

[Sept. 1976]

1). Above redux 8-6?.

2) Notice -

Energy saving.

Jobs

Defense.

Defense - 3 problems

A) ISC - true - Enviro - Dry obstruct

Tax write-off.

Jet has declined early

base.

B) Coal subsidy — PMA & TVA.

C)

P – Precisions on intended target airlines and airport redundancy

[Sept. 1976]

Effect of Aircraft Replacement Fund on Carriers Finances

CARRIER CONTRIBUTION AND ENTITLEMENT
(Dollars in millions)

Carrier	Contribution (2% Passenger & Waybill Surcharge 10 years, 1977-1986)	Number of Non-Complying 707s & DC-8s	Total Entitlement[1]	Entitlement less Contribution
Trunk				
American	$ 424.8	91	$ 377	$ (47.8)
Braniff	119.8	11	124	4.2
Continental	132.5	5	112	(20.5)
Delta	384.0	34	299	(85.0)
Eastern	357.1	-	342	(15.1)
National	83.2	-	75	(8.2)
Northwest	162.3	10	171	8.7
Pan American	28.7	79	353	324.3
Trans World	319.4	90	379	59.6
United	598.3	100	469	(129.3)
Western	126.2	23	109	(17.2)
Total Trunk	$ 2736.2	443	$ 2810	$ 73.8
Local Service				
Allegheny	$ 103.5	-	$ 80	$ (23.5)
Frontier	41.2	-	37	(4.2)
North Central	39.6	-	34	(5.6)
Ozark	31.5	-	28	(3.5)
Piedmont	35.9	-	28	(7.9)
Air West	44.0	-	38	(6.0)
Southern	26.3	-	25	(1.3)
Texas International	15.8	-	17	1.2
Total local service	$ 337.8	-	$ 287	$ (50.8)

1 Total entitlement is determined by distributing the funds collected among carriers, on the basis of the proportion that each carrier's system revenues bear to the total of all revenues collected by the carriers.

Source DOT

[Sept. 1976]

Effect of Aircraft Replacement Fund on Carriers Finances

CARRIER CONTRIBUTION AND ENTITLEMENT
(Dollars in millions)

Carrier	Contribution (2% Passenger & Waybill Surcharge 10 years, 1977-1986)	Number of Non-Complying 707s & DC-8s	Total Entitlement[1]	Entitlement less Contribution
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Braniff	119.8	11	124	4.2
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Source DOT

[Sept. 1976]

FROM "KENNEDY COMMITTEE REPORT" ON AVIATION REGULATION

I. BACKGROUND

A. THE INDUSTRY

More than 90 percent of all scheduled airline service in the United States [11] is provided by the 10 major trunk carriers.[12] About 8 percent is provided by local service carriers.[13] Air service, unregulated by the CAB, is also provided by scheduled carriers operating wholly within the states of California and Texas,[14] as well as by a number of commuter carriers operating small airplanes. In addition there are eight supplemental carriers which provide solely charter service.[15]

The scheduled lines provide service to about 430 cities. Mathematical permutations and combinations of this number of points shows that there are more than 90,000 theoretically possible city-pair markets within the contiguous 48 states. Of these, approximately 58,000 receive certificated carrier scheduled service.[16] More than 70 percent of all passenger-miles, however, are flown between 908 city-pairs, and the largest 145 markets account for about 40 percent of all service.[17]

Since 1938, when CAB regulation began, the industry has grown enormously. Revenue passenger-miles have increased from 476 million to 114 billion.[18] Investment has grown from about $30 million in 1938 to over $7 billion today.[19] At the same time, in real dollar terms, airline fares have fallen significantly.[20] In 1938, 16 trunk carriers were operating. The 10 present trunk carriers have all operated since 1938; the other six carriers operating then have since merged with the presently existing 10. The route networks of the existing trunk carriers have grown extensively since 1938. But, no new trunk carrier has been allowed to enter the domestic industry.

B. THE REGULATORY FRAMEWORK

The Civil Aeronautics Board practices economic regulation; it regulates the prices charged by interstate airlines and entry into that industry. Safety is regulated not by the Board, but by the Federal Aviation Administration. This report does not concern safety regulation.

[11] Excluding Alaska and Hawaii and unregulated air carriage.

[12] These carriers include the following: United, TWA, American, Eastern, Continental, Braniff, Delta, National, Western, Northwest. The other major U.S. carrier, Pan American, now provides international service almost exclusively.

[13] There are nine local service carriers. Most of them were admitted to the industry by the CAB in the forties. They include: Air New England, Air West, Allegheny, Frontier, North Central, Ozark, Piedmont, Southern, Texas International.

[14] Intrastate carriers operate in Florida and Illinois as well.

[15] These include Overseas National Airways, Trans International Airways, World, Saturn, and Capital, and three smaller carriers: McCulloch International, Modern Air Transport, and Johnson Flying Service.

[16] See staff study by the Bureau of Operating Rights, the Domestic Route System. Analysis and Policy Recommendations. October 1974, p. 1, [hereinafter referred to as BOR study]; Air Transport Association testimony, Feb. 6, 1974, exhibit 8, Hearings at p. 136.

[17] Ibid.

[18] BOR study appendix 8, table 1.

[19] BOR study table 1, p. 16.

[20] The average fare per passenger mile has fallen from $0.052 in 1938 to $0.018 in 1974 (constant 1938 dollars). See ATA testimony, exhibit 1. Hearings at p. 129.

The Civil Aeronautics Act of 1938, the precursor of today's Federal Aviation Act, was designed primarily to unify various Federal activities which were aimed at subsidizing an infant airline industry. The Act provided the CAB's present authority: to regulate rates, to grant "certificates of convenience and necessity" allowing firms to fly, to grant immunity from the antitrust laws, and to control mergers.[21]

These regulatory provisions were modeled after the 1887 statute providing the Interstate Commerce Commission with authority to regulate railroads.[22] That Act, in turn, was modeled after the British Railway Act of 1845.[23] These provisions have come to be regarded as creating "classical" price and entry regulation. They include: 1) a requirement that the Board allow a firm to provide service—to enter the industry—if the "applicant is fit, willing, and able to perform such transportation properly * * * and that such transportation is required by the public convenience and necessity";[24] and 2) a requirement that rates and practices of the air carriers shall be just, reasonable, and nondiscriminatory.[25]

The act provides the Civil Aeronautics Board with several highly generalized standards to guide it in carrying out its duties. These standards have often been characterized as requiring the Board both to promote the industry and to regulate it. For example, section 102 of the Act states that the Board in carrying out its duties shall take into account "the encouragement and development of an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States," as well as "the provision of adequate, economical, and efficient service by air carriers at reasonable charges without unjust discriminations," and "competition to the extent necessary to assure the sound development of an air transportation system."[26] In addition, the Board is instructed when setting rates, to consider, among other things—

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[21] Much of the Act, however, concerns granting of subsidies by the Government to airlines.

[22] See C. S. Rhyne, *The Civil Aeronautics Act Annotated*, pp. 124–25 (1939).

[23] Compare 49 U.S.C. 1373B, 1374B with 49 U.S.C. 2, 3(1); 8 Vict. Ch. 20 (1845); 17, 18 Vict. Ch. 31 (1854).

[24] Section 401(d)(1), 72 Stat. 754, as amended by 76 Stat. 143, 82 Stat. 867, 49 U.S.C. 1371:

The Board shall issue a certificate authorizing the whole or any part of the transportation covered by the application, if it finds that the applicant is fit, willing, and able to perform such transportation properly and to conform to the provisions of this chapter and the rules, regulations, and requirements of the Board hereunder, and that such transportation is required by the public convenience and necessity; otherwise such application shall be denied.

[25] Section 1002(d), 72 Stat. 788, 49 U.S.C. 1482:

Whenever, after notice and hearing, upon complaint, or upon its own initiative, the Board shall be of the opinion that any individual or joint rate, fare, or charge demanded, charged, collected or received by any air carrier for interstate or overseas air transportation, or any classification, rule, regulation, or practice affecting such rate, fare, or charge, or the value of the service thereunder, is or will be unjust or unreasonable, or unjustly discriminatory, or unduly preferential, or unduly prejudicial, the Board shall determine and prescribe the lawful rate, fare, or charge (or the maximum or minimum, or the maximum and minimum thereof) thereafter to be demanded, charged, collected, or received, or the lawful classification, rule, regulation, or practice thereafter to be made effective: *Provided*, That as to rates, fares, and charges for overseas air transportation, the Board shall determine and prescribe only a just and reasonable maximum or minimum, or maximum and minimum rate, fare, or charge.

[26] 72 Stat. 740, 49 U.S.C. 1302:

In the exercise and performance of its powers and duties under this chapter, the Board shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:

(a) The encouragement and development of an air-transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(b) The regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relations between, and coordinate transportation by, air carriers;

(c) The promotion of adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices;

(d) Competition to the extent necessary to assure the sound development of an air-transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(e) The promotion of safety in air commerce; and

(f) The promotion, encouragement, and development of civil aeronautics.

> The need in the public interest for adequate and efficient transportation of persons and property by air carriers at the lowest cost consistent with the furnishing of such service, . . . and the need of each air carrier for revenues sufficient to enable such air carrier under honest, economical and efficient management to provide adequate and efficient air carrier service.[27]

The procedures that the Board must follow are to some extent specified by the Federal Aviation Act itself and more generally are contained in the Administrative Procedure Act and the relevant judicial precedents. Rather than evaluating the Board's performance in terms of its ability to conform its actions to all the highly general and potentially conflicting standards contained anywhere in the statute, the subcommittee proceeds in the belief that the *most basic part of the Board's mandate is to see that low cost,* efficient air transportation is provided to the public by a healthy, industry [28] and that the Board must act within the procedural constraints imposed by the Administrative Procedure Act.[29]

C. THE ORIGINS OF CAB REGULATION

The early history and development of airline regulation is noteworthy primarily because it does not shed much light on what would, or would not, happen in the future if increased reliance upon competition is substituted for classical regulation. There was neither a "golden age"—nor a "dark age"—of unfettered competition succeeded by the introduction of regulation in 1938. Rather, ever since the Wright brothers flight in 1903, the structure and behavior of the aviation industry have been shaped to a large extent by a combination of Government subsidy and Government regulation.

The conclusions that emerge from a brief examination of that history are: (1) The structure of the industry in 1938—a few large airline systems and several smaller systems—was more a result of administration of a Government subsidy system than of natural market forces. That industry structure has been preserved to the present time, in large part through restrictive CAB entry policies.

(2) There was never a period in which market forces led to "destructive competition" or "industry chaos." Rather, the administration of the system of Government subsidy, not market forces, brought about

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[27] Section 1002(e), 72 Stat. 738, 49 U.S.C. 1482:

> In exercising and performing its powers and duties with respect to the the determination of rates for the carriage of persons or property, the Board shall take into consideration, among other factors—
>
> (1) The effect of such rates upon the movement of traffic;
>
> (2) The need in the public interest of adequate and efficient transportation of persons and property by air carriers at the lowest cost consistent with the furnishing of such service;
>
> (3) Such standards respecting the character and quality of service to be rendered by air carriers as may be prescribed by or pursuant to law;
>
> (4) The inherent advantages of transportation by aircraft; and
>
> (5) The need of each air carrier for revenue sufficient to enable such air carrier, under honest, economical, and efficient management, to provide adequate and efficient air carrier service.

[28] The subcommittee, in setting forth this simplifying assumption at this stage of the report, does not mean to ignore other objectives often viewed as desirable regulatory goals, such as safety, energy conservation, environmental protection, development of the industry, development of commerce, postal needs, and national defense needs. Some of these objectives are subsumed in the mandate as set out in the text. Other objectives are discussed throughout the report as they become relevant to the particular policy matter considered. In general, the subcommittee believes that its recommendations, by leading to more efficient use of aircraft, would tend to further such objectives as conserving energy and protecting the environment. Its recommendations would have little significant effect upon such objectives as safety, the national defense, or the postal service. In general, there is at least as much reason to believe that the subcommittee's recommendations, by bringing about lower air fares, would stimulate industry development and local commerce as to believe the contrary.

Close analysis of some of these other objectives would shed little light on the merits of the policy choices actually at issue; consideration of others inevitably turns upon highly speculative, and directly conflicting, predictions about the future. Thus, to list them all at the outset, as if the Board's work could not be evaluated until considered totally in the light of each of them (rather than considering the Board's work in light of the major objective listed in the text, while bringing in these other objectives only when they have significant bearing) would confuse the main argument and understate the need for regulatory change.

[29] 5 U.S.C. 551–559, 701–706.

the cited instances of "destructively competitive" behavior in the midthirties.

(3) The legislative history of the Federal Aviation Act indicates that Congress intended not to allow the industry to remain the exclusive preserve of those firms doing business in 1938—that Congress, while suspicious of too much competition, intended more new entry and greater competition than the CAB has in fact allowed.

(4) However successful the CAB may have been since 1938 in promoting the development of the industry and of air services, it has been less successful in maintaining fares at a level that the average American can afford.

The history and development of CAB regulation is set out in detail in appendix B. That history will be briefly summarized in this section.

1. Pre-1925: Infancy.

Prior to 1925 aviation was in its infancy. Despite the Wright brothers' flight, Americans tended to be less enthusiastic about the possibilities of aviation than their European counterparts—at least until America's entry into World War I. Congress then appropriated $640 million for an aviation program. After the war, with the help of the Army, the Post Office organized an airmail service, which was instituted (from New York to Philadelphia) on August 12, 1918. Aviation technology then expanded rapidly with the assistance of Army and Post Office funds. Still, a private aviation industry did not appear commercially possible until 1925, when technology developed to where carriage of mail and light packages seemed potentially profitable.

2. 1925-34: Subsidy.

The history of American civil aviation effectively begins with the passage of the Kelly Act in February 1925. That Act provided for the Postmaster General to contract with private firms to carry the mail. Payment was initially limited to four-fifths of the revenue derived from airmail postage. In 1926, Congress made the carriage of airmail more attractive, first by providing public funds for the development of airports and navigation equipment and, second, by introducing a new system of compensation that effectively cut the tie between payments to the airlines and postage rates. The Post Office was thus freed to subsidize the airlines directly.

In early 1927, the Postmaster General took advantage of the new law to cut airmail postage rates. The lower rates increased mail volume and made the airmail system 75 percent self-supporting. In 1928, however, Postmaster General New cut rates again, this time without disturbing the contracts for airline compensation. The result was that airmail volume increased 95 percent, carriage costs stayed roughly the same (for the airplanes had extra space), and net airline revenues nearly doubled. A political storm broke as several airlines received large "excess profits"; at the same time other airlines (with different routes and costs) were highly unprofitable.

Because of this and other defects in the compensation scheme, in 1930 Congress revised the subsidy system. The new law changed the

basis for calculating compensation; it allowed the Postmaster General to award 10-year contracts and to renegotiate rates periodically; it insisted upon competitive bidding; but it permitted the Postmaster General, without competitive bidding, to add length to a short route, turning a carrier's existing short airmail route into a longer one.

Postmaster General Brown immediately began to use his new powers to forge a more unified air transport system comprised of a few large companies. In 1929 the government's 24 airmail contracts were distributed among 19 firms; by 1933, 18 of the government's 20 contracts were held by three large holding groups (which later became today's "Big Four": United, American, TWA, and Eastern). The Postmaster General used the promise of contract awards to encourage mergers; he tended to award contracts to large firms often simply by extending their routes and sometimes by ignoring lower bids. Some of the large firms bought out smaller competitors that might otherwise have underbid them; and large firms, strengthened by airmail subsidies, enjoyed financial advantages over their less well subsidized, smaller rivals. These factors, and various financial considerations, seem to have been more responsible for the concentration of routes among the "Big Four" in 1938 than any natural attrition induced by economic forces.

In using his subsidy powers to the advantage of the larger firms, the Postmaster General often evaded, or ignored, competitive bidding requirements. As a result Senator Hugo Black began an extensive congressional investigation. That investigation led to such widespread dissatisfaction with the subsidy system that President Roosevelt canceled all contracts and ordered the Army to carry the mail. When Army carriage proved unworkable, the President asked for temporary emergency bids, pending new legislation. The three large holding companies could not be challenged on most long routes, but shorter routes fell into the hands of a number of smaller companies. The airmail system that emerged just after these 1934 bids strongly resembles the industry's structure today.

3. 1934–38: Transition.

In 1934 and 1935 Congress enacted provisional reform legislation, containing the following significant provisions: (1) Holding companies were made unlawful. United and American were reorganized and shorn of their manufacturing connections. (2) A commission was established to study air transport and recommend legislation. (3) Strict competitive bidding was mandated; but existing airmail contracts could be extended without new bids, and the Interstate Commerce Commission was authorized to change the rates of compensation (up or down) under existing contracts.

The years 1934–38 were difficult for the industry. Profits were low and investment fell. Bids to carry the mail were so low that they have led to the claim that without regulation the industry would be characterized by predatory, below cost, pricing. Yet, these low bids resulted not from industry structure so much as from the 1935 legislation itself. As Colonel Gorrell, president of the Air Transport Association, stated:

> The law puts a premium upon an unreasonable low bid, since there is always the possibility that, later on, a rate first put unjustifiably low will be raised by the

action of the Interstate Commerce Commission. In other words, if an air carrier is in a relatively strong financial position, it can afford to bid at a figure far below what may be reasonable, since the Commission is ultimately under the duty of fixing a reasonable rate.[30]

The low profits and poor investment record in this period seem to have reflected, in part, public disenchantment with the industry as a result of the Black hearings and a poor safety record; in part, a consequent belief that Congress would not continue the previously high level of subsidy; and in part, the general depressed economic climate of the times.

The Federal Aviation Commission, established by Congress in 1934, reported back in 1935 recommending the creation of an independent regulatory agency modeled after the Interstate Commerce Commission. After 3 years of debate and modification, in 1938 the Civil Aeronautics Act became law.

The legislative history of the 1938 act suggests an ambivalent attitude towards competition. For one thing, the act's sponsors often expressed fear of too much competition. To some extent this fear rested upon the predictions of industry spokesmen that without regulation destructive competition would injure the airlines in the future. (There was no evidence of destructive competition in the past.) To a greater extent it may have reflected the more general fear of excess competition and suspicion of the competitive process prevalent during the Great Depression. Some in Congress blamed the competitive system for bringing about the depression, and many had voted for the National Industrial Recovery Act, which was an effort to stop "excess competition" in every major industry, not just airlines. At the same time, the act's sponsors made clear that the point of giving the Civil Aeronautics Board power to control competition, by limiting the ability of new firms to enter the industry, was that it use such power only insofar as entry threatened to destroy service over particular routes or threatened unsafe service. The CAB must use those powers only to protect existing service, not to protect existing firms. Statements of both Senator McCarran and Senator Truman, the act's primary senatorial supporters, reflect the sentiments set out in the study Commission's recommendation nine:

> There must be no arbitrary denial of the right of entry of newcomers in the field where they can make an adequate showing of their readiness to render a better public service than could otherwise be obtained. There must be no policy of a permanent freezing of the present air transport map with respect either to the location of its routes or the identity of their operators. The present operators of airlines have no inherent right to a monopoly of the routes that they serve.[31]

In fact, the legislative history suggests a congressional intent that as the industry matured, and became self-supporting, the Board would increasingly allow, and rely upon, new competition.

The net result was an act that set out a highly general aim—the development of an extensive, safe system of air travel at low fares—with somewhat ambivalent instructions as to how that result is to be achieved. The act provides the Civil Aeronautics Board with powers to control rates and entry and delegates to it the task of developing more specific policies designed to achieve the broad objectives.

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[30] Hearings on S. 2 and S. 1760 before a subcommittee of the Senate Committee on Interstate and Foreign Commerce. 75th Cong., 1st sess., at p. 464 (1937).

[31] Federal Aviation Commission, Report, recommendation 9 (1935).

4. Post-1938: Regulation.

This report will not attempt to deal with a history of CAB regulation here, even in summary fashion. The major events of airline history since 1938 are well known. The industry expanded considerably during World War II; and, after the war, the CAB for the first time allowed a number of new firms to enter the industry. These firms became today's regional and supplemental carriers. The 1950's saw the introduction and widespread use of coach fares. Jet service was adopted in the early 1960's and soon became predominant.

In the late 1960's the industry, relying upon its own and upon Government demand forecasts, ordered large numbers of new, wide-bodied jets. These forecasts, always difficult to make, were overly optimistic, with the result that in the early 1970's the industry found itself with considerable overcapacity.

With the exceptions previously noted for supplemental and regional carriers (which in part resulted from congressional legislation), the Board has allowed no new firm to enter the scheduled domestic industry. Entry policy, which for the past 20 years has been concerned with the question whether existing firms should be allowed new routes, was quite liberal during the mid-1960's but highly restrictive in the 1970's. Airline profits have been cyclical, with troughs (of 1 percent to 4 percent return on investment) in the early 1960's and early 1970's and peaks (of 12–14 percent) in the early 1950's and mid-1960's. Technological advance has been rapid, lowering costs and allowing fares, in real dollar terms, to fall well below 1938 levels. And, as previously mentioned, industry growth has been rapid and the expansion of air service has been extensive.

Indeed, no one could doubt that, judged by its effects, the CAB has been successful at promoting the development of air service and the aviation industry. In the subcommittee's view, however, the Board has not succeeded in carrying out its mandate to bring about such service at low fares—at fares as low as industry economics and technology permit and which will allow the widespread use of the American aviation system by the whole of the American public. This matter is the subject of the remainder of the Report.

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[2] With the possible exception of its recent certification of Air New England, formerly a commuter and now a regional carrier.

[Sept. 1976]

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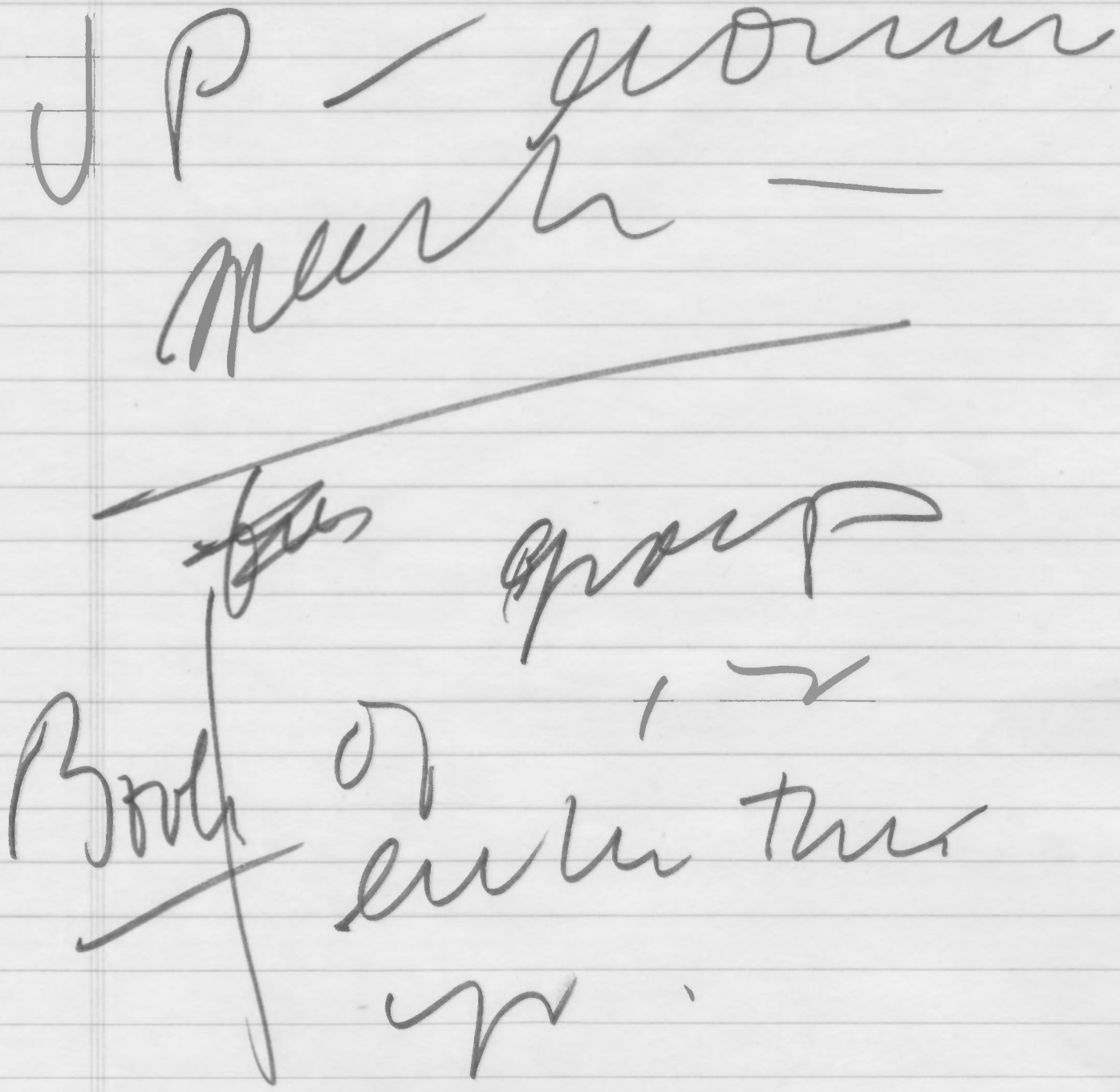

[Sept. 1976]

JIM

THE WHITE HOUSE
WASHINGTON

"Domestic passenger miles
for system trunks"
have increased 268
times from
476 million in 1938
to
127.6 billion in latest
12 months.

Paul

Note 9

Intrastate operations of aircraft on a civil airway or which directly affect or endanger the safety of interstate, overseas, or foreign air commerce, are subject to the provisions of this chapter. 1941, 40 Op.Atty.Gen. 95.

10. Navigable air space

Land near airport in sparsely settled community in Mojave Desert was not in a congested area for purposes of Civil Aeronautics Authority regulation fixing navigable air space as commencing at 500 feet over uncongested and 1,000 feet over congested areas. Aaron v. U. S., Ct.Cl.1963, 311 F.2d 798.

"Navigable air space", as congressionally placed in public domain prior to enactment of this chapter, did not embrace necessary area for safe take-off and landing. Griggs v. Allegheny County, 1961, 168 A.2d 123, 402 Pa. 411.

"Navigable airspace" means airspace above minimum altitudes of flight prescribed by applicable regulations, including airspace need to insure safety in take-off and landing of aircraft. Johnson v. Airport Authority of City of Omaha, 1962, 115 N.W.2d 426, 173 Neb. 801.

11. Property

Under former chapter 9 of this title, air express and air freight are not different classes of traffic requiring separate authority for each class from the Board, but were both included within the "property" authorization of former section 401 (21) of this title. Delta Air Lines, Inc. v. Civil Aeronautics Bd., C.A.5, 1957, 247 F.2d 327.

12. Seaplane as vessel

In view of provisions of former section 177 of this title, and former section 401 et seq. of this title, a "seaplane" is not a "vessel" within meaning of section 3 of Title 1, defining vessel as including water craft or other artificial contrivance used or capable of being used as a means of transportation on water. U. S. v. Peoples, D.C.Cal.1943, 50 F.Supp. 402.

CURRENT POLICY STATEMENT

§ 1302. Consideration of matters in public interest by Board

In the exercise and performance of its powers and duties under this chapter, the Board shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:

(a) The encouragement and development of an air-transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(b) The regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relations between, and coordinate transportation by, air carriers;

(c) The promotion of adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices;

(d) Competition to the extent necessary to assure the sound development of an air-transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(e) The promotion of safety in air commerce; and

(f) The promotion, encouragement, and development of civil aeronautics. Pub.L. 85–726, Title I, § 102, Aug. 23, 1958, 72 Stat. 740.

Historical Note

Effective Date. Section effective on the 60th day following the date on which the Administrator of the Federal Aviation Agency first appointed under this chapter qualifies and takes office, see section 1505(2) of Pub.L. 85–726, set out as a note under section 1301 of this title. The Administrator was appointed, qualified and took office on Oct. 31, 1958.

Notes of Decisions

Library references

Aviation ⊂⇒31.
C.J.S. Aerial Navigation § 6 et seq.

1. Construction

Provisions of former section 402 of this title were peremptory, and as much an enactment by Congress as any other section of former chapter 9 of this title. American Airlines v. Civil Aeronautics Bd., 1951, 192 F.2d 417, 89 U.S.App.D.C. 365.

2. Purpose

A major purpose behind enactment of this chapter was eliminating element of risk from carrier's operations. C. A. B. v. Delta Air Lines, Inc., 1961, 81 S.Ct. 1611, 367 U.S. 316, 6 L.Ed.2d 869.

Former section 401 et seq. of this title manifests intent to leave Board free, except for requirement of written and verified applications, to work out application procedures reasonably adapted to fair and orderly administration of Board's complex responsibilities. Civil Aeronautics Bd. v. State Airlines, App.D.C.1950, 70 S. Ct. 379, 338 U.S. 572, 94 L.Ed. 353.

This chapter was passed by Congress for the purpose of centralizing in a single authority the power to frame rules for the safe and efficient use of the nation's air space. Air Line Pilots Ass'n, Intern. v. Quesada, C.A.N.Y.1960, 276 F.2d 892.

The purpose of former section 401 et seq. of this title is not primarily to advance private interest of carriers but to advance public interest in an adequate air transport system. United Air Lines v. Civil Aeronautics Bd., C.A.7, 1952, 198 F.2d 100.

The primary purpose of former section 401 et seq. of this title was to assure uniformity of rates and services to all persons using facilities of air carriers, and to achieve that it was essential, in judgment of Congress, that a single agency, rather than numerous courts under diverse laws, have primary responsibility for supervising rates and services. Lichten v. Eastern Airlines, C.A.N.Y.1951, 189 F.2d 939, 25 A.L.R.2d 1337. See, also, New York & Honduras Rosario Min. Co. v. Riddle Airlines, Inc., 1957, 162 N.Y.S.2d 314, 3 A.D.2d 457, affirmed 172 N.Y.S.2d 168, 4 N.Y.2d 755, 149 N.E.2d 93.

This chapter was enacted as advanced legislation in recognition of rapidly growing air commerce and was comprehensively designed to promote civil aeronautics, and to that end develop and secure maximum aeronautical safety. Rosenhan v. U. S., C.C.A.Utah 1942, 131 F.2d 932, certiorari denied 63 S.Ct. 993, 318 U.S. 790, 87 L.Ed. 1156.

This chapter is intended to be comprehensive scheme for regulating interstate air travel in United States. Berkman v. Trans World Airlines, Inc., D.C.N.Y.1962, 209 F.Supp. 851.

Purpose of former section 401 et seq. of this title was to foster air transporta-

PROPOSED LANGUAGE IN AVIATION ACT

Declaration of Policy

SEC. 4. Section 102 is amended to read as follows:

"Declaration of Policy: The Board

"SEC. 102. In the exercise and performance of its powers and duties under this Act, the Board shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:

"(a) The encouragement and development of an air transportation system which is responsive to the needs of the public and is adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the National defense;

"(b) The provision of a variety of adequate, economic, efficient and low-cost services by air carriers without unjust discriminations, undue preferences or advantages, or unfair or deceptive practices; and the need to improve relations among and coordinate transportation by air carriers;

"(c) Maximum reliance on competitive market forces and on actual and potential competition to provide the needed air transportation system;

"(d) The encouragement of new air carriers; and

"(e) The importance of the highest degree of safety in air commerce".

SECTION-BY-SECTION

Section 4. This section amends Section 102 of the Act dealing with the Declaration of Policy of the Board. Every decision of the Board must reflect the basic guidance provided by the Declaration of Policy which is an integral part of the Act. This amendment rearranges the order of the Declaration into a more logical form, but more importantly, it changes the basic thrust of the policy announced in the declaration.

The present policy declaration is protectionist and promotional of the industry in tone. It speaks in terms of promotion of the industry in several places, and at the same time provides for competition "only to the extent necessary . . ."

The amended policy declaration recognizes the need for "encouragement and development" but clearly states that the basic policy goal is to develop a system to satisfy the needs of the public, not just the airline industry itself. It speaks in terms of a "variety" of "efficient and low-cost services". It reaches this goal by "maximum reliance on competitive market forces" and by the "encouragement of new air carriers" rather than the heavy hand of Federal economic regulation. It recognizes that safety must be continued to the "highest degree". In essence then, the thrust of the amendments is to focus upon the public needs, and to rely upon competition and the market to provide such needs, including the liberalized entry of new carriers, while at the same time preserving the highest degree of safety. Needless to say, the words "promotion" and "competition to the extent necessary" have been deleted.

Re-Noise

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

SEP 1 1976

MEMORANDUM FOR: L. William Seidman, Assistant
to the President for Economic Affairs
William F. Gorog, Deputy Director,
Domestic Economic Policy
James T. Lynn, Director, Office of
Management and Budget
James L. Mitchell, II, Associate Director,
Natural Resources, Energy and Science
James M. Cannon, Director,
Domestic Council
Judith R. Hope, Associate Director,
Domestic Council

SUBJECT: Noise Reduction Program

Attached for your information are some summary comments on the implications of cooperative arrangements between U.S. and foreign aircraft manufacturers and their relationship to the DOT Noise Reduction Program.

Bill

William T. Coleman, Jr.

TPI:8-25-76

Cooperative Arrangements Between U.S. and Foreign Aircraft Manufacturers: Relationship to DOT Noise Reduction Program

Several of the problems faced by the U.S. manufacturers of commercial aircraft are pushing them in the direction of involvement with foreign manufacturers:

- Current slump in U.S. market. Their traditional, dependable customers, the U.S. airlines, are in bad financial shape, and unable (without some assistance) to undertake a large replacement program at any time in the next few years.

- Decline in U.S. Government R&D financing. NASA and DOD aeronautical R&D -- traditionally a major source of commercial technological advances -- has been underfunded for several years, reducing our technological edge relative to foreign nations.

- Growth in size and competitiveness of foreign manufacturers

  - Foreign aircraft manufacturers, particularly in France and England, are becoming more effective competitors -- the A-300B Airbus, for example, is a good medium-range airplane.

  - Foreign governments are subsidizing the high-risk front-end development costs for their aircraft manufacturers, making European aircraft relatively less expensive than a new generation U.S. aircraft.

  - Many major foreign airlines, e.g., British Overseas, Air France, Lufthansa, who were formerly steady customers of Boeing or Douglas, are being directed by their governments to buy their aircraft from the European manufacturing consortiums.

The foreign market for aircraft sales is more important to the U.S. manufacturers today than it was one generation of aircraft ago, and will become even more important in the future:

- The air travel market in the U.S. is mature and traffic is growing slowly today (only a percent or so faster than GNP).

- In contrast, the air travel market in Europe and Japan is still in a stage of rapid growth, and the market in nonindustrial nations, while just beginning to stir, is felt to have great potential.

- Between now and 1985, domestic requirements are estimated to account for about half of the total market, international requirements the other half. Beyond 1985 the balance may shift toward the faster growing international market, although the U.S. replacement market will remain sizable.

This situation forces a difficult choice on the U.S. manufacturers. They must retain access to the foreign markets -- 60% of the world market is bigger than 80% of the U.S. market. But to do so they must enter into some involvement with the government-backed manufacturing consortiums. The question is, how much involvement is necessary or desirable? It can be at any of several levels, but the deeper the involvement, the less control the U.S. manufacturer has over the program and the less employment and subcontracting is retained for the U.S. economy.

U.S. manufacturers are relatively comfortable with arrangements under which they engage foreign consortiums as vendors or subcontractors. However, they dislike going further (e.g., taking a foreign partner or becoming a subcontractor to a foreign manufacturer) for a number of reasons.

- U.S. control of management decisions is reduced.

- Foreign labor is less productive than its U.S. counterpart on either a per dollar or per hour basis.

- Larger foreign involvement in engineering decisions is felt to increase the risk of unforeseen technological problems.

- Employment opportunities leave the United States, creating unemployment problems here and also reducing the flow of fresh new engineering and other talents into the U.S. aerospace industry.

- There is greater risk of "technology transfer" to foreign competitors.

- The workloads and profits of the U.S. manufacturers are reduced under the heavier arrangements.

The pattern in past programs has been that preproduction sales to U.S. airlines provided a solid base for financing front-end costs, and assured a near break-even position without foreign sales, obviating the need for foreign capital and consequent foreign control. This is not the case today, because of the financial condition of the U.S. airlines.

Thus DOT's replacement program (if it can be worked out to insure that the carriers buy a new U.S. aircraft) represents the opportunity to minimize foreign involvement in this next generation of U.S. developed medium-range aircraft. This would have a number of favorable results:

- Less foreign subcontracting and no foreign production lines -- meaning more use of U.S. labor.

- Little requirement for foreign participation in management decisions.

- Less technological risk.

- Retention of U.S. leadership in the commercial aircraft market.

- Less requirement to share profits with foreign partners.

But timing is a critical element:

- The French-German consortium will have a modified A-300B within 2-3 years and a better version by 1980. Absent a better, competitive U.S. aircraft, it will probably dominate the intra-European market for the 1980's.

- The total 1980-1990 world market for a medium-range aircraft is estimated to be 1400 aircraft. Both this consortium and the British are keenly aware that they are in a time race with U.S. manufacturers and must move quickly to capture this market.

- If the U.S. has a simultaneous program (i.e., if the 7X7 and/or DCX-200 are started in 1977) together with subcontracting and/or vending arrangements to assure European and Japanese market access, then the U.S. share of this market is estimated (by Boeing) at 1300 aircraft.

- If the U.S. delays for two years, this market share is estimated to drop to 800. With a four-year delay, it could go as low as 400 aircraft.

- Major cooperative arrangements (Boeing and the Japanese on the 7X7; McDonnel-Douglas and the French on the Mercure) are still in the talking stage and could be abandoned. But they will grow firmer as time passes, and firm commitments will be necessary.

File

THE WHITE HOUSE

WASHINGTON

September 1, 1976

MEMORANDUM FOR: JIM CAVANAUGH

FROM: JIM CANNON

SUBJECT: Aircraft Noise

Secretary Coleman would like to see the President Thursday, September 2; Friday, September 3; or Tuesday, September 7 on his anti-noise proposal.

The importance of this proposal is such that I recommend that the President meet with Secretary Coleman, Jim Lynn, Dick Cheney and me before he makes his decision.

Aircraft Noise

THE WHITE HOUSE

WASHINGTON

September 2, 1976

MEMORANDUM FOR: JIM CANNON

FROM: JUDITH RICHARDS HOPE

SUBJECT: Aircraft Noise

Secretary Coleman's testimony on Aircraft Noise has been postponed until Thursday, September 9, 1976, at the earliest.

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

cc: Leach

File

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

September 3, 1976

MEMORANDUM FOR James M. Cannon
Assistant to the President
for Domestic Affairs

SUBJECT: Aviation Noise Policy

I would hope that the enclosed clippings could be put in the President's briefing materials for him to read prior to my discussion with the President on Tuesday.

William T. Coleman, Jr.

Enclosures

Atlantic Alliance?

Discussions of Joint Projects Are Pressed By French and U.S. Plane Manufacturers

By Robert Prinsky
Staff Reporter of The Wall Street Journal

PARIS—French aircraft manufacturers are looking across the Atlantic for partners and, with perhaps more interest than ever before, U.S. plane makers are looking back.

"This is the best time there ever has been or ever will be" for a transatlantic linkup to build new civil aircraft, says an official of France's privately owned Avions Marcel Dassault-Breguet Aviation — Dassault, for short.

In the past, U.S. makers have so dominated the world market that they could af-

ticipation by Spanish and British firms.)

Boeing is proposing to do just that. In talks that have been going on with Aerospatiale since early this year, the two companies are working on a plan to develop a new, shorter version of the Airbus with a revised wing built by Boeing. In return, Aerospatiale would get a share of the work in a pos-

Worried British Hold Talks With U.S. Firms

By a Wall Street Journal *Staff Reporter*

LONDON—British government officials, concerned that France may be

On paper, the Dassault-McDonnell Douglas project looks more attractive to some French officials. Boeing is so much bigger than Aerospatiale that an alliance of these two companies risks reducing the French firm to the role of subcontractor, they fear. Also, some of them say, there isn't any guarantee that U.S. airlines will want to add Airbuses to their fleets of wide-body jets, which currently are made up exclusively of Lockheed L1011 TriStars, McDonnell Douglas DC10s and Boeing 747s. Airlines like to minimize the number of different craft they must service.

In contrast, McDonnell Douglas and Dassault are on a more equal footing, though

because of the complexity of the issues involved and partly because the affected economic interests—even when repre-

dustries over President Ford's apparent enthusiasm for the long-standing theory that the regulatory agencies slow the

120 officials appointed during

Continued on Page 37, Column 4

were closed yesterday for the New Year's holiday.

Venezuelan oil in 1914 and made the nation the world's

bullion in compensation f
form of cash (about 10 pe
and five-year gover
bonds.

Continued involvement

The largest concerns inv
are to continue providing
nical assistance and m
Venezuelan oil abroad
three-month contracts w
out only a few days ago.

The nationalizations w
malized today when Pr
Carlos Andres Perez rais
Venezuelan tricolor int
early morning sky at th
of Venezuela's first comm
well in Zulia state.

A band struck up the n
al anthem. Venezuelan

Plane Makers Start '76 Stalled on Commercial Sales

By ROBERT LINDSEY

Special to The New York Times

LOS ANGELES — On a windswept desert plateau about 50 miles from downtown Los Angeles, stand five 250-feet L-1011 jet airliners, each valued at more than $20 million, that no one seems to want.

Three were built by the Lockheed Aircraft Corpora-

THE NEW YORK TIMES
Friday, September 3, 1976

Replacing the Airlines' Fleets

By RICHARD WITKIN
Special to The New York Times

LONDON, Sept. 2—If there is one thing on which there is almost universal agreement among aviation experts, it is that the world's airlines are going to need a lot of new aircraft—many hundreds of them—starting about 1980 or 1981. That means large,

Analysis

Economic

pioneer jets with a totally new design, whose up-to-the-minute technology would mean lowest possible noise, enormous fuel savings and a carefully calculated seating capacity for the most profitable possible operations on intended routes.

But as airline travel in 1976 has climbed out of a painful recession, the issue of replacements for the old jets

plane, whether brand new or a derivative, would use a brand new engine or a lower-powered version of an existing jumbo engine. The case for the modified existing engine has been gaining some momentum in step with the growing interest in using a modified existing aircraft.

Battle Brought into Open

The sales battle was brought into the open at the

John C. Brizendine, took a middle position, saying his company "go either way."

The whole matter of replacements must remain somewhat blurred until someone finds a solution for the overriding difficulty: how will the new fleets be financed?

Large Orders Vital

Almost everyone concedes that large new plane pro-

L-1011 JETLINERS—SOME NOT YET CLAIMED—PARKED AT LOCKHEED PLANT IN PALMDALE, CALIF.

STRICK—THE NEW YORK TIMES

AIRCRAFT

No Market for the Jumbos

A scene outside Lockheed Aircraft Corp.'s assembly plant in Palmdale, Calif., symbolizes the condition of the $4.7 billion U.S. commercial aircraft industry today. There, glinting in the desert sun, stand five immense L-1011 TriStar jetliners. Lockheed built them on speculation, hoping that airline executives could not take the L-1011s. So Lockheed has been stuck with the five planes, which are parked on a ramp awaiting buyers.

It will probably be a long wait. Not only Lockheed but the entire U.S. aircraft industry is suffering from a severe slump in orders. Last year the industry received only 193 orders for commercial jetliners, down from 1,451 in 1974 and 1,572 in 1975. Boeing ($2.7 billion through September) watched its sales of 747s drop from 29 in 1974 to 20 last year. And Lockheed ($2.5 billion through September), which won 28 orders for the TriStar in 1974, did not get even one last year. (Military business, which accounts for more than half of each company's revenues, and deliveries of jetliners under old orders muffled the impact on profits.)

WALL ST. JOURNAL, JAN. 30, 1976

U.S. Airlines Rebuff DC10 Discount Bid Made by McDonnell

* * *

Price Is Cut $6 Million for '77 Delivery; Foreign Carriers May Order 11 of the Planes

By TODD E. FANDELL
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Major U.S. airlines are politely but firmly rebuffing a vigorous pitch from McDonnell Douglas Corp. to sell them DC10 wide-body aircraft for 1977 delivery at a discount of $6 million each, industry executives say.

In an effort to bolster a nearly void 1977 production-line schedule for the big plane, McDonnell Douglas formally offered in October to sell planes at the cut-rate price. Depending on the customers and other factors, the $6 million discount would drop the price per plane into the "low 20s" from previously

liveries have reached 212.

McDonnell Douglas's firm backlog on Dec. 31 was $2.95 billion, compared with $3.2 billion the year before, and was composed of 29% commercial and 71% government business. Total backlog approximated $6 billion, compared with nearly $5 billion a year earlier.

Total backlog, which doesn't include options, was 21% commercial and 79% government business.

Corporate employment at year-end was 62,830, down from 70,739 a year earlier.

Delta Exercises Option

By a WALL STREET JOURNAL *Staff Reporter*

BURBANK, Calif. — Lockheed Aircraft Corp. said Delta Air Lines exercised one second-buy option for an L-111 TriStar jet, raising that airline's firm orders to 22. Delta already operates a fleet of 18 TriStars.

At the same time, the airline decided to postpone a decision on firming up orders for two additional aircraft. Delta has eight remaining second-buy options. The latest aircraft is scheduled for delivery in December 1977.

Lockheed also said Cathay Pacific Airways canceled two second-buy options for the Tri-Star, thus reducing the total order backlog to 207, made up of 158 firm orders and 49 second buys. A TriStar sells for about $24 million to $25 million.

JOURNAL OF COMMERCE

Airframe Firm Feeling Impact Of Airline Ills

aircraft ordered for delivery prior to next year, and the company would like to keep the line going on its newest model commercial airliner. But if the hard-pressed airline industry can't see its way to buying new aircraft, the man-