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THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

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**Address to the Wings Club
New York City, New York**

September 16, 1992

It is a special honor to be here today to address this very distinguished group. It is a particular privilege to be able to visit with you during your celebration of the Wings Club Fiftieth Anniversary. I congratulate you on that milestone, and wish you many more half-centuries of service to air transportation.

Given the important place of this club in aviation history, it seems entirely appropriate that we pause today and consider the changing face of America's airline industry. It is an industry racked by the most devastating losses ever. It is also an industry preparing itself for a very different future -- a future characterized by new, seamless connections between domestic and international operations, and between airlines of different flags.

The past few weeks have introduced two watershed developments in commercial aviation. First, the U.S. and the Netherlands initialed an "open skies" agreement a week and a half ago -- an agreement that has enormous implications for the future of international aviation.

Second, of course, British Airways and USAir have proposed a dramatic new alliance that would include a major investment of new equity by BA in USAir. Judging from the range of advice we have received in more than 20,000 letters, it is fair to say that this is a controversial transaction.

The first of these two developments makes tangible the outline of a new world order for aviation. This new world order welcomes global competition and interconnectedness. The second development -- the BA/USAir proposal -- offers what could be an exciting opportunity to extend and further define this new order.

Today I want to speak of these two critical developments. I do want to acknowledge that this new order depends not so much upon the creativity and determination of industry leaders -- of your talent I am confident -- as on our ability to remove impediments erected by government regulation, both here and abroad. And it also rests upon our ability to resist the imposition of additional impediments.

So I'd like today also to speak about deregulation and the appropriate role of government with respect to the airline industry. Excessive regulation compromises efficiency even in the best of times. But, as we know too well, it is not the best of times for this industry.

An Industry in Difficulty

I don't have to recite for you the long list of problems our airlines are facing. You know of the recent bankruptcies, failures, employee layoffs, and endless fare wars. Airline management has had to find every possible way of reducing costs, often with serious implications for employees. The pain has been very real.

The reality is that airlines have to order their airplanes years in advance. As a result, there is just too much capacity in the industry during the current downturn. Hundreds of aircraft are parked in the desert, low fares are chasing fewer passengers, and the airlines have been racking up record losses. The experts in the industry, on Wall Street, and in the academic community generally seem to agree on the cyclical nature of the airline industry and the success of deregulation.

Some people think that the current financial picture is the product of too much domestic competition. It isn't. Airlines all over the world -- many largely insulated against real competition by government protection -- are in very rough shape too. Air France and Iberia have had to seek huge subsidies. Lufthansa is staggering under unprecedented losses. Even the Japanese carriers are seeing red ink -- a new thing for them. The current economic state of aviation is not a problem confined just to the United States.

Opening Up Opportunities in International Markets

Government, as I see it, has two core obligations in aviation: first, ensure safety; second, ensure that consumers enjoy the benefits of a competitive airline industry. To meet these obligations we must avoid overregulation and micromanagement.

Our commitment to safety will not waver -- it is now and always will be our number one priority. Safety more than anything else contributes to consumer confidence.

Airline competition has been substantially enhanced since deregulation, now 14 years old. Deregulation has taught us once again that government decision-making is no substitute for the marketplace. Deregulation has demonstrated beyond any question the wisdom of allowing the industry to respond directly to market opportunity.

But we must do more than avoid overregulation at home. It is also absolutely essential that we foster a more competitive business environment here and on a global basis.

International aviation markets represent some of the airline industry's most important opportunities for future growth, but they are the markets most constrained by foreign government obstacles to real competition.

As most of you know, international aviation has operated for years with a patchwork of bilateral agreements in a legal and diplomatic environment that impedes efficiency and discourages competition. U.S. airlines face obstacles to efficient operation in many foreign markets that simply defy comprehension -- trade barriers that would be considered absolutely unacceptable in just about any other area of economic activity.

U.S. policy for many years has been to find trading partners willing to join us in eliminating those barriers. I am very proud of the ways the Bush Administration has expanded on that theme. Now we don't just "find" -- we encourage trading partners to eliminate those barriers. First, we created the "Cities Program," in which the national airlines of countries who have joined us in deregulating international aviation were permitted to fly to our cities that did not already have service from a U.S. airline.

More recently, we took that important policy even further. Shortly after taking office, I announced that we would grant "open skies" to the airlines of any European country that agreed to deregulate completely the air services between our territories. Our agreement with the Netherlands is the first such accord. It is a good deal for both countries. And we will continue aggressively to seek other such European partners. These are the essential building blocks of a more competitive aviation market with Europe as a whole.

Given their poor financial results and their uncertainty about the new, single European aviation market, some European airlines have asked their governments to limit the amount of competition they face from U.S. airlines in the trans-Atlantic market.

That is why French authorities insisted that U.S. airlines significantly reduce their schedules to France this summer. That is why, even after reductions were taken, France announced that it would terminate its aviation agreement with the U.S. And we are in delicate negotiations with Germany at the moment as a result of similar concerns on Lufthansa's part.

These developments threaten to compromise the growth of international air travel at precisely the moment in time when governments should be doing everything possible to encourage that growth.

The new U.S.-Dutch agreement should make clear that the future will not rest with those who would cling to governmental constraints on air service. The simple truth is that the demand for air travel, and competition from carriers prepared to operate in a more liberal environment, will overwhelm efforts by foreign governments to "manage" the market.

Based on the Dutch open skies agreement, KLM and its U.S. partner, Northwest, have formulated a forward-looking plan for integrating their operations and enhancing the attractiveness and market presence of both carriers' services. DOT must examine the antitrust implications of the plan before giving it the immunity the airlines are seeking. But it clearly represents an important harbinger of things to come in international aviation.

By entering into the new agreement with the Netherlands, therefore, we facilitated the expansion of air service between the U.S. and Europe. We created the real potential for better international connections for many U.S. communities that do not currently have them. We improved the financial prospects for KLM's American partner, Northwest. And hopefully we have helped accelerate the EC's thinking about the need for a new approach to aviation relations with the U.S. We may well have hastened the day when U.S. negotiators will be able to sit down with their EC counterparts and design a far more congenial framework for the trans-Atlantic aviation market.

Let me turn now to the widely discussed proposal by British Airways to invest \$750 million in USAir. As Seth [Schofield] knows, my decision is not being announced today. I don't want any brokers in the audience to get trampled in a rush to the phones. Obviously, I can't comment on the prospects for approval of the transaction at this point. It is still in the process of being analyzed.

Without offering any prediction about the final outcome of our consideration of the transaction, I do want to offer you some preliminary reactions to it.

First, there can be no question that the corporate intentions behind the transaction are entirely consistent with what I have described as the future direction of international aviation. The proposed alliance would clearly enhance the global presence of British Airways, would solidify USAir's competitive position in the U.S. market, and would bring more convenient service to a number of American communities.

Also, because the agreement with British Airways would require USAir to give up three routes it currently operates to London, those three routes would become available to other U.S. airlines. On the basis of those considerations, the transaction certainly can be described as a good thing.

But make no mistake about it. This proposal is a watershed proposal -- unprecedented and challenging the status quo.

The law requires that U.S. air carriers be "citizens" of the United States. For half a century -- at least as long as the Wings Club has been in existence -- the CAB and DOT have interpreted this requirement to mean that "actual" control, as well as 75 percent of the voting stock, be in the hands of U.S. citizens.

Now consider the terms of the proposed transaction.

Key decisions, such as the appointment of senior executives, payment of dividends, and the establishment of operating budgets would require, under super-majority provisions of the agreement, the approval of directors appointed by British Airways.

Moreover, integration provisions contemplate the unification of most business functions, such as sales, advertising, ground handling, cargo operation, catering, training, financing of equipment, purchasing of fleet, and purchasing of fuel. Integration of brand can occur, with a Global Master Brand introduced.

Finally, in three specific areas, USAir expressly defers to British Airways:

- Pricing and inventory control;
- Network planning, including scheduling; and
- Information management, including computer reservation systems.

BA and USAir maintain, of course, that the transaction is entirely consistent with U.S. law. Other commentators say that the agreement goes beyond what our law permits. Our lawyers and analysts have scrutinized the agreement, have sought significant amounts of additional information from USAir, and are in the process of assimilating the results of that inquiry.

All this is happening in a domestic environment where this Administration is not afraid to push the edge of the envelope when it comes to foreign investment. We welcome foreign investment, and with regard to commercial aviation, foreign investment could help an industry badly in need of capital, a workforce that needs jobs, communities that want more service, and consumers who benefit from competition.

The environment also includes another important issue relating to the quality of our bilateral aviation agreement with the U.K. -- "Bermuda 2." Past precedent leaves no doubt that the climate created by our bilateral aviation agreement with the U.K. is relevant to the Department's decision. The initial KLM/Northwest deal, for example, made this nexus quite explicit.

What is that environment? It is restrictive. Bermuda 2 is primarily about restricting market access. It prescribes, in ways that are far more restrictive than in virtually any other bilateral aviation agreement to which the U.S. is a party, precisely how many airlines can fly, how often, and between what cities.

Let me give you a few examples. Because of Bermuda 2, United is not permitted to serve London from its hub at Chicago; American can't fly to London from its hub at Raleigh-Durham; USAir itself tried for years to get U.K. permission to fly to London from

its hub at Pittsburgh, but it never got it. The U.K. even refuses to allow any U.S. airline to offer the first nonstop trans-Atlantic service to Birmingham.

It would not be an overstatement to say that, as a matter of aviation policy, Bermuda 2 is the very antithesis of "Open Skies 1 -- the agreement with the Netherlands.

I also want to point out that the transaction forged by British Airways with USAir, if implemented, would represent a significant improvement in the market access that BA enjoys in the U.S. That is not a matter of interpretation; that is what the British themselves say.

In the past, efforts by the U.S. to improve U.S. airlines' access to the U.K. market have always been met by U.K. insistence that we negotiate a carefully calibrated, reciprocal exchange of new opportunities for the airlines of both countries. That is why a number of U.S. carriers say that this proposed improvement for BA should not be approved unless there is a comparable improvement for them.

Let me say this. The U.S. and the U.K. have been engaged in negotiations for some time regarding the "liberalization" of the important aviation market between our countries. Despite the market-oriented policies that both governments favor in most other areas of business enterprise, those talks have not yet been productive.

Many people are asking whether the U.K. would have any incentive to negotiate a more liberal agreement if BA's aspirations for service to the U.S. were largely satisfied by its agreement with USAir. The United States government does have an obligation to consider the impact of this transaction upon the U.S. airlines' long-term prospects in their most important international markets.

I am nonetheless an optimist by nature! I want to believe that today there is an exciting opportunity for the U.S. and the U.K. to bring our important aviation relationship into the mainstream of our mutual thinking about economic relations generally. I look forward to discussing these critical issues with my British counterpart, Secretary of State for Transport John MacGregor, when he visit Washington next week.

Regulatory Relief

Now, about what we can do here. The truth is that we can do much more to improve the airline industry. I am committed to doing just that -- I want to reduce the regulatory load.

The airlines complained to me early in my term as Secretary of Transportation of the heavy cost imposed on them by government. That appeal coincided with the ground-breaking regulatory review ordered by President Bush for all the federal government

regulation. In one of my first public appearances as Secretary, therefore, I promised a major re-examination of the regulations that apply to the airline business.

Many of the regulations we have since reviewed were the products of Congressional legislation that we opposed. As you know, we have little flexibility with respect to those rules.

We will continue to oppose new, costly, and inappropriate forms of government intervention.

I am talking about legislative proposals that almost seem designed to deny airline managers the ability to manage their costs effectively. Right now in Congress, for example, conferees on the Department of Transportation Appropriations Bill are considering laws that would provide unprecedented government labor protection requirements and new duty time restrictions for flight attendants. Is it really necessary, in 1992, for Congress to write laws spelling out the relations between employers and employees in this one industry? If they follow through, I'll recommend a Presidential veto.

The airline industry has been the victim of Congressional micromanagement. It is time to stop.

Looking at regulations already on the books, we have undertaken a series of reforms in areas of aircraft operation, aircraft certification, noise certification, airport security, and international harmonization of international regulation. These initiatives will result in millions of dollars of cost savings.

Today I am announcing three additional areas of regulatory reform: criminal history record checks; random drug testing; and computer reservation systems.

First, the Department of Transportation is today issuing a new proposed rule that would greatly reduce the number of employees subject to the Congressionally imposed requirement of a criminal background check.

Instead of requiring a full FBI records check for all employees that have access to aircraft security areas the new rule would recognize that the vast majority of employees simply do not pose a security threat. It therefore eliminates background checks for current employees, and establishes a screening procedure for determining when to require full background checks on new applicants.

The bottom line? This would reduce the number of full background checks from 180,000 to something under 500. The industry estimated the cost of the original background check proposal to be as high as \$1 billion. The FAA estimates the cost of this new approach may be as low as \$3.1 million over the next 10 years.

Second, today I have ordered the preparation of a rulemaking launching a formal DOT evaluation of the effectiveness of the random drug testing rule.

The Department's random drug testing program is one of our most important transportation safety programs. But it is also quite costly. There has been considerable debate surrounding the need for a very expensive 50 percent random sampling rate for drug testing in an aviation industry. This debate is taking place throughout all of the transportation industries regulated by DOT, not just airlines.

Make no bones -- I am committed to drug testing. But when it comes to the random testing rate, I want to improve the quality of the data we receive. I was dismayed at the inadequate level of detail in our current reports. With improved data, we may be able to make a more informed determination whether the random testing rate can be adjusted, and the costs to industry reduced.

I do not intend to bury this issue in a file drawer. I want it on the table and will see that it is fairly debated. We have a responsibility to establish a sampling rate that is adequate to maintain safety, but that rate should be no broader than necessary. So our new rulemaking will allow us to evaluate the relationships between various drug testing rates and their effectiveness, both in detection and deterrence.

Third, the Department will today also issue final regulations governing the operation of airline computer reservation systems.

CRSs play an indispensable role in today's air travel industry. The rules are based upon the Department's experience in regulating these systems since 1984, two major Department studies, and a lengthy rulemaking proceeding.

The new rules make modest, sensible improvements. They will encourage more competition in this dynamic industry. They do not require drastic modifications to present CRSs, draconian regulation, or divestiture by the airlines that own the systems. They do, however, target abuses and excesses, and address them in a systematic way.

In addition, the new CRS rules will sweep away barriers to the use of third party hardware and software in a reform move that will enhance competition, innovation, and development in the same way as the deregulation of telephone terminal equipment spurred development in the telecommunications industry. This important change will enable travel agents to communicate with multiple CRS services, multiple data bases, and multiple airlines from a single terminal. It is an exciting and timely reform.

These three actions illustrate the approach I have tried to take on airline regulatory issues. I am resolved to reducing costs, where consistent with preserving safety. And I am committed to protecting the conditions that allow for increased domestic competition.

There are many other actions we are taking to reduce regulations. For example, we will issue today new rules on passenger charters and we recently issued new guidance to airports providing more flexibility in implementing airport security. We also have decided to drop an expensive new concept on aircraft performance during aborted takeoffs.

Montreal Protocols

Before closing, I want to say just a word about some very important business pending before the Senate. The current treaty that spells out the liability of airlines following accidents that take place during international flights is hopelessly out of date and unjust. I am talking about the 1929 Warsaw Convention, a treaty badly in need of modernization.

Treaty amendments -- the "Montreal Protocols" -- that would bring real fairness at long last to the victims of such tragedies are currently awaiting a Senate ratification vote. The amendments have the strong support of the Bush Administration. I urge the Senate to ratify the Montreal Protocols before the end of the present Congress.

Conclusion

In sum, the airline industry is experiencing a period of unprecedented challenge. Government policy makers, too, are being tested as never before. Our responsibility is to ensure that airline managers have the wherewithal to operate safely and successfully in a competitive environment, and to do so free of unjustified regulatory constraints. If the U.S. government fulfills that responsibility, and if we are able to persuade other governments to join us, we are indeed justified to anticipate a new world order for aviation.

Thank you for allowing me to share these thoughts with you today.

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