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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
NATIONAL BUSINESS AIRCRAFT ASSOCIATION
ATLANTA, GEORGIA
OCTOBER 3, 1989

• It's a pleasure to be here today. As a private pilot, I take a very special interest in the challenges facing the aviation industry as we approach the 21st century. One of the Department's and the FAA's highest priorities is safety, and we are totally committed to enhancing the safety of the system. I applaud the NBAA's efforts in this area, especially with your new program, the Education and Safety Foundation.

• Along those same lines, the FAA recently began a comprehensive review of its general aviation compliance and enforcement program to determine its effectiveness in promoting air safety, our number-one priority. If the FAA is neglecting to provide education that could prevent violations, or if it is missing opportunities to help general aviation fly more safely, we want you to tell us about it so we can correct the problem. Listening sessions of the "Safety and Efficiency Review" have been held around the country and a session will be conducted here at the NBAA Convention on Thursday. I encourage all interested pilots to attend.

- As you well know, the Department of Transportation is developing a comprehensive national transportation policy. This strategic policy is being developed with the help of all aspects of the transportation community. The input we have received from you and the entire aviation community has been invaluable to our efforts, and we appreciate it.

- If we ignore the future needs of our transportation system, we run the risk of jeopardizing America's future competitiveness and prosperity. We are determined to enhance the competitiveness of the transportation system across all modes -- because the transportation system is a critical factor in the competitiveness of America.

- People around the world have for generations, looked to this country for excellence and innovation in transportation. We continue to set the pace in technological progress, but there have been many recent international developments in aviation, high-speed rail, aerospace markets, and technology that require immediate attention. And, today, as we approach a new century, our historic leadership position in transportation is being challenged.

- We know that throughout America's history, transportation has been a powerful engine for

economic growth and geopolitical influence. Innovations in transportation technology and accessibility have expanded the range of economic opportunity beyond calculation. This was true first of waterways, then roads, then railroads. Now it is true of aviation. I believe it absolutely essential that transportation technology continue to move ahead.

- We are at a crossroads when it comes to the future of general aviation. We are experiencing unprecedented growth in demand for aviation services.

- The general aviation fleet, already operating more than 220,000 aircraft, is expected to grow substantially in the coming years. Commercial aircraft orders are at a record-high, with thousands of new large, commercial aircraft scheduled to be built. However, airport capacity and our airway system is being strained. This strain is showing in terms of efficiency, convenience and cost. We need more runways. We need to pour more concrete and build more capacity into our airspace system.

- The issue of future capacity is of utmost importance to me and one which I know is of particular concern to you. The demand for air travel has nearly doubled in the last ten years, yet we have not built the airports, runways

and other facilities needed to handle the increased demand and air traffic. In fact, the last major airport -- Dallas-Fort Worth -- was built back in 1974.

• Well, this is going to change. Last week, I had the pleasure of presenting the city of Denver with a check for $60 million as the first installment of federal support for the airport which will have 94 gates and five runways. Completion of the new Denver airport in 1993 will be a major step toward increasing airport capacity and decreasing air traffic delays throughout the entire national airspace system. When completed, it will be the largest airport in the country, and Denver will play a major economic, social and political force in the 21st century.

• The planning for this massive project has been a cooperative effort between the federal government, the city and county of Denver, and the state of Colorado. In approving the public referendum for the construction of this airport, Denver has shown dramatically that a community can reach a consensus and overcome all the obstacles of new airport development. This represents the type of team effort we need to continue across the nation as we expand and rebuild our transportation infrastructure.

- The Airport Capacity Task Force in which many of you are participating, is well underway. The research and development people at the FAA themselves are also working hard in capacity technology to devise ways of expanding and improving efficiency in existing facilities.

- FAA Administrator, Admiral Jim Busey and I are determined to do everything possible to maintain and enhance the FAA's status as the world's premier aviation safety organization -- and retain it as an integral part of the Department of Transportation. To remove it from DOT's jurisdiction would inhibit our ability to develop a truly coordinated transportation policy for America's future, and it would not make it any easier to solve the problems facing the FAA and the aviation community.

- A safe and economically vigorous aviation system is in the best interest of all Americans. Aviation has become the underpinning for much of this nation's economic growth, and it plays a critical role in America's vitality. That is why the Department is working closely with industry and the Congress to elevate aviation to its proper place on America's agenda.

- There can be no doubt about the seriousness of the federal government's commitment to aviation. Between 1982 and 1989, the FAA budget more than doubled -- increasing from $3.1 billion to the current

level of $6.4 billion per year. This Administration is requesting $7.4 billion for 1990 -- another very substantial increase.

• Your efforts are a good example of the most important lesson I have learned as a government official. Whether the goal is combatting international terrorism, improving airport capacity, or reducing inconveniences to passengers, the success of any government policy depends on the support and cooperation of those directly affected by it.

• What we do in the next few years will chart the course for aviation into the 21st century. It's never been more important to work together to assure that course will be the right one. You and I share the common goal of a safe and efficient national aviation system. I want you to know that the Department and the FAA stand ready to help you accomplish that goal.

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2:30 pm

TALKING POINTS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
AIRPORT OPERATORS COUNCIL INTERNATIONAL
HOUSTON, TEXAS
OCTOBER 3, 1989

• Good morning. It is ~~really~~ a pleasure to be here to discuss some of the more significant issues in an area we all love -- aviation. I know there are some important aspects of aviation policy you would like to have addressed, including industry economics; capacity problems; and civil aviation security.

• Before I focus specifically on these issues, I'd like to begin by discussing the aviation sector itself, and the role aviation is going to play in America's future global competitiveness.

• U.S. competitiveness in the world market is probably the single most important area in which we can improve our nation's economic performance. It is vital that we do so, if we are to remain capable of promoting peace, prosperity, and progress around the globe.

• I do not believe, as some people do, that America's leadership is already in irreversible decline as the world's greatest economic power. But let me suggest that today's competitive challenges in the international marketplace are probably as great as any we have ever faced. And that means that as we compete in the world, we must begin to redefine the role of America's major

and emerging industries, and do everything we can to enhance their competitive position around the globe. If we don't, there are events occurring throughout the world which will ensure that those observers who suggest the U.S. is in an irreversible decline will prove to be correct.

- Aviation is an increasingly international market, capable of making a profound economic contribution to our country's international competitiveness. It has only been in recent years that the extent of that contribution -- and its importance to America's leadership position in the world -- has begun to be really appreciated.

- During this decade of economic deregulation, we have experienced staggering growth in aviation traffic. Between 1978 and 1988, passenger enplanements for U.S. carriers increased 68 percent; revenue passenger miles (RPMs) increased 90 percent. International traffic burgeoned: in the same ten years, our air carriers handled a 70 percent increase in international passenger enplanements, and more than a 100 percent increase in revenue passenger miles. Growth in passenger traffic during this period was greatest in the Pacific market, with RPMs up an incredible 239 percent. At the current 20 percent annual rate, traffic in this region could keep doubling every four years.

• The variety and volume of non-passenger services, including air freight, expanded at an even greater rate. Air cargo service is one of the fastest growing industries in the world; in 1986, airborne exports accounted for 29 percent of the value of total U.S. exports. Growth in three sub-sectors of all-cargo services since deregulation has been particularly intensive -- operations by air couriers, integrated air express operators, and overnight large freight carriers increased by levels unprecedented in aviation history. While the bulk of this growth has been domestic, the U.S. air freight industry today is poised and ready to "go international."

• Let me put these statistics in more general terms. We'll have nearly a half-billion airline passengers this year, and by the turn of the century, we could have close to a billion. Air freight volume will continue to increase, perhaps exponentially. And aviation growth is not only occurring in terms of traffic. Over this next decade, carriers and commuter lines will increase the size of their fleet by more than 1,000 aircraft. Another 1,200 will be added during the ten years after that. The general aviation fleet, already operating more than 220,000 aircraft, is expected to grow five times as fast as the commercial airline fleet.

• Moreover, anticipated growth up to the year 2010 includes a 55 percent increase in aircraft operations at

airports with traffic control towers, a 62 percent increase in instrument operations in terminal areas, and a 73 percent jump in carrier hours flown.

• This tells about about current and projected aviation growth. What about the numbers in international commerce? Let me give you just a few that I think you will find interesting. Take, for example, just the volume growth in America's international trade. One of the biggest changes in the post-War era has been the phenomenal increase in international trade and travel. In 1950, U.S. exports and imports of goods and services constituted only 9 percent of our gross national product (GNP). In 1970, it was 13 percent. By 1988, it had grown to 21 percent -- in other words, it will have nearly doubled within twenty years. Today, we are having to compete in an increasingly globalized marketplace as we have never competed before.

• Taken all together, these aviation and international trade numbers boil down to this: aviation, and intermodal links with aviation, represent the transportation wave of the future, particularly in the increasingly vital area of international commerce. With this in mind, let me speak briefly to some specific aviation issues, beginning with airport system capacity.

• Given the incredible growth in aviation demand I have cited, the need for more airports is becoming critical. Yet, we have not built a major airport in this country since Dallas-Fort Worth in 1974, and as you all know, construction lead-times are long.

• This is why in Washington, we have made easing capacity constraints a high priority issue. I am delighted that Dallas-Fort Worth and the Pittsburgh airports are expanding. I am greatly encouraged that Denver, Colorado has committed to building a new airport -- the first of what I hope will be a nationwide trend. The seriousness with which we view the need for increased airport capacity is evident in the $60 million grant the Federal Aviation Administration formally awarded just last week to the Denver airport initiative. This grant will be used to reimburse land acquisition costs, and to fund relocation assistance, terminal building design, and Phase I site preparation on the centerfield terminal area and the east-west runway.

• As new airports are being built, we must act decisively to meet pressing demand by wringing every bit of available capacity out of the present system. The Airport Capacity Task Force in which many of you are participating is well under way, and I thank you for your valuable contributions to this effort. The research and development people at FAA themselves are also

working hard in capacity technology to devise ways of expanding utility and efficiency in existing facilities.

- The efforts of the Airport System Capacity Office, to ascertain what projects are showing promise and should be fast-tracked, are showing some interesting results. For example, they have just completed a very successful three-day experimental trial with intersecting wet runway utilization at Chicago's O'Hare. In nearly 100 operations that gave take-offs priority over taxiing through at wet runway intersections, there were no pilot objections, no operational errors, and capacity was increased 25 percent over normal procedures. So here's a small operational change that may prove to have very large benefits in increasing capacity -- without costing a fortune, taking forever to implement, or compromising safety.

- Airspace capacity, of course, is another major concern. That is why we are moving forward rapidly with the updated NAS Plan. But in a larger context, capacity concerns are also why our national transportation policy is so crucial. You here today understand and appreciate the importance of strategic planning. Your businesses and organizations utilize this crucial tool to meet your objectives. You recognize that the best way for America's aviation industry to maintain sustained growth and international competitiveness is to gather

the facts, and then map out a strategic policy to meet the challenges ahead. Just as successful businesses and smart leaders run their operations by a strategic plan, government -- if it is going to be successful -- needs to start thinking strategically, too.

• We are trying to bring that approach to Washington. Our top priority for the Department of Transportation is ensuring a sound, safe, strong transportation system capable of sustaining America's economic and geopolitical preeminence. We are working to achieve this goal by developing a national transportation policy across all modes. This policy will be a vehicle for moving American transportation into the 21st century, prepared for the challenges which confront it.

• This is not as easy as it may sound. America's transportation network is the system that keeps our economic lifeblood flowing. By moving goods and people, by providing fundamental delivery and distribution services, transportation affects the quality of life of every person in this country, and millions of persons abroad. The infrastructure supporting our transportation system is absolutely vital to the efficiency, productivity, and competitiveness of the economy. It is also something that most Americans take completely for granted.

• You and I know that we can't take it for granted anymore. Our transportation infrastructure needs to be repaired and upgraded across the board. It is aging, in places it is crumbling, and its capacity overall is becoming inadequate to the demand placed upon it. This is especially true of aviation capacity. With your help, we are confident we can meet this challenge -- now, and as it unfolds in the 21st century.

• How can we manage it? Only through bold and decisive action, based on the best analysis and strategic planning we can achieve. Capacity must be substantially increased as quickly and as efficiently as is feasible; our airport and airspace infrastructure must be expanded and modernized. Technological advancement is absolutely crucial to achieving these objectives. And I might add, technology is also crucial to maintaining American economic preeminence in the world, through its ability to improve our productivity.

• The best indicator of national competitiveness is a country's level of productivity -- the output of goods and services in terms of manpower, raw materials, investment funds, and capital equipment. In a truly competitive society, economic activity dependent upon these factors of production shows at the very least a

constant, steady growth. This growth is generally the consequence of increased efficiency in productivity.

• Now, I have spent part of my career in the private sector, as well as in public service, and I know that there is much -- particularly in terms of increased productivity -- that business can teach government. Rest assured that I am also very aware of the profound effects that government policies can have on the ability of business to produce efficiently and compete successfully overseas. Given recent history, it is extremely important that government bear this in mind when devising policy.

• You know the recent history I mean. From 1950 to 1965, total U.S. business productivity grew at 3 percent a year. From 1965 to 1973, it grew at about 2 percent. And since 1973, it has only been growing at about 1 percent per year. More alarming, our manufacturing productivity has grown at a consistently slower rate than that of our major trading partners. Between 1950 and 1985, while the U.S. recorded an average 2.5 percent annual increase in manufacturing productivity, Japan enjoyed a rate of 8.4 percent, Germany and Italy 5.5 percent, France 5.3 percent, Canada 3.5 percent, and Great Britain 3.1 percent.

• There are, of course, many factors affecting these indices. But I believe that the greatest problem lies with

ourselves, with the creeping suspicion that America's days of global economic ascendancy, of leading the way in technological advancement, are over. For some CEOs I know, faced with the strength of the Pacific Rim economies, and the prospect of the European Community's economic integration in 1992, that suspicion is hardening into conviction.

• How are we to meet the challenges of our global competitors, and ensure that America remains number one in the world's economy? I am convinced the key to improving our productivity is through technology -- through the development, implementation, and strategic marketing of technological innovations and advancements. In turn, improved productivity through technological progress is the key to increasing U.S. competitiveness in the global marketplace.

• The technological revolution of the past three decades is a fundamentally American invention. It was the investment of U.S. dollars and man-hours in aerospace research and development that created the era of the semiconductor and microprocessor. That same investment today has given us a storehouse of riches -- existing technology that every day is being transferred to new industrial applications, most notably in aviation. And the private sector, by investing its inexhaustible imagination and precious capital

resources in adaptation of this technology, is helping keep America number one in the world.

• The national economic role of our aviation sector demands substantive fiscal commitment to maintaining its excellence. I have mentioned aviation's importance in international commerce, but it affords many other valuable benefits to the quality and security of American life. Aviation provides us a rapid physical link to the rest of the world, and an essential means of power projection and national defense. Air commerce contributes more than $200 billion annually to the U.S. economy, and employs nearly a million persons.

• Aviation is also the country's fastest growing transportation sector, representing the primary mode of medium and long distance business travel. We have the cheapest, most accessible, and most flexible air travel in the world. In 1978, only one in four Americans had flown. Today, nearly three out of four have.

• The importance of aviation to the country can hardly be overstated. Directly or indirectly, it affects every person and every business in American life. Our economic vitality, our international competitiveness, and our national security are all increasingly dependent upon a strong air sector. A renewed commitment from the public, the aviation community, and from other

levels of government, to work with -- not just look to -- the federal government for aviation infrastructure development, is necessary, if aviation is to remain a major world economic player.

• I am determined to see that America does what is necessary to keep aviation strong. This includes making sure that airline competition remains vigorous, and that both the industry and the consumer continue to benefit from deregulation. The Federal Trade Commission estimates that savings to consumers from deregulation is in excess of $100 billion. The airlines last year enjoyed a record $64.6 billion in operating revenues. I want to see these kinds of numbers keep growing.

• These are among the reasons why the Department of Transportation recently announced that we will be monitoring the levels of debt and foreign involvement in all proposed U.S. air carrier buyout transactions. Even in a deregulated environment -- to which we are committed -- we must take steps to enhance competition and industry vitality, as well as to ensure safety and national security.

• These objectives cannot be achieved by the federal government alone. Airport development has always been, and remains, primarily a matter of local and state initiative and funding. Community leaders, actively

seeking new opportunities for regional economic cooperation and growth, must recognize that a good, efficient airport is central to economic growth. We need private-sector, locally-based action for airport development, if we want to see American communities grow and thrive, and if we are to stay competitive as a nation.

- For transportation progress, working together is what it is all about. Innovation and cooperation are vital. Nationwide, we are experiencing economic activity characterized by rapid change and tremendous opportunity. But for success, community associations must conscientiously foster conditions that promote economic development and growth in their regions. Resources for this effort must be allocated efficiently, and marketing must be aggressive. Competition is fierce, making vision and imagination premium attributes in the arena of economic development.

- There is no shortage of vision and imagination here today. AOCI, fulfilling its responsibility to promote economic growth and prosperity for the airport sector, is moving forward with its own agenda for improvements to provide greater capacity and expanded services. It is seeking to do what must be done to achieve economic success.

• Perhaps most central to this objective is the need to retain the flying public's confidence in the system. Civil aviation security may be the issue of most interest among you today, and with good reason. The extent and expense of recently mandated aviation security measures are matters of understandable concern to those of you in the airport and air carrier industry. But terrorism is a continuing menace, as recent events in Africa have shown, and commercial aviation remains a favorite target. Air travel is still one of the safest forms of transportation, but strengthening security for both international and domestic civil aviation is essential.

• As you are all aware, by August 8th, the nation's largest airports were required by the FAA to submit plans of their airport security programs, including modifications of their installation and use of improved access control measures. These plans are currently under review by the FAA, and will be discussed at this conference on Wednesday by Quinten Johnson, from the Office of Civil Aviation Security. I want to thank all of you for the high degree of good faith cooperation you displayed in meeting this requirement.

• I fully support the final rule mandating the use of explosive detection systems (EDS) by U.S. air carriers at certain domestic and foreign airports. The U.S., as the world leader in cutting-edge technology and

transportation systems, must set the standard for civil aviation security -- and that standard must reflect this nation's profound reverence for human life. The EDS technology we have, even though it is still evolving, is a tremendous improvement over earlier systems, and needs to be expeditiously utilized. We must prevent the introduction of bombs onto aircraft, even at some considerable cost and inconvenience.

- I realize that this new responsibility placed upon air carriers will definitely affect airport operators in terms of space, procedures, and other operational factors. We are aware of the challenges the rule will present in running your facilities and doing your business. But we must view aviation security as a comprehensive system led by the air carrier and airport community. The FAA has committed resources from the Office of Civil Aviation Security to coordinate with you at each step in implementing this equipment. Seeing that the industry has EDS on line is an obligation of the Department of Transportation and the FAA, entrusted as we are to protect the public safety and interest in aviation.

- In an increasingly global economy, the ability to cover great distances with optimum speed assures us that aviation is destined to be <u>the</u> transportation mode of the foreseeable future. It is our duty, and our privilege, to prepare for the future that is virtually upon us today.

I look forward to working together with you, as we ensure that American aviation is ready -- for the good of our country -- to meet the challenges ahead. Thank you.

STATEMENT OF SAMUEL. K. SKINNER
SECRETARY OF TRANSPORTATION
BEFORE THE
SENATE SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
OCTOBER 4, 1989

Mr. Chairman and Members of the Subcommittee, good morning. Once again I thank you for the opportunity to come before you and discuss the Department's thinking on two vitally important aviation industry issues. One issue is the degree to which leverage is used in the capital structure of U.S. air carriers. The second is foreign ownership and control of U.S. air carriers.

At the outset, allow me to outline some of the Department's thinking on these two issues. The airline industry was deregulated 11 years ago. We believe that deregulation has been successful, demonstrating that the application of market forces has worked well in making the air transportation system healthier, more efficient, and more responsive to the demands of passengers and shippers. In a recent assessment of the effects of airline deregulation on travelers and carriers, Morrison and Winston have estimated the annual benefits at $14.9 billion (in 1988 dollars).

Some airlines have been financially successful; others have not. Overall, market forces have benefited airline customers, owners, managers, employees, and investors. The industry's success has attracted new and more

sophisticated investors, including some foreign groups and even foreign airlines.

Since the Department believes in the efficacy of the marketplace in generating the greatest good for the greatest number, we have been loathe to interfere in the dynamics of the market decisions, except where statutory obligations require us to do so.

Let me turn now to recent events. On June 19, 1989, NWA, Inc., the parent of Northwest Airlines, announced that it had entered into a merger agreement with Wings Holdings, Inc., a corporation formed for the purpose of acquiring Northwest Airlines.

Although leveraged transactions have become quite common during the 1980s, the Wings proposal was the first LBO-type airline acquisition of this magnitude. The Department's response to the Northwest announcement was to begin promptly a continuing fitness and citizenship review of Northwest under authority of section 401 of the Federal Aviation Act. We quickly recognized that the magnitude and the potential impact of the transaction could cause a significant change in the operations and character of the company.

First of all, the proposed acquisition involved a four-fold increase in Northwest's long term debt and a significant

increase in its debt service requirements. The pressure to pay down the principal and to meet interest payments could threaten the carrier's ability to meet its other obligations, including fleet replacement, aircraft repair and maintenance, security, crew training and other safety-related expenses.

It is the Department's policy to routinely intensify its scrutiny of carriers when there is reason to believe they may be experiencing financial distress, and excessive debt in a cyclical industry such as airlines is a cause for concern. Mr. Chairman, I can assure you that air carrier safety is something I will never compromise during my tenure as Secretary of Transportation.

As you know, the Federal Aviation Act does not require air carriers to seek advance Department approval of any ownership change. Completion of the transaction, however, did not preclude the Department's review of this case. The Department's staff continued its comprehensive analysis of the Northwest transaction, as well as consulting extensively with numerous outside sources on the underlying issues. These sources included experts from other federal agencies, the academic community, management consulting firms, accounting firms, economists, stock market analysts, and aviation industry consultants.

We also decided to retain the services of a well-known public accounting firm (Coopers & Lybrand) to assist us in our comprehensive review of this transaction.

All of the above measures were taken because we were treading on sensitive ground, and we wanted to be absolutely certain that all of our steps were firm, deliberate, and well-conceived.

The second major area of concern with the Northwest transaction was the $400 million equity participation by KLM. KLM was by far, when both common and preferred stock are considered, the largest equity player, holding about 57 percent of the total equity investment. KLM is one of the largest European air carriers with a wide route system throughout Europe and across the Atlantic. Northwest is the fourth largest U.S. airline and a significant competitor in transatlantic operations.

The Federal Aviation Act requires that certificates of public convenience and necessity to engage in air transportation be held only by citizens of the United States. Congress wished to safeguard national security by ensuring that U.S. air carriers would provide aircraft to the U.S. armed forces in times of war or national emergency. Congress also wanted to ensure that U.S.

air carriers would be able to compete vigorously with foreign carriers on international routes.

Section 101(16) of the Act requires that the President and two-thirds of the Board of Directors and other managing officers be citizens, and that at least 75 percent of the voting interest be owned and controlled by U.S. citizens. During the past 50 years, this Department and its predecessor, the Civil Aeronautics Board, have consistently interpreted section 101 to mean that the carrier must actually be controlled by U.S. citizens.

While KLM's voting share technically fell within the statute's numerical limits, we concluded that KLM's ownership of 57 percent of NWA Inc.'s total equity, together with the existence of other links between the carriers and KLM's position as a competitor, could create the potential for the exercise of influence and control over the carrier's decisions. This would be inconsistent with the law.

In short, the congruence of both the significant increase in Northwest's long term debt and KLM's substantial and unprecedented equity investment in Northwest raised important concerns.

Rather than immediately moving forward with procedures that could lead to a finding that Northwest's

debt leverage required closer DOT monitoring or that Northwest was no longer a U.S. citizen under the statute, I personally discussed my concerns with Mr. Alfred Checchi and other principals of the company. Together we reached an agreement which accommodates the Department's concerns and comports with the statute and legal precedent.

Our deliberations regarding the transaction culminated in the announcement last Friday, September 29th, that the Department had reached a consent agreement with Northwest. Under the agreement:

- KLM will reduce its equity in Northwest to 25 percent of the total equity;

- KLM may still have one representative on the board of directors, but that person must effectively limit his or her involvement to matters relevant to protecting KLM's pecuniary interest, recusing himself or herself when the board is dealing with certain matters, such as bilateral negotiations and competitive issues;

- KLM will dissolve the three member advisory committee to Wings; and

- Northwest will make available annual forecasts and budgets, along with quarterly and year-end financial statements and other information.

This detailed reporting was imposed to enable the Department to monitor Northwest's continuing financial fitness and to provide the Department with early warning of any problems that the new Northwest may be encountering in servicing its debt and meeting its safety obligations.

I would like to emphasize that the Department believes that there may be potentially significant benefits to be derived from airline financial restructurings, including leveraged buyouts, and from attracting foreign capital investment to U.S. airlines. Because leveraged companies must become more efficient in order to generate additional cash flow to pay down the debt, enhanced competitive behavior may be stimulated. Operations may be streamlined, waste eliminated, and organizational focus sharpened.

Similarly, the potential benefits of foreign investment are equally obvious. The whole panoply of benefits from any new investment becomes evident -- new jobs, new spending, and new growth. Additionally, encouraging foreign investment has a positive impact

on the U.S. balance of payments, and travelers can look forward to improved air service.

Our purpose is not to create arbitrary obstacles to foreign capital investments that might otherwise be available to the U.S. airline industry. But as I have already stated, under the law, the Department must assure that a carrier is "fit, willing, and able" to perform service and that the law on foreign ownership is adhered to. To that end, the Department will review each acquisition on a case-by-case basis bearing in mind the factors I discussed earlier.

Keep in mind that even with the agreed upon reduction in KLM's equity participation in Northwest, substantial foreign investment will remain, both in the form of debt and equity. Foreign participation in Northwest's total capitalization (debt and equity combined) will still be over 60 percent of the total.

Finally, I am quite sure that the modest, carefully crafted restrictions outlined above will pose no real barrier to realizing the economic growth possibilities inherent on the bright side of leveraged buyouts and foreign investment in our airlines. Rather, a traveling public confident of a vigilant, but not intrusive government will continue to spur continued growth and expansion of our precious air transportation system.

Mr. Chairman, thank you for your kind attention. My staff and I are ready to answer your questions.

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
TRANSPORTATION SYMPOSIUM
GEORGETOWN UNIVERSITY
WASHINGTON, D.C.
OCTOBER 5, 1989

The last time the Air Transport Association and Georgetown University sponsored a symposium like this was in May 1978. Our nation was on the threshold of a great economic experiment -- airline deregulation. Your symposium played a significant role in shaping the policy that has led to successful deregulation at home and an expansion of U.S. air services abroad.

Today you have the same challenge and opportunity to shape the policy that will lead international air services into the 1990's and beyond. If you accomplish nothing else in this symposium, let it be this: Define the role of governments in international aviation; and encourage a competitive world environment. If you do these two things you may very well be a party to the most dynamic global market ever created.

I strongly support the view that governments' role in international aviation should be limited to safety, security and assuring a competitive environment.

The same dynamic force that brought U.S. aviation and our economy in general a decade of enormous

growth and prosperity, will work in a new global marketplace.

If we have learned anything from the last decade it should be that governments should foster competition, not smother it with regulation or protectionist sentiment. In our own experience travelers and shippers have benefited enormously from the price and service options that sprung from an airline industry that no longer has government telling it what to do.

The same phenomena can happen around the globe in the 1990's if other countries realize that none of us has anything to fear from an open market.

Many other countries have embraced a pro-competitive philosophy to one degree or another. Let me jump around the globe for a moment to illustrate the progress and the potential for the future.

The European Community began bringing competition to intra-European air services in 1988. As Europe moves toward a true common market in 1992, the airline industry will need flexibility to respond to the new changing economy -- both intra-Europe and worldwide. One will feed the other and together they will flourish in a new Europe.

I look forward to the day when the Community broadens its pro-competitive philosophy to embrace international air services operating to and from member States. If the EC approaches the international aviation marketplace with the same objectives now being pursued for the intra-European marketplace, the result could be another decade of unparalleled economic growth in international aviation. When this happens, we will be ready to respond with positive ideas.

There is reason to look forward to the advent of a unified European market with great anticipation. The deregulation of the U.S. domestic aviation market unleashed some powerful entrepreneurial forces. Creative planning and promotion by U.S. airline management, together with the development of more efficient distribution systems, put a great many American towns on the aviation map in a new and important way. The increased services they enjoyed after deregulation brought huge economic dividends.

Many of those communities, and the carriers based there, are now major players in the world of international aviation. The freedom to organize markets according to competitive rather than regulatory principles has turned many of our communities into attractive international destinations.

It is not unreasonable to think that the same thing will happen in post 1992 Europe. And when it does, U.S. airlines can be expected to seek to expand their list of European destinations. As U.S. airlines seek to feed and be fed by these new hubs of Europe, they can also be expected to seek the same kinds of marketing joint ventures abroad that have become so popular within the U.S.

The transatlantic aviation market will expand dramatically, with exciting consequences for economies on both sides of the Atlantic.

Turning now to the Pacific, Japan could do much more than it has done so far to permit a free competitive environment for international air service. Japan itself has benefited as much if not more than any nation on this earth from competition -- and expansion in international aviation is long overdue.

We have made progress with many of Japan's neighbors in the Pacific and Asia. Singapore, Thailand, and Korea are a few that have signed agreements with pro-competitive features.

We stand ready to share our free market competitive concept with any country willing to listen. Our knowledge of the benefits, as well as the growing pains

of deregulation, can be enormously useful to other nations.

We will demonstrate sensitivity to the special needs of a developing country partner. If the flag carriers of that country cannot withstand a quick jump into a free-wheeling competitive environment, we can propose a solution. The U.S. government is willing to work on aviation agreements that provide phasing mechanisms that might include some modest protections while those carriers are making the transition.

Every government has an obligation to its citizens to examine its aviation policy with a central objective: How can it achieve the most significant public benefits for all sectors of its economy. The U.S. government is asking itself precisely that question.

Since I became Secretary of Transportation, I have been flooded with letters from governors, senators, members of Congress, mayors and other local officials, as well as local business leaders throughout the country. They tell me that foreign airline representatives have been to see them and have expressed a desire to serve their communities. The problem, they say, is that U.S. government aviation negotiators are saying no to that service. Our negotiators, intent on getting the best

possible deal for the U.S. airline industry, are actually doing too good a job!

Our communities understand the importance of a healthy U.S. airline industry. They are not asking the U.S. government to play fast and loose with the economic well-being of our carriers. But they also understand the importance of international air service, regardless of flag. They know about the tourism it brings, and the business, the foreign investment, and the jobs. They know what a bonanza it can be for their economic development.

And they are saying: "Uncle Sam, please get out of the way!"

In many cases, they may be right.

It is time to take a fresh look at the process that produces these valuable international aviation services.

In the next few days, at my direction, the Department of Transportation will seek public comment on a possible response to our communities.

We will examine an approach in which, under certain, well-defined circumstances, we will be able to say "yes" to that valuable new service.

The circumstances are these:

- A foreign carrier is seeking permission to start scheduled combination service between a U.S. city and its home country. The carrier's proposal does not involve service to and from third countries.

- No other airline is providing service between that community and that country.

- Our bilateral aviation agreement with that country is a liberal one, already providing all of the pro-competitive, open-market features that we seek for the benefit of U.S. airlines and their customers.

- No aviation dispute is pending between the U.S. and the other countries, and no interested U.S. party has raised any overriding public interest basis for denying the requested authority.

Where those conditions are present, our idea is that the United States would say yes to the proposed foreign carrier service.

It is an idea that has considerable merit. It is important that we consider it seriously, and that we discuss it thoroughly. That is why we are seeking comments from all interested parties.

This doesn't mean that we are proposing to replace traditional bilateral aviation negotiations. In the majority of cases, they remain the only effective way to advance U.S. aviation interests -- those of our airlines and of our cities.

But it is important that we recognize those circumstances in which the negotiating process doesn't work -- where U.S. carriers have no immediate plans to expand their services to a particular destination, or where they need no additional foreign government permission to do so. A negotiation in which only one side is hungry can be a prescription for frustration, if not confrontation. More important, it offers no prospect for bringing new services to the market.

The concept that I have outlined is designed to respond to that problem. It has the potential to address the needs of our communities for international air service opportunities while at the same time ensuring that the interests of U.S. carriers are properly taken into account.

If it is adopted, many more U.S. cities will have the opportunity to enjoy the economic benefits that derive from having international air service. In addition, when a country has entered into a pro-competitive agreement with us and we have obtained all the rights our airlines

require, then its carriers will have the opportunity to serve additional cities in the United States, possibly without going through the negotiations process.

While our general position is that governments should not interfere in economic markets, I know that all civilized governments of the world share my commitment to serious involvement when it comes to aviation safety and security. On this issue, there is no disagreement. There is no room for quarrel. No time for dissent.

I have met with my counterparts in many countries. They are all as determined as I am to stop the barbarous acts of aviation terrorists. We must resolve that Pan Am 103 and the apparent bombing of the French jet in Africa a few weeks ago never happen again. We have reached agreement with a number of countries on new security articles in our bilateral aviation agreements.

I am confident, of course, of your support on security undertakings for I know your dedication to safety. The U. S. and its flag carriers must employ the security measures at our disposal to ensure safe travel for our citizens and foreign visitors.

As I said at the outset, the participants in this symposium are a powerful force for progress in aviation.

You are the doers. You can do much to globalize the competitive philosophy in air service.

When I consider the opportunity available to us today, I am reminded that aviation is still in its youth. The Wright brothers' short flight at Kitty Hawk, N.C., at the turn of the century spanned only a few seconds and about 120 feet. But the flight that morning ushered in an era of powered flight that fulfilled the dream of centuries. In a decade, airline deregulation has proven what our free market spirit can accomplish with long range vision. However, visions need renewal.

Together, we in this room can bring the same ingenuity to bear on the challenges of a global aviation market. I believe the results of our efforts can be as wonderful and dramatic for the world in future years as the breakthroughs by the bold innovators of long ago have been for us.

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS
ATLANTA, GEORGIA
OCTOBER 9, 1989

• Good morning. It is a pleasure to be here, for your 75th anniversary meeting. Founded in 1914, AASHTO was only two years old, but already effective enough to prove instrumental in the 1916 passage of the first Federal Highway Act. You have remained a major player in national surface transportation policy ever since.

• ***I Like Ike***: Your support was vital to the success of President Dwight D. Eisenhower's "grand plan" for highway development -- our interstate highway system. With its more than 42,000 miles, and millions of truck and car traffic every day, this greatest of modern public works projects touched off a second American revolution -- in mobility, productivity, and international competitiveness. Probably more than any single transportation mode, the U.S. highway network helps keep our economic lifeblood flowing.

• ***Speech Topics:*** I'm going to speak with you today about some major national highway issues, including reauthorization of the Federal-Aid Highway Program, and highway safety. I'd like to address them in the

context of America's need for a national transportation policy.

- ***Need for NTP:*** I have consistently maintained that we must have a national transportation policy. Those of us responsible for U.S. transportation need a strategically-directed policy to identify goals, and the means for achieving them. We have received assistance in formulating such a policy from the entire transportation community -- the public, industry, academia, state and local government, and many others, including AASHTO members. I thank those of you who contributed to our policy outreach initiative, and I commend AASHTO's own policy projects, like Transportation 2020. Your commitment to meeting the present and future needs of U.S. transportation is evident.

- ***NTP Objectives:*** Our top priority for the Department of Transportation is ensuring a safe, sound, strong transportation system capable of sustaining U.S. economic and geopolitical world preeminence. This is not an easy task. Our transportation network is a complex system of public and private sector entities, with often conflicting interests. Achieving cooperation among its many disparate parts is complicated, yet essential. We are, moreover, having to compete in the world as never before. The economic integration of the European Community in 1992, and the competitive

challenge of the Pacific Rim countries, mean we cannot afford any degradation in U.S. transportation.

- ***Vulnerability of System:*** In fact, we must continue to make improvements in the system. Transportation is fundamental to the quality of life of every person in this country, and millions of persons abroad, as well as to our economic productivity and global competitiveness. But the transportation network's smooth flow of goods and people, of fundamental delivery and distribution services, is vulnerable to an almost infinite number of possible impediments. Any significant system disruption clearly could have serious consequences for our economy, international standing, and national security.

- ***Importance of Infrastructure:*** The national transportation network therefore must not only be well maintained -- it must be modernized and upgraded in order to meet new challenges. Sustaining an acceptable level of transportation system performance depends greatly upon the condition of the system's infrastructure. In turn, the efficiency, productivity, and competitiveness of the U.S. economy depends greatly upon our ability to get goods and people across town, across the country, and around the world. Yet our transportation system, critical as it is to our way of life, is

something that most Americans have taken for granted -- for years.

- ***Infrastructure Problems:*** We can't take it for granted anymore. Our transportation infrastructure needs to be repaired and upgraded across the board. It is aging, in places it is crumbling, its capacity is being strained, and in certain regions it is becoming inadequate to the demand placed upon it. Some modes of transportation are suffering more than others, but the problems are systemic. Efficiency, convenience, and costs are being affected. On highways, gridlock and potholes have become commonplaces. Some experts see highway infrastructure deterioration as an underlying factor in diminished U.S. competitiveness, because delays on our interstates reduce overall national productivity.

- ***Increasing System Complexity:*** Demand is increasing in complexity, as well as in volume. There have been significant recent innovations in transport and delivery systems technology, and important trends in travel and commuting patterns. These indicate that we need a better integrated and more efficient intermodal network. One example is the burgeoning freight containerization industry, which involves linkage of the trucking, rail, and maritime industries. Another example is the fact that today, an estimated 45 percent of the U.S. workforce commutes suburb-to-suburb, not

suburb-to-city -- yet our highway and transit systems have not kept up with this trend.

• ***NTP & Strategic Planning:*** To satisfy increasing demand, and to meet the need for more effective intermodal integration, we must have a long-term strategic policy. A strategic approach to policy planning is something sorely needed in Washington. I have worked in both business and government, and I know there is much that government can learn from the private sector. Strategic planning has been an effective tool for successful businesses and smart leaders in industry, and we should try harder to adapt it in government policy formulation. Government has to try to see ahead and provide for the future. Taking a strategic perspective could be the key to doing it right.

• ***Strategic Planning & AASHTO members:*** As state highway and transportation officials, many of you no doubt have policies based to some degree on a strategic planning approach. You study data, and you think ahead -- trying to identify trends, anticipate events, and create new ways of preparing for the future. When I came to Washington, I was astonished to learn that at the Department of Transportation, there was no intermodal strategic policy. We are striving to formulate one, which I anticipate releasing early next year. In a world of rapid change, innovative thinking

and strategic planning can and will provide insights that help all of us perform better.

• ***Strategic Planning Process:*** That is why I firmly believe a strategic policy is the best way for U.S. transportation needs to be met, and for the U.S. economy to maintain sustained growth and international competitiveness. By gathering the facts, gauging consumer demands and national priorities, assessing our strengths and weaknesses, and then mapping out a national transportation policy, we can provide a decision-making framework for government and industry to share, as we move forward into the 21st century. I know from your work on Transportation 2020 and other initiatives, you share my concern that American transportation be prepared for the future.

• ***Demand v. capacity:*** It is imperative that America act now to determine the competitiveness of our transportation system, before our transportation system determines -- by slow decline -- the competitiveness of America. One of our most urgent issues is increasing demand, driven by population growth, shifts in population distribution, and greater consumer appetite. Analyses of future transportation needs generally foresee accelerating demand in virtually all major markets. Now, growth in itself is a positive economic factor. Our problem is that we are not currently

prepared to meet growing demand with sufficient capacity. We have the knowledge and tools; what we require is the vision and will.

• ***U.S. transportation record:*** Historically, Americans have never lacked for these attributes. People around the globe have for generations looked to us for excellence and innovation in transportation. This has been true since our opening of the American West by wagon train and rail; since plying our great rivers with steamboats and barges; since the beginning of man's conquest of the air by the Wright brothers at Kitty Hawk. U.S. transportation leadership has continued to be true since the opening of space, when Americans were the first to walk on the moon. And with our national genius for innovation, it will still be true after completion of the interstate highway system.

• ***Science & Technology:*** Technological innovation is one key to America's productivity and competitiveness. AASHTO generally has been out front in promoting a stronger role for science and technology in transportation, and I applaud that kind of thinking. We must be willing to invest more in this area, particularly through partnerships between the public and private sectors. We must make sure that the latest technological advances get into the hands of those in the field, and that as we educate a new generation of

transportation professionals, they are fully conversant with the new approaches and materials being developed.

• ***IVHS:*** Some such advancements are already creating excitement in the transportation community. To help our highways meet increasing demand; and overcome growing operational problems of congestion, safety, and air quality impairment, we are looking at some promising technological initiatives. These include Intelligent Vehicle Highway Systems (IVHS) -- or smart car/smart street systems. U.S. proficiency in telecommunications, microelectronics and computer technology design could make development of a cooperative national IVHS program the next great American contribution to transportation evolution. Beyond its application at home, it could become a major U.S. export.

• ***U.S. economic record:*** This would be consistent with past history. The economic record of America in the 20th century, above that of any other country, demonstrates the power and promise of affordable, accessible, safe transportation. Our country's unrivaled standard of living is in large part a reflection of how efficient, market-driven industries -- including the

transportation industry -- can create jobs, stimulate growth, and strengthen the national economy.

• ***Reauthorization & funding roles:*** That is why one objective of our policy is to reevaluate the roles of the private and public sectors in major transportation projects. We also want to find a realistic distribution of the funding burden among government levels. A federal role in these projects will continue. Indeed, we are crafting the national transportation policy on a tight timeframe partly because the federal-aid highway, safety, and transit programs are soon due for Congressional reauthorization.

• ***State and local infrastructure funding:*** On the other hand, greater capital investment for infrastructure construction by those benefiting from expanded business opportunities is imperative to keeping American transportation moving forward. This means expanded state, regional, and municipal initiatives, along with a continued federal role. But that role, in fiscal terms, may prove to be proportionately reduced -- as has been the recent trend.

• The interstate highway system is an apt example. It was built with 90 percent federal share, but today is a very different world from 1956. The post-War public works mission of building a comprehensive national

highway system is essentially complete. This is due to an unprecedented and amazingly successful state-federal partnership. Maintaining that system, maximizing its capacity, and fostering stronger local and private commitment to fund new construction are the new national objectives. We must foster more private-sector initiatives, like the Dulles toll road extension being built in northern Virginia. We need a more fully user-based fee system, with consumers paying directly for facilities.

• ***Appropriate federal role:*** The Department is entrusted to protect the public interest and safety in transportation, and has an important role to play. For example, it must help ensure mobility for those where there are limited private or local resources, as is the case in much of rural America. President Bush recently gave us a Management By Objective (MBO), to reduce highway fatalities to a statistical 2.2 deaths per 100 million vehicle miles by 1992. We'll be looking at the operator and the vehicle, as well as the highways on that one. But with all kinds of issues, all over the country, more leadership at the state and local levels is essential to improving our transportation network.

• ***Deregulation:*** In another area -- that of deregulation of the transportation industry -- more non-federal leadership is also needed. Existing administrative barriers between our states should be removed, to

enhance the free flow of interstate commerce. We must achieve greater uniformity among states in motor vehicle operating requirements for the movement of goods and passengers. U.S. domestic economic performance, as well as international competitiveness, would greatly benefit from streamlined interstate trade and transport rules, and removal of state economic regulation of the trucking industry. Simplifying state administrative processes and making legal requirements uniform would facilitate greater trade activity, and give the U.S. a nationwide economic boost.

- ***Need for less federal responsibility:*** We will be doing our part at the federal level. We are committed to continued economic deregulation in transportation. Deregulation has afforded enormous economic benefits to American industry and consumers.

- ***Doability; action items:*** We can manage the many challenges I have outlined, but only through bold and decisive action, and greater levels of cooperation. Capacity must be optimized and substantially increased as quickly as is feasible; our highway infrastructure must be expanded and modernized; and new technology must be fostered. We need to wring every bit of available capacity out of the existing highway system,

even as we pour more concrete. Above all, we need to think creatively, plan strategically, and work together.

CONCLUSION

- ***NTP wrap-up:*** Rapid progress on the national transportation policy is important to America. It is my conviction that we are embarking upon a new era for transportation, with challenges we are not yet prepared to meet. We are at a point in our national life where we must know what is required to keep America's transportation system strong, and then work out the means to do it. Only then can we ensure that the U.S. will remain economically vigorous and internationally competitive.

- ***Closing:*** I say "we," because that is exactly what I mean -- all of us in this room. Government at all levels, business, industry, all kinds of experts and theorists, and the public must work together in this effort to modernize American transportation. To keep the U.S. from coming to a standstill in gridlock, we need a new vision, and a new consensus for transportation in the 21st century. I look forward to working with AASHTO in accomplishing this goal. Thank you.

3.24

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
NATIONAL DISASTER RESPONSE PLANNING SYMPOSIUM
SOCIETY OF AMERICAN MILITARY ENGINEERS
WASHINGTON, D.C.
OCTOBER 11, 1989

Thank you for having me here today. I am not the least bit shy in telling you that I am the cabinet member best qualified by experience to talk about disasters. **(Tell joke: President Bush said before I appointed you Secretary of Transportation...)**

My job has given me a new appreciation for the work that members of the Society of American Military Engineers do every day of the year. I've seen first hand that your disaster planning responses save lives and property. I should imagine there is no greater job satisfaction than that knowledge.

As you know, regardless of how much precaution we take, disasters will happen. They can devastate population centers, upset our delicate environment and cripple a nation's communications and transportation systems. Disasters, no matter how remote from us personally, can have an enormous impact on our lives. Newspapers, television and radio bring the horrifying details to us. We get a minute by minute account of the arrival of a hurricane or the spread of an oil spill. The emotions of a nation are duly aroused by disasters. We have a sort of mass personal response to disasters.

There is another kind of headline being made these days. The story of activities behind the disaster headlines tell a compelling tale: the need for up-front planning by both industry and government at all levels. Consider the following:

Dateline -- St. Croix, the Virgin Islands, September 20 -- Hurricane Hugo ravaged the Virgin Islands. Law enforcement collapsed after the storm. Looters were ransacking stores and loading garbage bags full of food and jewelry. The governor of the Virgin Islands officially asked for federal assistance in reestablishing order on St. Croix and of course the Coast Guard was able to provide immediate response.

In addition to peace-keeping, all six Coast Guard cutters in the St. Croix area were actively involved in evacuation. Coast Guard helicopters evacuated the injured. Coast Guard C-130 planes flew in emergency supplies and took residents to the mainland. Thankfully, the Coast Guard was a visible force already conducting rescue and law enforcement operations near St. Croix, and thus able to provide support to evacuate endangered people. By 10 a.m. September 21, approximately 600 people had been evacuated from St. Croix by Coast Guard ships and planes, civilian aircraft and one Navy vessel. I am told that people on St. Croix

were so glad to see the Coast Guard, several swam out to our ships.

Additionally, the Coast Guard picked up 135 Hatians in a boat on the fringes of the hurricane and 14 Cubans, clinging to homemade life rafts.

I flew down there. I wanted our employees to know I appreciate their many acts of heroism. Of course, they said it's' all in a day's work.

Dateline -- Charleston, S.C. September 22 -- We still assessing the extent of damage in the Virgin Islands when the eye of the storm touched down in Charleston. The Federal Emergency Management Administration headquarters was destroyed when a roof blew off and command headquarters for dealing with the disaster had to be moved in the middle of the storm. The Coast Guard provided support to FEMA, continuing its search and rescue missions which are a part of daily life.

Lesson: There is probably no better protection against natural disasters than a military organization with the appropriate resources standing in readiness. That's what we have in the Coast Guard. The organization has a humanitarian tradition, one that measures its success in lives saved. Its men and women are participants in disaster response every day whether it's search and rescue of one person or a whole

community. What was seen in St. Croix and Charleston was the capacity of the Coast Guard to mount a tremendous disaster response, and to work with other state and local agencies in getting the job done. And that is, as the men and women of the United States Coast Guard keep telling me, all in a day's work.

Dateline -- Sioux City, Iowa, July 19, 1989 -- The air traffic controller at the Sioux City airport received word that a United Airlines DC-10 jet was headed for Sioux City airspace with a failing hydraulic system, having trouble guiding the plane and in search of a place to land. Deceptively calm voices of the air traffic controller and the pilot of the aircraft considered an interstate highway nearby, but the captain decided to try for the airport. Then, grimly, the pilot said "I'll be landing in a minute...294 souls aboard United Flight 232."

When the plane hit the runway it cartwheeled burst into flames. You may recall this one on the television nightly news. The controller who had guided the plane in said he put his head down and cried because he was sure no one could have survived. Miraculously, 184 people survived.

The Greater Siouxland area had a disaster plan, and it worked. Why did it work? They had rehearsed the plan

a few days before the crash. Everyone knew the drill if a plane crashed at the airport.

Ambulances, fire trucks, rescue vehicles were already on the scene by the time the plane touched the runway. Roads and highways were cleared for emergency vehicles to take the injured to the hospital. Doctors, technicians and equipment were waiting at the hospital when the victims arrived. Individuals came from all over the area to help victims at the scene, to donate blood and food, and to do the hundreds of little chores needed to respond to a tragic situation. I will venture to say that many of the 184 survivors owe their lives to the professionalism of disaster planning and response in Sioux City, Iowa.

For all of you who have dragged yourselves out on a Sunday afternoon to participate in disaster rehearsal games, to participate in run-throughs you might have considered unnecessary, remember Sioux City, Iowa. I want you to know that what you do in planning these responses is a service to mankind.

Dateline -- Prince William Sound, Alaska, March 24, 1989 -- Shortly after midnight, the 987-foot tank vessel Exxon Valdez struck Bligh Reef in Prince William Sound. What followed was one of the largest man-made disasters in history. The oil slick spread over 3,000

square miles and onto more than 350 miles of beaches in one of the most pristine and magnificent natural areas of the world.

As planners you know that prevention is the first line of defense. It's easier to prevent an oil spill than to clean one up. All our systems requiring professionalism and commanding prevention -- such as personnel licensing, crew requirements, aids to navigation and vessel traffic advisory -- failed to prevent disaster. It just goes to prove you cannot always prevent human error.

Disaster plans had been written, but apparently bore no resemblance to what could be accomplished in reality. And, quite frankly, nobody had anticipated a spill this size -- 11 million gallons in a matter of a few hours, in a remote area, in the middle of the sound, in the middle of the night.

I was there four days after the spill. I saw the devastating effect on people, the effect on nature and I fear the effect on future oil exploration. Shortly after that, President Bush asked me to be the federal coordinator for the cleanup and I have been back to Alaska several times. Most recently, I went there with Vice President Quayle last month. The Vice President indicated that the oil spill clean-up was not completed, that Exxon would conduct cleanup activities in the

spring as determined by the Coast Guard, and that the Administration would see this effort through to the conclusion.

Exxon marshalled a force of more than 11,000 workers, 1,200 vessels and almost 100 aircraft in an effort to clean-up the Coastline. The shoreline still isn't cleaned, proving my point that it's easier to prevent an oil spill than to cleanup. We will be monitoring the shorelines through the winter and survey the impacted beaches in the spring to determine what additional clean-up activities are necessary.

Meanwhile, we are redoubling our efforts at prevention. We now have several initiatives which we have developed with the Coast Guard. In addition, lessons learned at Prince William Sound were put to good use in subsequent oil spills. For example, the quick response of the Coast Guard Captain of the Port in Providence, Rhode Island, at the time of the spill near the mouth of Naragansett Bay, has been credited with minimizing the extent and the cost of damage from that spill.

In conclusion, as I said at the outset, the single most important lesson I observed is the need for planning -- review plans and make sure your plans anticipate the most difficult disaster. Then rehearse, to be certain the

plans are realistic and can actually be implemented. We will never be able to stop hurricanes or earthquakes or prevent human error. But the best laid plans are still our best defense.

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TALKING POINTS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
ILLINOIS PORT OF CHICAGO RECEPTION
WASHINGTON, D.C.
OCTOBER 12, 1989

- I'm proud of the Illinois International Port of Chicago -- one of the Seaway's largest seaports.

  -- Executive Director Franklynn B. Albert and Marketing Director Helen Brohl are doing an outstanding job at port promotion and cargo development.

- We've always been fortunate, having two outlets, through the Great Lakes Seaway and by barge down the Mississippi River.

- Port foreign trade tonnage was 25 percent higher in 1988 than in 1987; so far this year tonnage is up 15 percent over 1988 due to heavy grain and scrap exports.

- In FY 1988, the port handled 2.5 million tons of cargo -- the largest volume of foreign trade tonnage in its 33-year history -- mostly steel exports and Food for Peace shipments.

- This brings me to a tough issue I want to face head on with you because I know it is important to you.

- The Great Lakes set-aside provision in the Food Security Act of 1985 expires this year. It has served Chicago well. The Great Lakes set-aside was set at 20

percent of total food for peace shipments in 1984, that's 240,000 metric tons.

- For administrative reasons and because of the detriment to the food for peace program, the Administration decided not to ask for its renewal.

- As a Chicagoan, I understand the importance of the Great Lakes cargo preference. I'm very sympathetic because I know it means to Chicago.

- I will look for other opportunities for the Bush Administration to work with Chicago to develop other cargo opportunities and expand the port.

- Already, three areas of DOT -- Coast Guard, St. Lawrence Seaway and the Maritime Administration are working for port interests. For example:

  -- In 1989 the St. Lawrence Seaway Development Corporation-sponsored trade mission to Europe and North Africa.

  -- The Seaway Corporation has sponsored and will continue to sponsor numerous trade promotion seminars in Chicago.

  -- The Maritime Administration has a Deputy Administrator for the Great Lakes and he maintains a regional office in Chicago. He is

working to encourage regularly scheduled liner service to the Great Lakes.

-- The Maritime Administration's port development office can provide data bases and developmental strategies as well as export and import strategies.

• And I'm asking each of you here tonight to keep me informed on other ways we can bring cargo and progress to the Chicago port.

• If you can't get through to me personally, you can always talk to Jim Emery, head of the St. Lawrence Seaway Development Corporation, Maritime Administrator Warren Leback or any member of my staff. They will see that I get the word. When it concerns Chicago, I'll always listen.

• One area which is not a problem for the Port of Chicago and we want to keep it that way is oil spills.

• After the Exxon Valdez spill at Prince William Sound, Alaska, the Coast Guard began reviewing contingency plans at all the ports.

• I am very pleased that Chicago is using the St. Lawrence Seaway Development Corporation's emergency response plan as its model.

- In our review, we are asking not only port authorities but pilots, shippers and all other interested parties what kind of contingency plans they have. We are:

  -- Reviewing shortfalls on equipment

  -- Studying worst case scenarios

  -- Assessing vulnerability of each port, how much oil do you ship, etc.

- The Coast Guard has a contingency plan for each port, but we will be working closely with you to be sure everything works and is well-coordinated, so that Chicago is never visited with an environmental catastrophe such as the one in Alaska.

- Let me conclude by saying that the future is bright and I look forward to working with each of you for a better Chicago and a better U. S. transportation system.

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
AVIATION SYSTEM CAPACITY TASK FORCE
WASHINGTON, D.C.
OCTOBER 12,1989

• Good morning. I am pleased to be joining you in this major industry-government effort to address aviation's most pressing problem -- system capacity. The fact that we have the CEOs of major airlines here today indicates the severity of the problem, and more importantly, their desire to inaugurate a new, result-oriented approach of cooperation in solving a truly critical issue.

• Let me begin by noting some important figures. In 1988, U.S. airlines carried 455 million passengers -- nearly a half-billion people. By the year 2000, our best estimates forecast an increase to nearly a billion annual passengers, over 700 million of them U.S. domestic market enplanements. Moreover, air cargo service is one of the fastest growing industries in the world; in 1986, airborne exports accounted for 29 percent of the value of total U.S. exports.

• Therefore, we must ask the question: can our aviation system handle this kind of growth in demand? If it cannot, America's ability to compete in the international marketplace is greatly at risk. The extraordinary growth in aviation since deregulation is due to the benefits of letting the free market work, to the benefit of the consumer. The numbers show why.

All travel and tourism in 1987 worldwide generated sales of 2 trillion dollars -- 12 percent of the world's gross national product. In the U.S., aviation each year constitutes an increasing proportion of that traffic, particularly as America's fastest growing transportation sector. Aviation is already our primary mode of medium and long distance business travel.

- The aviation sector adds over $200 billion annually to the U.S. economy, employing almost a million people. Worldwide, aviation travel and tourism provides 101 million jobs that support a payroll over $500 billion.

- Given aviation's prominence in both our domestic and international economy, shortfalls in airspace capacity pose serious impediments to America's global competitiveness. It is time for action; and at the Department and the Federal Aviation Administration, we're planning to meet that challenge head-on. The new System Capacity Office that Admiral Busey will be telling you about will help FAA expedite (1) construction of proposed runway and airport expansion; (2) development of new airspace procedures; (3) production of new systems, technology, and equipment; and (4) dissemination of high-technology airspace designs and planning programs.

• We are serious about FAA's new high profile for system capacity problem-solving, as results from our internal changes -- and our work with this Task Force -- will soon demonstrate.

• We are all familiar with the major obstacles before us. There are three important issues that must be addressed immediately. One is balancing the prerogatives of local autonomy with the need for some degree of standardization regarding acceptable environmental quality. Another is the airlines' tendency to over-schedule prime flight times, creating unnecessary congestion. The third has been the organizational ineffectiveness within FAA that Jim Busey is tackling head-on.

• Our mission is straightforward: in the short-term, we must wring every bit of available capacity out of our existing facilities just to keep up with demand. We must continue to optimize operations at the busiest airports, and draw upon underutilized facilities. Within 50 miles of the top 40 U.S. airports, there are other commercial service airports with additional annual capacity of 3.7 million operations. Outside that 50-mile radius, there are another 36 or so airports with all the characteristics airlines need for connecting hubs.

• In the long-term, U.S. aviation must remain number one in the world, unconstrained by system capacity limitations, even as aviation demand expands. An effective aviation system is vital to American economic efficiency, productivity, and global competitiveness. Even small airports are becoming a crucial asset in reinvigorating community and regional economic growth, and we must find ways to assist them in this effort.

• Through coordinated action of all involved -- airport operators, the aviation industry, community leaders, and government at all levels -- we can begin today to look beyond the programs and objectives of the NAS Plan, the R&D Plan, and the Capacity Plan. Technology is playing a large role in these efforts, and high-tech advancements will provide significant marginal improvements in system capacity. But our capacity problems far exceed technology's reach alone.

• I think the way industry and government have worked cooperatively to phase out stage one aircraft and increase the size of the stage three fleet is an excellent example of what can be accomplished, when we really try. The progress made by the various task forces on aging aircraft is further evidence that we can get the job

done -- whatever it may be -- as long as we remember we are all in this together.

- If we are going to solve our aviation capacity shortfall, we must strive for more creative thinking by the whole aviation community. We need more aggressive support for airports by the communities they immediately benefit, and we need an even higher level of public-private cooperation than we have yet seen. This Industry Task Force, and the organizational changes we have made at FAA in System Capacity, are significant first steps toward achieving these objectives. I look forward to working with all of you in the crucial task of modernizing and expanding our aviation system capacity. We owe it to the millions of passengers and businesses who rely on our aviation system everyday to do just that.

- Thank you.

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
THE ECONOMIC CLUB OF DETROIT
DETROIT, MICHIGAN
OCTOBER 16, 1989

It is a pleasure to be here in the Motor City addressing this prestigious forum. As the birthplace of the American auto, Detroit has changed the face of the earth more than any other invention in mankind's history. Without the foresight of our great auto pioneers, such as Ford, the Dodge brothers, the Studebakers, Olds, and Chrysler, we might still be traveling in horse and buggy.

(And the Bruise brothers never would have made it to Los Angeles to beat the Lakers. Until I moved to Washington, I thought I knew the identity of the Bruise brothers. Then I met John Dingell.)

As a thriving industrial center since the turn of the century, Detroit's success has mirrored the economic success of this nation and helped make it number-one. There is truth in the saying: "as the auto industry goes, so goes the nation."

Remaining strong economically and maintaining our ability to compete in the world is an important goal of the Bush Administration. However today, we must compete in the world as never before. The economic integration of the European Community in 1992, and

the competitive challenge of the Pacific Rim countries, mean that we cannot afford to fall behind. We cannot ignore the fact that while the U.S. economy has grown by two-thirds in the past 20 years, the Japanese economy has expanded by 165 percent, Taiwan's by 430 percent and South Korea's by 500 percent.

In recognizing this changing global economic picture, we must adapt to these changes and prepare ourselves for the future. We must also work harder to ensure that our competitors adhere to the same rules the United States follows.

At the Department of Transportation, our top priority is to ensure that we maintain a safe, sound, strong transportation system capable of sustaining U.S. economic and geopolitical interests. That is why we are working under the leadership of Tom Larson, the Administrator of the Federal Highway Administration, to develop a national transportation policy -- which we expect to complete by next January.

Investment in transportation is investment in America's future. We are working to find ways to unlock the private, state and federal resources available to rebuild our transportation systems. That means new ways to spur a strong and competitive transportation industry -- new ways to ensure American leadership in

transportation technology through research and development, and new ways to provide safe, convenient, and environmentally responsible transportation for a secure America.

We seek a strategic policy which identifies national problems, defines national goals and takes steps toward solving those problems and meeting those goals. This policy must allow the market to determine the proper prices and the proper levels of investment for the various modes of transportation. Investment, pricing and production should be directed by the marketplace, not by Washington.

Sometimes we take transportation for granted. It is something we can do no longer. Our transportation network is fundamental to the quality of life of every person in this country, as well as to our economic productivity and global competitiveness. It is therefore crucial that our national transportation system not only be maintained, but modernized and improved in order to meet the challenges of the future.

And while we enjoy one of the best transportation systems in the world it is far from perfect. The increasing number of passengers through our airports, cars on our highways, and commercial goods movements by land, sea, and air, have outstripped the

current level of investment necessary to maintain and enhance the efficiency of our transportation system.

Moreover, there is a close correlation between national investment and increased national productivity. Transportation has been and continues to be an engine of economic growth. The annual expenditure on transportation products and services is $665 billion -- equivalent to 20 to 25 percent of America's Gross National Product (GNP).

America needs a healthy auto industry, and a healthy industrial sector, and as Secretary of Transportation, I want to work with you to make that a reality. The automobile remains America's most popular vehicle of transportation. Our love affair with cars revolutionized the world and will continue to do so for years to come. We must continue to encourage and make way for new technologies which each year bring improvements to the automobile in terms of safety and the environment.

We are in a new age of awareness when it comes to safety, energy conservation and protecting our environment.

For the auto industry, that means we must work together to provide the flexibility to compete, allow adequate lead time when instituting new policies and avoid taking actions that could endanger our industrial

sector or the U.S. economy. And, as I have mentioned, we must also continue to promote free and fair competition so that our auto industry is able to enjoy the same access to foreign markets that our competitors enjoy here in this country.

There are several important issues currently facing the auto industry which must be addressed. Clean air and ways to improve emission standards, alternative fuels, new safety standards, and improved fuel economy are just a few of the issues currently being debated. These are important goals and we need to pursue them.

At the same time, we realize these goals cannot all be achieved overnight, and that some of these goals may conflict. That is why we need to sit down together, public and private sectors, to set some reasonable priorities. Only in working together will we be able to tackle the problems we currently face in producing safer, cleaner, more fuel-efficient cars.

When it comes to safety, there are hopeful signs. There is greater public awareness and citizen demand for greater safety on our highways. Detroit deserves credit for stronger emphasis on building safer vehicles and marketing safety features. It's good citizenship, and good business. Motorists want practical cost-effective features in their vehicles. The auto industry

met and exceeded federal requirements to introduce crash protection in new cars. Air bags will be standard on 30 percent of model year 1990 cars -- that's approximately 3 million units.

In addition, the auto industry voluntarily introduced rear seat lap-shoulder belts into many models and committed to nearly 100 percent of the fleet before that was required by federal regulation. Anti-lock brakes are found in a growing number of cars and light trucks -- not because of any new or pending federal standards, but due to the auto industry's efforts to promote greater safety.

And while striving to make our vehicles and roads as safe as they can be, we should never forget that **drivers** are the most important part of the safety equation. Human error causes most crashes. Last year, nearly 47,000 people were killed on our highways, and nearly half of them were alcohol-related. So working with people -- drivers, passengers and pedestrians -- is our area of greatest opportunity for safety improvement.

We need to keep the public spotlight on drunk and drugged driving. Strong state laws and programs -- like mandatory license suspension for offenders, jail for repeat offenders, strict enforcement of age-21 drinking laws and sobriety checkpoints -- need to be enforced.

We also need to continue support for citizen groups like MADD, for designated driver programs and for education in our schools and workplace.

The auto industry has also helped us spread the word about the importance of buckling up and the dangers of drunk driving. Since 1984, safety belt use has saved over 11,000 lives, and more and more states are enacting safety belt laws. But more needs to be done. While safety belt use is now up to 47 percent, it is still lower than other industrialized nations such as Canada, where use is as high as 80 percent. If we can instill more safety-first attitudes, we will have gone a large way toward resolving highway safety problems.

As you know, this Administration is committed to doing all it can to clean up the nation's air. We know that increased congestion and gridlock on our highways and major arteries play a big factor in the issue of air quality. President Bush's proposals to the Clean Air Act will, if adopted, do much to reduce emissions which cause acid rain, urban ozone and toxic air pollution. This includes calling for the use of alternative fuels in one million vehicles by 1997 in order to help reduce ozone precursors, and toxic aromatics which come from conventional gasoline.

There are no easy solutions to cleaning up our air. It requires calling for sacrifices and compromises from all parties. However, we should by no means allow a disproportionate share of the burden fall on the auto industry, or any other sector of the economy. It must be a team effort.

The Administration has also decided to allow the Corporate Average Fuel Economy (CAFE) standards for passenger cars to return to 27.5 miles per gallon. While this may not have been a popular move to everyone in Detroit, I believe this action will help to reduce our dependence on oil imports, especially since the U.S now imports about half of its petroleum -- the highest percentage since 1974.

The use of alternative fuels is another way to help reduce our dependence on imported oil. The auto industry has been in the forefront of exploring the use of different fuels and power sources, especially in developing and testing the feasibility of methanol and dual-fueled vehicles.

There is also new technology being developed which could help address the problems of growing congestion, safety and air quality. A particularly promising area which is receiving strong national interest and support is the Intelligent Vehicle Highway Systems (IVHS).

Commonly referred to as "smart vehicles and smart highways," IVHS holds substantial promise in making our highway network safer and more efficient. It could also help improve the international competitiveness of the U.S. industry.

The IVHS concept incorporates the vehicle, the driver and the highway into a much more effective and efficient system. By providing the system surveillance, motorist communications, driver decision aids, and control assistance, it can improve the operation of the overall traffic system, as well as individual vehicle operations. In fact, recent advances in computer technology, communications and microelectronics, now make IVHS, which was once just a fantasy, a realistic option.

If we want to remain ahead of the curve we need to act quickly on this promising technology. Already, there are major international initiatives underway to develop and in some cases, commercially capitalize on these systems. In Europe, these include the Prometheus program, organized primarily by the European auto industry, and a major collaborative research and development program supported throughout the European Community. In Japan, Toyota has been providing a first generation electronic map and

navigation system as an option in its top of the line vehicles.

Clearly, America will be a prime marketplace for IVHS. Furthermore, producing a "smarter" car may in the long run, help America better sell its cars. Crash avoidance through driver warning and the performance enhancement of IVHS make the smart car system desirable. In addition, the energy we could save by better travel routing will help decrease congestion and the pollution it causes.

In fact, the Department of Transportation is proposing a national cooperative program be initiated with the U.S. auto industry and other industries to aggressively develop and demonstrate the advanced vehicle highway systems. I hope that the Big Three will agree that we should move forward to develop such a program.

In addition, DOT will also seek the active participation of U.S. electronics, computer and communications companies; automotive component manufacturers; state and local transportation agencies; universities; research centers; and highway user groups. The results of this cooperative effort should provide the incentive for the vigorous market and national deployment of these systems throughout the country. Moreover, joint

participation by government and industry in the research of this program means sharing both the risk and the profits.

CONCLUSION

In looking ahead, development of a national transportation policy offers hope and vision for vehicles, highway travel, and the American consumer. We must all work together in improving our transportation system and addressing the important challenges facing our auto industry.

New applications of computers and electronics can give us more efficient use of existing capacity. New technology can also help to promote highway safety, head-up displays, in-vehicle routing and communications systems, warnings of road hazards and better braking systems. Through initiatives in these areas, America can regain and retain the world lead in automotive and highway technology. With the auto industry's leadership and help, we will reach these goals and meet the challenges of tomorrow.

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TALKING POINTS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
THE PRESIDENT'S COMMISSION ON EXECUTIVE EXCHANGE
EXECUTIVE BRANCH BRIEFING
WASHINGTON, D.C.
OCTOBER 18, 1989

• Congratulations to you all for selection into this program. I want you to know that I think so well of the purposes of the Executive Exchange Commission, that one of our own people, Jack Nager of the Federal Aviation Administration, is participating in this group. There will be an exam on the content of my remarks when you return to duty, Jack.

• I would like to offer some personal observations on this program and its objectives, from the perspective of someone who has divided career time between the public and the private sectors.

• I have had the fortunate opportunity to make major career changes, and hold responsible positions both in and out of government at different times in my life. I've gone from the U.S. Army to IBM for nine years; from federal prosecutor and U.S. Attorney to private law practice, with part-time public service as chairman of Chicago's Regional Transportation Authority. And, of course, President Bush has given me the opportunity to serve here in Washington as the Secretary of Transportation.

• So I have been involved, to varying degrees, with public service since 1960. I've learned a lot from coming to government from a business background, but I also know that government can learn a lot from business. One thing smart business leaders do is plan strategically for the future. Government needs to incorporate more strategic thinking in its operations. We are doing this in the formulation of our national transportation policy. This policy will provide both business and government with a decision-making framework for transportation, into the 21st century.

• Even more than the concept of strategic planning, I want to talk today about what government could learn from business regarding the concept of service. I see one of you, Brian O'Connor, is from IBM, and I'll bet he agrees with me on this. IBM -- one of the greatest companies, greatest business competitors, in the world -- teaches the importance of service in achieving professional success.

• Service means thinking of the needs of others, and then acting to meet those needs. This is basically what government is supposed to be about -- providing essential services to our citizenry. Abraham Lincoln put it this way, "The legitimate object of government is to do for a community of people whatever they need to

have done, but cannot do at all in their separate and individual capacities."

- While there are some significant differences between them, successful government and successful business are similar in their goal of providing necessary services. As career professionals in either sector, we all share the fundamental responsibility of serving well those who need what we provide.

- We are accustomed to thinking of them as our customers, our clients, or our constituents. In terms of providing service, the Department of Transportation has millions of "customers" everyday. Our obligation to these customers is to ensure the public safety and interest in American transportation.

- We oversee the nation's transportation network of highways, waterways, railways, and aviation. The United States Coast Guard that protects the integrity of our coastlines; the Federal Aviation Administration that provides air traffic control and management of our airspace; and the Office of Commercial Space Transportation that grants licensing to the private sector space launch industry are all part of DOT.

- It is an important part of our job to maintain the delicate balance of maximizing safety, security, and fair competition in transportation, while allowing free

market forces to prevail throughout the industry. This means deciding on policy for issues from auto airbags to aviation security measures; from potholes to holding patterns; from acceptable levels of foreign equity in U.S. air carriers to economic deregulation of entire industries. It means defending in our highest courts the right of government to test safety and security-related employees for illegal drug use. In short, it means doing everything we must to see that the American people have the safe and efficient transportation system they expect and deserve.

- In a very real sense, our "customers" include the whole U.S. population. This is more or less true for all the Executive Branch departments and agencies. Some departments have a more specified "clientele" than ours -- for example, the Veterans' Administration -- but the operations of our national agencies are nevertheless funded by and affect all Americans.

- While the operational scale may be larger than what private-sector professionals are used to, the basic principle for success is the same: providing good, efficient service. Anticipating the needs of the people; being ready and able to meet those needs, is what counts. Our job as federal executives or corporate executives is, more than anything else, to manage our

responsibilities in such a way that our employees can do a good job providing service to the public.

- This principle has direct bottom-line accountability in the private sector, because the services provided there are assigned a value in the marketplace. They must be services people want at a price they can afford to pay. This means that every business in the private sector must ultimately pass the test of profitability. Fail this test, and you're out of business.

- Government accountability for successful performance of services is much less direct, because most of what government does is not intended to generate profit. Government provides what the economists call "public goods," such as national defense, public health, and transportation safety. The economic value of these services is not clearly assigned by the marketplace.

- Determining what is an effective use of the taxpayers' money is thus much more difficult than determining what is an effective use of private sector money. This situation sometimes allows our public sector to operate less efficiently than it could. Helping to find ways of translating more bottom-line business lessons into government operations should be a primary goal for you during your exchange program.

• Some Americans believe government's performance is too often below par, especially in terms of efficiency and cost effectiveness. The Executive Branch departments are under close scrutiny by Congressional committees, the media, special interests, and the general public, as is Congress itself. Yet Congress holds the purse strings, and there is little consensus on spending reforms. I can tell you that the Bush Administration won its mandate to govern on a platform of fiscal responsibility, and we will do it. The entire American people are our board members, so to speak, and in the end, we remain accountable to them.

• But they must make their views on government services known; they must help us set priorities that meet their needs. That is why, in the formulation of DOT's national transportation policy, we held over 100 public outreach meetings of various kinds. We wanted to know what the public thinks about the deteriorating condition of our roads and bridges, and what they wanted to do about it. And believe me, the American people are transportation experts; they had good, strong ideas they shared with us.

• This lesson suggests another goal for your participation in this program: improving the level of communication between the public and private sectors. It is imperative than our overall national economic

performance improve, and this requires coordination between business and government on all levels. Teamwork is the key to making it happen. I am not talking about government subsidies; I am not talking about reregulation. I am talking about strategic planning by business and government together, for America's future economic growth.

- We are having to compete in the world as never before, and we cannot afford wasted effort; we cannot afford to be working at cross-purposes. It is of the utmost importance that today, in an increasingly global economy, business and government work together to keep America competitive. With the impending economic integration of EC '92, and the fierce challenge in productivity and trade posed to U.S. industry by the Pacific Rim countries, we must see greater cooperation, more innovative coordination, and increased efficiency develop between American business and government.

- Our free market philosophy and our technological prowess give us the edge in research and development of new products. Our transportation network gives us not only the means of efficiently reaching the largest and richest consumer market in the world right here at home, but also of delivering U.S. products via U.S. transportation -- worldwide. Taken together, these economic assets enable us to respond more quickly

to consumer and industry trends. If we can learn to market "smarter" by getting business and government policies in harmony, the U.S. will remain the number one economic power in the world.

• One example of what I mean is the need for further deregulation of the transportation industry. In surface transportation, existing administrative barriers between our states should be removed, to increase the free flow of interstate commerce. The lack of uniformity among the states in existing motor vehicle operating requirements are an impediment to our domestic productivity and international competitiveness. Simplifying state administrative processes and making uniform legal requirements to operate would facilitate greater trade activity, and give the U.S. a nationwide economic boost.

• I have also recently advocated the loosening of requirements for foreign air carrier access to U.S. airports. Increased international air service -- whether U.S. or foreign flagged -- would be an economic bonanza for America, increasing tourism, attracting foreign investment, and providing new jobs.

• I hope you will find the opportunity this program is providing you as invaluable as I have found "crossing over" between the public and private sectors. I am sure

you will if you view your experience in terms of public service, as well as career enrichment. As President Bush has said, " From now on in America, any definition of a successful life must include serving others." And ultimately, that is what our efforts here are all about.

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U.S. Department of Transportation

News:

Office of the Assistant Secretary for Public Affairs
Washington, D.C. 20590

ADVANCE PRESS COPY

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
INTERNATIONAL AVIATION CLUB
WASHINGTON, D.C.
SEPTEMBER 19, 1989

If there's anything constant in the decade of the 80s, it can be summed up in one word -- change. Anywhere you look these days you see change -- it is nowhere more apparent than in the airline industry.

I want to talk to you today about two current phenomena -- leveraged buyouts and foreign airline participation -- and explain why the Department of Transportation is looking closely at the circumstances surrounding them and the potential effects, both on our airlines and on our nation.

As the world's airlines are positioning themselves to become more competitive in the huge and growing world market for air services, some foreign airlines are establishing important new partnerships with carriers in other countries. Those partnerships first consisted of marketing agreements of one sort or another. Today they are beginning to take the form of formal corporate linkages.

It reflects a trend that has been evident throughout the business world for some time. Ours is increasingly a global economy, and companies of all kinds understand the importance of establishing a truly global presence. The international rules governing capital movements are being liberalized throughout the industrialized world, and the United States, like its principal trading partners, generally welcomes this trend.

Foreign carriers are not the only ones to have "discovered" the U.S. airline industry: so has Wall Street. It comes as no surprise that our airlines are now ripe targets for leveraged buyouts.

- more -

Leveraging can enhance the flow of capital. Leveraging can enhance competitive behavior. Leveraged companies can become more efficient. Marginal operations can be streamlined and unprofitable divisions sold off, presumably to companies that can operate them more productively and profitably.

New owners and fresh management may improve the corporate image, service and operating efficiency. Because ownership of a company that has gone through a leveraged buyout is usually closely-held, the owners can be in a better position to monitor management performance and ensure that the firm's value is maximized. I believe there are a number of situations involving increased leverage which will be a benefit to the airline industry. In fact, such transactions have occurred on a smaller scale within this industry.

There are success stories with leveraged buyouts benefiting the national economy by promoting more productive and efficient business enterprises.

However, the downside is the growing number of stories of leveraged buyouts that have turned sour. These are complicated transactions, and we must not act precipitously or arbitrarily. As you may know, the Department hired a well-known accounting firm to assist us in our review. We've also consulted with many leading experts on leveraged buyouts, and we have discussed this matter at length with many senior economic advisors within the Administration. The potential problems of highly leveraged transactions in the airline industry may well be addressed by alternative or complementary means.

As Secretary Brady has mentioned, one way to soften the tax code's bias toward debt and make equity more attractive is to phase out the double taxation of corporate dividends. In the meantime, the Department of Transportation must address the issue as it has presented itself in the airline industry.

I must tell you, as Secretary of Transportation, I do have concerns. So that there can be no doubt -- I will not allow excessive debt in the airline industry to jeopardize the public interest -- especially in the important area of safety. We must move to ensure that competition within the industry is encouraged and strengthened. I also recognize the importance of supporting this country's general policy of encouraging the flow of investment capital between countries. I must at the same time, however, respect existing limitations on foreign ownership and control within the U.S. airline industry.

As you know, the Department of Transportation has a statutory responsibility to ensure that all airlines have the financial ability to provide safe and dependable service.

Using our "continuing fitness" authority under the Federal Aviation Act, we intend to evaluate each buyout and recapitalization transaction on its own merits. We want to be absolutely certain that any carrier is financially fit, and that safety will never be compromised. If continuing fitness is called into question, rest assured that the Department will not hesitate to make adjustments to the airline's operating certificate.

Make no mistake: I start from the very strong presumption that the marketplace knows more about the proper capitalization of business than do government regulators. Yet the issue posed by very significant increases in debt and proposed

significant foreign investment in the U.S. airline industry are important enough to warrant careful scrutiny. In large part, these concerns are due to the unique nature of the airline industry. The airline industry is different for a number of reasons:

Number one, the airline industry, even though it's no longer regulated like a public utility, still has public interest responsibilities: Debt-ridden airlines, forced to adopt sweeping austerity measures, may unwittingly threaten the safety of the traveling public. It is my job to ensure that the public responsibility we expect of our airlines are carried out. A few examples:

We are now detecting the extent of aircraft fatigue and corrosion problems. Airlines today cannot afford to scrimp on the new costs of maintaining the safety of their senior aircraft.

We are now discovering the technology to meet the demand for effective noise abatement. Airlines must have the resources to address environmental concerns.

We must do everything possible to fight the despicable acts of terrorism. Airlines cannot afford to cut back on security costs.

Number two, the U.S. airline industry is uniquely cyclical. It is not recession proof. Despite their impressive ability to generate cash flow, the airlines are particularly vulnerable to economic downturns. The adverse impact of an economic downturn on airlines can only be exacerbated by heavy debt or plunges in the bond market.

Number three, in a time of a national emergency, U.S. aircraft will be needed as a vital link in our protection. U. S. airlines have committed a great many aircraft to the Department of Defense through the Civil Reserve Air Fleet program. By their voluntary participation in this CRAF program, U.S. carriers provide critical passenger and freight airlift capability in times of national crisis.

However, the success, and even the existence of the program depends on a healthy air transport system. Civil aviation is an industry that must stand ready for emergency preparedness. We rely on our airlines, on their commitment to America. I believe these are some of the reasons Congress has enacted laws regarding limitation on foreign ownership.

Number four, the U.S. airline industry has become highly concentrated. Today, 90 percent of the industry's traffic moves on eight carriers.

High interest payments associated with the significant debt involved in a leveraged buyout can increase the risk that an airline will not be able to meet its financial obligations. Given the small number of major U.S. air carriers, the failure of any of these carriers could reduce the level of competition in the industry.

Even short of bankruptcy, the high cost of servicing large debt levels may also deny an airline the flexibility to lower fares, expand operations, modernize fleets -- in other words, take steps essential to real competition. And given the barriers that appear to be in the way of entry -- a subject that we are examining closely -- it's not easy to replace a lost competitor. No new major carriers have entered within the last five years.

In short, for these and other reasons, the airline industry stands on a different footing than other industries. This "stall warning" on the part of DOT doesn't signal

a return to regulation -- I think we can all agree that everyone, especially consumers, have benefited enormously from deregulation. What it signals is that the government must remain vigilant in carrying out its remaining oversight responsibilities.

To leveraged buyout transactions, we add another important element: very large equity investments by foreign airlines. DOT has raised serious questions about the unparalleled levels of foreign investment being proposed.

Most of you are already familiar with the statutory rules governing foreign investment in U.S. airlines. The law says that the president and not less than two-thirds of the board of directors and other managing officers of a U. S. carrier must be U.S. citizens. It also says that at least 75 percent of the outstanding voting stock must be owned by U.S. citizens.

But the inquiry doesn't end there. A long line of CAB and DOT cases establishes the proposition that, to enjoy the benefits of a license to engage in U.S. air transportation, an airline must be controlled **in fact** by U.S. citizens.

Congress, in writing the statute, had in mind our national security, and the critical role of the airline industry in maintaining it.

Those same concerns are at the heart of the "common law" of foreign ownership that has emerged over the years both at the CAB and now at DOT. Even where the statute's numerical ceilings have not been exceeded, we have an absolute obligation to ensure that U. S. airlines remain fully within the control of U.S. citizens.

During the course of our fitness review, no one factor will be determinative. Rather, we will examine, perhaps on a continuing basis, each agreement, written or oral, to get at the various indicia of control.

For example, when a foreign airline is willing to contribute a large share of the equity capital in return for a relatively small percentage of the voting stock, we need to examine all aspects of control. What does the foreign airline think it is buying?

National security is not the only concern raised by foreign investment. The framework for international aviation -- an elaborate maze of bilateral agreements -- is unique in the annals of international business. It's an integral element in our relations with other countries. It was designed on the assumption that, for the most part, each airline would be the airline of a particular country. Governments would bargain with each other about the opportunities available to each other's airlines, and those opportunities would be established in carefully structured, reciprocal, bilateral agreements.

When an airline of another country holds a substantial equity position in a U.S. airline, this framework can be altered radically. Suppose the United States is negotiating with another country that has a national or quasi-national airline and that airline has a director on the board of one of our airlines. Fiduciary, ethical or practical considerations may jeopardize the confidentiality of our negotiating strategy. In some circumstances, I think we would have to reconsider our practice of sharing our negotiating position with the U.S. airlines. Absent confidentiality, our bilateral negotiations could be directly jeopardized.

We have similar concerns about competition. Where two airlines of different countries are supposed to be competing, it raises the issue of their willingness to take on each other where they have overlapping ownership and boards of directors.

In other words, the prospect of foreign ownership of U.S. airlines is not troublesome on the basis of national security considerations alone. It also raises serious questions about the dynamics of the bilateral negotiating process, and about the future of competition in international aviation markets.

Finally, foreign investments raise a broader issue: the shape of the future of international aviation. As I said at the outset, the rules governing the regulated market of international aviation are unique. The United States and a number of its partners have tried to introduce elements of competition into these markets, but those efforts have a long way to go.

As long as international aviation markets remain subject to this highly regulatory regime, the United States must consider carefully the implications of testing bold new concepts in airline globalization. To extol the virtues of a free market for the flow of airline capital without reference to the highly restricted market in which international airline services operate would be to ignore reality.

What I am saying is that, even when the statute's numerical ceilings on foreign ownership haven't been exceeded, the Department of Transportation must consider other issues. Is there control in fact? Will the negotiating process be compromised? What happens to that airline in the event of a national emergency?Will competition be diminished? How will international markets be affected?

Every transaction will be reviewed case by case under consistent Departmental standards. It is not our intention to discourage appropriate levels of investment. But we cannot ignore the legal and international framework in which we operate. We cannot sit idly by -- we must look down the road at the ramifications of today's decisions.

Our airlines are not an easily replaceable commodity. We are exploring uncharted areas and must proceed carefully. As long as I am Secretary, you can rest assured that I will keep an eagle eye on these transactions. The interests of the American public cannot and will not be sacrificed.

Even in our deregulated environment we must take steps to enhance competition and encourage new entrants. We must remain vigilant of global, reciprocal access to all markets. We must create a level playing field and negotiate with governments throughout the world.

And finally, we must never allow the financial fitness of our airlines to jeopardize safety and security.

Thank you very much.

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
AIRCRAFT OWNERS AND PILOTS ASSOCIATION
ORLANDO, FLORIDA
OCTOBER 21, 1989

CINC COPY

Good afternoon, and thank you for that kind introduction. I am delighted to be here in Orlando to participate in this open forum at AOPA's annual convention.

Let me start by expressing my admiration for the ambitious schedule of seminars and workshops on your agenda this week. As a private pilot myself, I take a special interest in the challenges facing the aviation industry -- and I am very encouraged to see organizations willing to tackle some of the major transportation issues facing this country.

In my comments today, I also plan to face some of these issues head-on -- and most of them have been a long time heading toward us. The fact is, we used to take our aviation system for granted. We expected it to be there when and where we needed it. Yet, its creation took years of sustained effort and a strong commitment of resources by the public and private sectors.

Lately, we haven't been keeping up. Capital investment in public works has declined over the past quarter century, until today it accounts for just over 1 percent of GNP -- compared to twice that percentage in 1960.

As investment declined, demand increased dramatically. Since the Airline Deregulation Act was passed in 1978, the number of passenger boardings have grown by over 100 million -- an increase of 40 percent. At least 21 airports now are burdened with more than 20,000 hours of delays each per year. By 1997, the list could grow to 39 airports. General aviation experienced unprecedented growth, with a fleet now exceeding 220,000 aircraft. Commercial aircraft orders are also at a record high, with thousands of commercial aircraft on the assembly lines.

Local airports have become engines of regional economic growth. Unfortunately, they have also become centers of transportation congestion. We have not built the airports, runways, and other facilities needed to handle the growth. In fact, the last major airport -- Dallas-Fort Worth -- was built in 1974.

This is going to change. When the people of Denver recently voted to build a new airport, they gave a shot in the arm to the future of U.S. air travel.

Last month, I had the pleasure of presenting the City of Denver with a check for $60 million as the first installment of federal funding for their new airport. This facility will have 94 gates and five runways. Completion of the Denver Airport in 1993 will be a major step toward increasing airport capacity and reducing air traffic delays throughout the national airspace system.

As you know, construction of new airports is a contentious issue. I don't have a magic wand to resolve all the problems -- but success requires that government at all levels reach a consensus favoring more and larger airports to serve both commercial and general aviation.

In approving the public referendum for the construction of this airport, Denver demonstrated that a community can reach this consensus and overcome all obstacles to new airport development. This is the type of regional effort we need to encourage across the nation, as we expand and rebuild our transportation infrastructure.

At the federal level, I am committed to working closely with industry and Congress to ensure that opportunities to support airport development -- and aviation generally -- are not lost, and that the industry retains its important place on this country's national agenda. It's a simple fact: Safe and efficient airports serve all Americans, and form a basic building block for the productivity of the U.S. economy.

Our transportation system can be ignored only at the risk of future competitiveness and prosperity. I am determined to restore the competitiveness of the transportation system -- because the transportation system may determine the competitiveness of America.

It is no secret that many of our competitors have lower labor costs and enjoy government subsidies. In the global market of the 1980s, we're not just competing with foreign engineers and workers. We're competing against their schools, trade policies, health care systems, and perhaps most of all, their transportation systems.

Obviously, the decline of America's transportation infrastructure is more than a mere nuisance. It's a kind of hidden tax -- money that could be used to replace aging plant and equipment, provide employee training,

and do other things necessary to enhance productivity -- which is the basis of national economic health.

Some experts argue that the reduced investment in transportation infrastructure is a root cause of the decline of American competitiveness because it directly affects the speed with which people and products are carried by motor vehicles -- proving again the old saying that "time is money."

This fact suggests that it is time for a new outlook on transportation, and recognition that aviation, as well as roads, bridges, and railroads, are integral components of the delivery system. They have a direct effect on the "bottom line" for industry and consumers alike.

At the Department of Transportation, we are committed to developing a comprehensive national transportation policy which responds to these facts. It is the fundamental motivation behind our effort to reach out to the public and hear their views on the state of U.S. transportation.

So far, over 3,000 Americans -- including many in this room -- participated in 33 public hearings. We value the input of citizens who use and depend on the transportation system. And once we have listened, there

is another step: We intend to make decisions and move forward.

We seek a policy that will take the transportation system that has served us so well in the past -- and prepare it for the demands of a new century. That is what the national transportation policy is all about. And we want to be sure that no part of the country and no part of the transportation community is overlooked in the process.

That is why it is so important that you are here today. The agenda of many of your meetings this week acknowledge that aviation is a critical competitive issue. This is exactly the type of analysis that needs to be laid on the table and applied to the policymaking process.

There is no shortage of opportunity to build better lines of communication between the Transportation Department and its key user groups. For instance, the FAA recently began a comprehensive review of its general aviation compliance and enforcement program, to determine its effectiveness in promoting air safety.

Many general aviation pilots have already expressed their opinion that the FAA focuses too strongly on punishing violators -- rather than helping to improve safety. If the FAA is neglecting to provide education

that could prevent violations -- or if it is missing opportunities to help general aviators fly more safely -- we want to know about it.

But we need facts. In order to lead with ideas, government policymakers must have information -- up-to-date and timely information from the best in the business. In other words, we need the input of men and women like you.

So, an important part of the review is a series of "listening sessions" around the country to hear the views of local pilots and others in general aviation. I am pleased to know that one of those sessions is taking place at your convention this week. The input received from you and other aviation interests will be invaluable to our efforts -- and we appreciate it.

Your contributions to improving aviation safety and efficiency are a good example of the most important lesson I have learned as a government official. Whether the goal is combating international terrorism, improving airport capacity, or reducing inconveniences to passengers, the success of any government policy depends on the support and cooperation of those directly affected by it.

As members of AOPA, you and I share the common goal of a safe and efficient national aviation system. I

want you to know that the Department and the FAA is also pledged to achieve that goal.

There can be no doubt about the seriousness of the federal government's commitment to aviation. Between 1982 and 1989, the FAA budget more than doubled -- increasing from $3.1 billion to the current level of $6.4 billion per year. This Administration is requesting $7.4 billion for 1990 -- another very substantial increase.

Since 1982, the FAA has received more than $39 billion to operate, update, and expand the national aviation system. Of that money, only $22 billion has come from the Aviation Trust Fund. The rest was provided by the general taxpayer. In 1989, $3.7 billion in aviation taxes will be paid -- but total aviation spending will be $6.4 billion, far exceeding the taxes collected. These figures make it clear that aviation users do not pay more in taxes than they receive in benefits.

Let me reemphasize, however, that transportation fees should only be applied toward transportation needs. I oppose using any portion of transportation trust funds for deficit reduction. On my watch, aviation and other transportation user fees will be utilized for transportation purposes only. Period.

Another crucial element in meeting aviation demand is the modernization of the air traffic control system and air navigation technology. The FAA National Airspace System (NAS) Plan is a continuing program of modernization, expansion, and maintenance of our Air Traffic Control and Air Navigation systems. An entirely new generation of air traffic control hardware and software -- the Advanced Automation System -- is central to the NAS Plan.

The achievements so far have been impressive. Almost one-fifth of the projects are complete, and 90 percent are under contract. However, this progress requires a commitment to provide the necessary resources to execute the NAS plan as we move further out of the conceptual phase and into the procurement and implementation phases.

The cost to complete the original projects and continue the modernization of the National Airspace System is substantial, particularly during FY 1991-1993. A renewed commitment by the Administration and the Congress to provide the necessary resources is essential to achieving NAS Plan goals.

There is also an immediate need to increase the air traffic controller work force and maintain their exemplary safety record. As a pilot, I know these men and women have one of the most difficult and high-pressure jobs in government. New ways must be found to make sure the dedicated individuals in the airport towers and control centers receive the support they deserve.

I am delighted that President Bush has placed the Air Traffic Control System near the top of his list of priorities. The FY 1990 budget includes funding for an additional 695 air traffic controllers, 400 safety and support personnel, 120 security specialists, and authorizes a pay demonstration program to help meet critical personnel needs at hard-to-staff facilities.

The fundamental goal remains the same: To prepare for the year 2000 by giving our air traffic controllers the best equipment necessary to do the job, cutting air-traffic delays, and providing better routing for airliners.

At the turn of the century, I foresee an American transportation network which combines the best elements of the public and private sectors in a natural partnership -- a partnership that responds to changing

needs and draws strength from the diversity of its participants.

This is why the most important ingredient in the national transportation policy may be fairness -- a sense of equity. Historically, if the American people see a job that needs to be done, and they know that the burden is distributed fairly, they are more than willing to contribute their fair share.

We still have the best transportation in the world. The challenge is to keep it that way. And the way to do that is by studying the problem, marshaling resources, and putting them to work in a long-range policy with a global perspective.

This is a tremendous challenge, not only for government at all levels, but for the aviation industry. By working together on a national transportation policy that includes a close examination of aviation needs, we can develop a strategic plan to better utilize existing resources, modernize air navigation systems, and stimulate other cities to build new airports and runway capacity.

In the past, the system served us effectively because our leaders set the right agenda and people from

government and industry had the commitment to follow through.

Decisions made in the next few years will chart the course for aviation into a new century. It has never been more important to work cooperatively, because in doing so we help assure that the choices made will be the right ones.

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TALKING POINTS PREPARED FOR
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
COAST GUARD FOUNDATION
NEW YORK, NEW YORK
OCTOBER 26, 1989

Thank you, former Secretary Lewis. It's an honor to share this occasion with you.

Recently the columnist James J. Kilpatrick did a little story about our work at the Department of Transportation. In his column, Mr. Kilpatrick said Sam Skinner is a wagon train leader driving a team of mules.

I really was concerned about the reaction of the people who work for the Department. They are all dedicated, talented, hardworking people who do an outstanding job. If I'm a mule team driver, what does that make them?

One employee who has been around a while said, "don't worry about it, Mr. Skinner. It's alright." She added, reassuringly, "When Drew was here we were very proud to be known as Drew's Drones. We'll be just as proud to be known as Skinner's mules,"...although I prefer to think of them as "Skinner's winners."

They tell me Drew Lewis was best known for improving the quality of life on Governor's Island. I understand he is responsible for getting the Burger King there. He even came up to New York for the dedication. Most Secretaries show up for commissioning of cutters,

but Drew commissioned a Burger King. That may show his priorities, which aren't all that bad if you think about it.

On a more serious note, I am pleased to join in this salute to the finest branch of the armed services -- the United States Coast Guard. I also express my appreciation to the Coast Guard Foundation for providing the important little extras for the men and women who serve.

I was in my office on the night of the earthquake, preparing to leave for California. The President had asked me to go there to assess the damages. I turned on the television. The first picture that flashed on screen was of a Coast Guard helicopter hovering over the damaged bridge -- searching for victims, helping with rescue.

I thought back over my nine months in office. I flew to Alaska shortly after one of the worst oil spills in our history and the Coast Guard was there first, obviously the leader in the cleanup. I flew into a hurricane in the Virgin Islands where the Coast Guard had rescued several hundred people and restored order to the islands. The night of the earthquake I thought of what so many of them had told me -- "it's all in a day's work -- just doing my job." They are always so professional.

Whether it's a drug bust in the Caribbean or an oil spill in Providence, Rhode Island, or the simple rescue of one human being, these truly remarkable young men and women are there on the scene working when everyone else arrives.

I honored them at the Department's 22nd annual awards ceremony. The men and women of the United States Coast Guard were granted the Gold Medal Award, which, as Drew Lewis knows, is the highest honor a Secretary of Transportation can bestow upon an employee.

And I honor them again tonight -- all the members of the only branch of our armed services which measures its success in terms of lives saved -- the United States Coast Guard.

President Bush has issued a proclamation designating August 4, 1989 through August 4, 1990 as a time to commemorate the Bicentennial of the U.S. Coast Guard. The text is too long to read to this group, but I want you to know that the President calls upon the nation to "share in the pride and satisfaction enjoyed by the Coast Guard's dedicated members..." Admiral Yost, on behalf of the President, I will present this proclamation to you for appropriate keeping.

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TALKING POINTS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
UNIVERSITY OF ILLINOIS ACCOUNTING CLUB
CHAMPAIGN, ILLINOIS
OCTOBER 31, 1989

- Acceptance of the "Accounting Alumnus Award."

- The Undergraduate accounting program has been in existence for 76 years -- since 1913. According to the Public Accounting Report, the U of I Accounting School is ranked first in the country. The U of I also has more graduates who are chief financial officers than any other school and graduates who are partners in the "big 6" accounting firms.

- The master's program has been in existence since 1920 and has ranked in the top 15 in past surveys. The U of I doctoral program consistently ranks in the top ten in the country.

- For the past five years, the number of women graduates has exceeded the number of men by a rate of about 52 percent to 48 percent. In the class of 1957-58, there were only 15 women out of a total of 359 students enrolled in the accounting program.

- The University as a whole has grown by about 15,000 students since 1956. Currently, there are approximately 34,000 students enrolled at U of I.

• The following faculty members are still instructing at the University and will be attending the dinner: Professor Gerald Brighton in his 41st year of teaching at the University, and your instructor for a government accounting course in the fall of 1959. Also attending, Professor Ken Perry, the Accounting Club Faculty Adviser when youwere a club officer; and Professor Vernon Zimmerman. * Retired Professor Nelson Wakefield, may also be in the audience.

3.15

U.S. Department of Transportation

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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
CHICAGO ECONOMIC CLUB
CHICAGO, ILLINOIS
OCTOBER 31, 1989

My deep involvement in the problems facing the transportation system in America has made me acutely aware of the perceived and documented disinvestment of American business in the global market.

We sometimes forget that the U.S. economic picture is very promising. We are in our 83rd month of this nation's largest peacetime economic recovery. The Gross National Product for the third quarter of this year increased a solid 2.5 percent. Our savings rate is up from 3.2 percent in 1987 to 5.6 percent in the first half of 1989. Inflation is down and employment is up. Corporate profits remain solid.

While our economic expansion is continuing, we cannot ignore the fact that even though the U.S. economy has grown by two-thirds in the past 20 years, the Japanese economy has expanded by 165 percent, Taiwan's by 430 percent and South Korea's by 500 percent.

According to the Department of Commerce, U.S. manufacturing productivity grew at a rate of only 4.1 percent during the years 1981 and 1988. Japan is the world leader with a 5.9 percent growth rate for the same period. Also ahead of the United States is Great Britain with a 5.4 percent annual manufacturing growth rate, and Italy with a rate of 4.2 percent. Even worse, when we look at the 1988 statistics for manufacturing productivity, the United States ranked sixth with a 3.6 percent growth rate -- coming in behind Japan, France, the Netherlands, Great Britain and Germany.

This decline in American productivity is alarming, and there is much speculation on the cause. Richard Darman, Director of the Office of Management and Budget, believes that the greatest problem lies with ourselves, with the creeping suspicion

- more -

that America's days of global economic ascendancy -- of leading the way in technological advancement -- are over.

The ominous predictions of thoughtful economists have heightened concern over the ramifications of the European's economic integration in 1992, and the additional competitive challenges that new players will bring. Now is the time to reverse America's decline in the global marketplace.

While national security must continue to be our number-one priority, regaining our competitive edge should also be a top priority -- not only within government, but in board rooms and on the assembly lines. In his book, The Rise and Fall of Great Powers, Paul Kennedy says that great powers must balance defense and economic goals.

How do we regain that competitive edge? Well, first of all, we need to listen to what our critics are saying. You may have heard of the controversial book "The Japan That Can Say No." The book is premised on the perception of the U.S. as a fat, self-satisfied country that blames Japan for too many of its problems. It overstates the case but it does point out that we must now take responsibility for getting our economic house in order -- and not rely on the actions of others.

Before dealing with the substance of improving U.S. productivity, and thus our competitive edge, I must speak about the rules of the competitiveness game. Government does have the major responsibility of ensuring there is a level playing field so that U.S. industry is not competing with one hand tied behind its back. I can assure you that President Bush and his entire Cabinet are committed to this cause and significant progress is being made.

We can't afford to wait, however, while the barriers are being removed. That process will be long and time-consuming, as many of these practices are centuries old. So, how can U.S. productivity be improved?

First, there is the matter of technology and its deployment. Historically, we have been good at developing basic technology but slow, too slow in moving it to market. Now there are signals that our competitors in Europe and the Pacific Rim are accelerating basic research. We must not lose more ground here. There is an urgency for us to accelerate research and development -- and to stay with the implementation process. There must also be a much greater partnership between government and business in this critical area.

We ask ourselves then, what else can we do to meet the challenges of our global competitors, and ensure that America remains number-one in the world economy? Stated otherwise, how can we become a more productive nation? It is becoming quite clear that investment in the education of our American youth is probably one of the most important investments we can make for America's future. This is, of course, because productivity is a function of both capital investment and the people who do the work.

A recent survey pointed out another alarming statistic: American industry is spending more money and time teaching remedial math to its employees than all the grade schools, high schools and colleges combined. In other words, we're just not giving our kids the tools they'll need to compete.

And what's worse, it's not that we are not trying. According to Irving Kristol's column in the October 24th Wall Street Journal, we now spend more per pupil than any country in the world -- yet educational performance declines.

This must be changed. A more competent work force is a central element in any strategy for productivity enhancement, yet math and science test scores demonstrate that U.S. students come in last among industrialized nations. We also have a very high illiteracy and high school dropout rate. In Chicago, the drop-out rate now stands at an alarming 45 percent! How can we stay ahead in this highly technical world, and remain number-one as a nation with such statistics?

The Bush Administration is focusing renewed attention on American education, but this is primarily the responsibility of local government. We all know that Chicago is about to embark on its bold experiment for more local control. While the interest level of parental participation certainly seems promising, schools across this city must have the support of business leaders like yourselves to reverse the decline and bring the level of education up to standards one would expect of a world class city like Chicago. The most important thing to remember is that the ultimate beneficiaries of these efforts are the businesses that must rely on this new generation of workers for growth and success.

It is also important to remember that everyone can participate in this effort. For example, the Department of Transportation in Washington, D.C., as an employer, is actively involved in assisting an impoverished school within Washington, D.C. to raise its standard of excellence. If every business represented in this room made a similar effort, education within the Chicago school system would be significantly improved. And if every business in America adopted a school, education in America would be significantly improved.

The Department employees teach school on Department's time, raise money to provide those "extras" that make education fun as well as better. We are involved in sponsoring and conducting tours for classes at all levels and many of our employees tutor students on a one-on-one basis. We must do whatever it takes to help schools turn out the kind of people needed to run America's plants and companies; to lead our local, state and federal governments; to discover the cure for the next disease; and to write the novels and songs for generations to come.

In addition to technology and education, I want to turn to another area I believe can play a significant role in helping America increase our competitive edge. That area is transportation.

I would also like to take this opportunity to issue a challenge similar to the one that I presented earlier this year to the transit industry. As I have wrestled with the problems of access to public transit and air travel for the handicapped, and as I have looked to the future makeup of America's workforce, I have become convinced that there is a major group with a proven track record that is yearning to make a greater contribution. I am talking about handicapped individuals in the workplace.

There has been significant effort put forth by the President and this Administration through the legislative process to further the cause of access for the handicapped. As we do that, we must make sure that we reach out and recruit these talented people. As the demographics in our society continue to shrink, we must engage in a major outreach effort to recruit and include handicapped individuals in

the workplace. While this concern is clearly not the major focus of my remarks tonight, I wanted to bring the issue to your attention because I can assure you that the question of handicapped access and their ability to be productive will be yet another major item on my agenda as Secretary.

David Aschauer, an economist with the Federal Reserve Bank of Chicago, has examined the relationship between public infrastructure investment and growth in private sector productivity. He concludes that a "root cause of the decline in the competitiveness of the United States in the international economy may be found in the low rate at which our country has chosen to add to its stock of highways, port facilities, airports, and other facilities which aid in the production and distribution of goods and services." He also points out that public capital devoted to infrastructure purposes is complementary to private capital, making it more productive.

We only need to look at the current situation in Northern California to see the impact that infrastructure has on our economy. The loss of access to the Bay Bridge connecting Oakland to San Francisco, the collapse of a portion of Interstate 880, and the closing of other highways due to the devastating effect of the earthquake, has forced people out of their homes, businesses to shut down, and workers to spend more time in cars, buses, and mass transit, instead of in the workplace. Early estimates of the costs to repair that damaged infrastructure are approximately one billion dollars, and repairs will take years to complete. The impact this will have on the local, state, and national economy in terms of lost productivity is too early to predict, yet we will be feeling the economic aftershocks for a long time to follow, not only in California but nationwide.

Well, while we in transportation have limited roles in broad technological advances and even a lesser role in education, we can do something about transportation -- and we are!

As my first priority, I have set in motion a public process for the development of a national transportation policy. A policy that will help America maintain and enhance a safe, efficient and strong transportation system capable of sustaining U.S. economic and geopolitical interests, not only five years from now, but well into the 21st century.

I want to first point out that by developing a national transportation policy, we are not adding another layer of bureaucracy. It is a strategic plan for the future of America's transportation system. Planning means knowing where you are going ... Successful businesses are run with their strategic plans, and I believe government decisions should be made with one as well.

And at the Department, we will do just that! I'm pleased to report our strategic planning and policy development process is on schedule. It will be made public in early January. This will allow us to be prepared for the critical months ahead when the Congress will begin to work on major legislation reauthorizing federal aviation and surface transportation programs.

I should point out that we are already running out of time. Our nation's transportation system is currently faced with several growing problems that must be addressed, and addressed now. Gridlock on our major highways, airport capacity limitations, crumbling roads and bridges are but a few of the problems we face. For example, additional airport capacity is badly needed all over this country.

I don't have to tell any of you here today about the capacity problems in Chicago. O'Hare is operating at full capacity, and Midway is not far behind. Chicago needs a new airport and needs it now. The city needs to demonstrate the same vision, commitment and leadership toward a new airport as the city of Denver has. In Denver, state, local and federal officials have joined together to build the largest airport in the U.S. As Secretary of Transportation, you have my word that the federal government stands ready to assist as soon as political consensus is reached.

We must have a plan to provide our businesses and people with the necessary highways, airports, ports, and railways to ensure that they will be able to compete effectively in a global economy.

When Dulles Airport in Northern Virginia was first put on the drawing board, it was labeled by some as a "white elephant," because of its location and distance from the nation's capital. Well today, the area around that airport is growing by leaps and bounds as both people and businesses have been attracted to the strong economic climate created by the presence of that airport. It is one of the fastest growing areas in the U.S.

While I am on the subject of aviation, I am sure you have been following the Department's treatment of leveraged transactions and foreign investment in the airline industry.

Let me clarify a few things: This Administration and this Secretary are firmly committed to the policy of deregulation of the airline industry. In recent years, the American traveler has been able to save more than $14 billion dollars per year. We also are committed to the free flow of capital between countries, and to the market's role in determining the financial structure of airlines.

Leveraged acquisitions of airlines can provide positive developments. They can help airlines become more efficient, streamline their operations, eliminate waste, and sharpen their organizational focus. Similarly, foreign investment in U.S. carriers can generate new jobs, new spending, new synergies and new growth -- characteristics that are necessary to regain that competitive edge.

All of these transactions can, and should be resolved in the freedom of the marketplace, not by the heavy hand of government. However, if they have shown us anything, it is this: if America is to continue its leadership role in the marketplace, if we are to regain our competitive edge, then labor and management must work together to resolve their differences and get the job done. Discord between management and labor, whether it be at Eastern Airlines, Boeing, United or so many other great American companies, threatens to diminish our role in the global economy.

All of these issues which I have discussed with you this evening are important to the future of America. Our fathers and mothers made an investment in the future that has paid us a handsome return and provided us with a higher quality of life than they enjoyed. The institutions they created, the new technologies they developed, and the transportation systems they built formed the foundations of our great nation.

President Eisenhower will be remembered best as a great military leader, but his visionary transportation policies have reaped huge dividends for America. It was

President Eisenhower who initiated the planning and construction of our nearly completed interstate highway system. That system, which has contributed so much to our economic vitality and national security, resulted from ambitious, yet pragmatic policymaking, sensible allocation of scarce resources, and a partnership among local, state, and federal governments. President Eisenhower understood that the government has a responsibility to provide leadership in setting transportation policy.

Eisenhower understood that investment in transportation is investment in America's future.

It is our responsibility to continue this legacy -- not only for ourselves and our children, but their children yet to come. Working together, as a team, we are sure to succeed in this important mission.

Woodrow Wilson once said, "Every great man of business has got somewhere a touch of the idealist in him." Chicago men and women of business have been strong on idealism. After Mrs. O'Leary's cow kicked over the lantern that started the great Chicago fire of 1871, Chicagoans got busy and rebuilt the city in two years. People in California today are mobilizing to rebuild their cities. When put to the test, Americans can work together quickly and productively.

In closing, let me say that America's economic competitiveness is getting top priority treatment from this Administration. Let me also ask for what you have always given: your commitment and strong leadership, as we work to build and preserve the greatest nation on the face of this earth.

# # # #

REMARKS AS DELIVERED BY
SECRETARY OF TRANSPORTATION SAMUEL K. SKINNER
AMERICAN TRUCKING ASSOCIATIONS
CHICAGO, ILLINOIS
OCTOBER 31, 1989

I know there are a couple of issues that the Department of Transportation and the American Trucking Associations have not yet quite reached closure on and I'm going to talk about those in a minute. As I told Tom (Donohue) very early on, I am an individual who has worked in business, who understands business, has represented business and wants to work with business as a government officer. I think you get a great deal more done if you are working with people rather than working against them. I am not a confrontational type secretary.

While I do have regulatory responsibilities in the area of safety which I take very seriously, there is no responsibility that I take more seriously than safety, I recognize that if our systems in this country are going to be safe, they are going to be safe because the people that use them make them safe. So I can pledge to you as we talk about some of the issues today, that I'm anxious to be here, I'm a common sense individual, I understand the difference between what is realistic and impractical and I am looking for realistic solutions.

I am also well aware of what you have done in truck safety. Your "America's Road Team" program is a model of industrial responsibility. And I also recognize that the ATA has been very supportive on safety-related issues such as most parts of the drug testing rules as well as the uniform commercial drivers license. You've clearly done your lion's share. And let me make that observation as someone who has not only driven a truck but uses the highways all time.

I believe the American people are more concerned than ever about highway safety, the safety of trucking. Trucking is to some degree charged with the responsibility more than ever before of ensuring the American motorist that the trucks on the highways of this country are not only safe as equipment but being operated safely. And so your programs that you put together and many others will go a long way toward ensuring not only that the highways are safe but that Americans understand they are safe.

Other issues I think are very important that I'm going to ask your help on: Number one, as many of you know the Congress of the United States and the American people continue to be concerned about alcohol and the role alcohol plays in our transportation system. Much has been done in the area of driving but much remains to be done. Alcohol is a major problem in this country

and there is considerable pressure not only from Congress but the American people to develop if we can a program involving the alcohol problem and the safe operation of motor vehicles.

We have placed a notice in the Federal Register, seeking answers to questions involving alcohol. The questions include: Are the Department's present alcohol abuse rules for this industry sufficient to address the problem? If federal action is appropriate, what should that action be? We will want information not only from the motor carrier industry but from all industries on that very important problem. It is a difficult problem. The Department of Transportation does not have all the information we need on the alcohol abuse problem and we must continue to develop programs that make sense, that work to ensure that the alcohol impaired drivers are not on the highways to endanger motorists. I point out that this is at the very first stages of the information gathering process. This is where your input will count. Where it is extremely important in developing the future course.

And I want to develop that program, whatever it is, and I go into this with no preconceived notions other than to understand it is a difficult problem to deal with. But I need your help and I want to work with you on a common sense approach to alcohol. So I encourage you

as members of an industry that is a quarter of a trillion dollar industry in this country and represents 5 percent of our nation's gross national product to get involved. I know the impact of trucking on our economy. Two-thirds of our communities are served only by truck. Many of the rural areas rely almost totally on the trucking industry. And frankly, if we are going to compete in the world and continue to be productive as a nation, our productivity and the price of our product will depend in no small amount on the role the Department plays but most importantly it will depend upon the role that your industry plays.

That is why in my opinion the national transportation policy which we are developing is so important. It is a policy that is tuned in to the needs and desires and hopes of all Americans. We had over 100 public meetings all over this country. We have met with groups from all over this country. ATA has had a significant role in suggestion solutions to our nation's transportation problems and our strategic planning for the next century. And shortly my people will be sitting down with leaders in your industry to preview some of our findings to be sure we have reached and met all the issues that are necessary. It is important to understand what the national transportation policy is.

Peter Drucker once said that "production is not the application of tools to material, but logic to work." What I want is a logical strategic plan for this country in the area of a transportation infrastrastructure program. It will provide a strategic approach that will take the transportation system as we know it and move it into the new century as we compete.

As I said, the policy statement is in its final throes and I believe there will be a significant amount of good, solid, common sense policy and strategic planning in that document when it is finally released. And I don't think there's any question that it's none too soon. It's none too soon because as Governor Thompson pointed out we are now competing in the world. And as I travel around the world as Secretary of Transportation it is quite clear to me that transportation is not only important in this country, it's important throughout the world and the product that we develop and compete with will in no small measure be determined as far as quality and price on a competitive basis by the quality of our transportation systems.

It is going to be interesting. It is going to be change. But this is an industry that has gone through some change. How effective we can be will be determined by how we handle that change, whether it be the

deregulated activities that have gone forward or the other steps in other areas that are so important.

Now let me take a couple of other issues that I think are important to you and one in particular is the rules regarding drugs. You have an absolute right to know where the Department stands on that issue and where we are going. We have an absolute right to expect your cooperation as long as we come up with a logical common sense program that works.

I am not interested in implementing a program that will not work or is not realistic. I recognize that in talking about that program there are a number of areas that are of great concern and one in particular is where do we stand as we look at issues of random drug testing on a very short time span which is due subject to court order to be implemented in December. We have signed yesterday a rule delaying a small portion of those drug testing rules. While the courts in California and the courts throughout the country deal with the thorny issues of random testing and certain aspects of post accident testing we have delayed the implementation of those so that we can be sure that when those rules are implemented they will be implemented consistent with law and hopefully at the same time it will allow us to work further with your industry.

I am well aware of how complicated some of those rules are and how onerous they can be. I am looking for ways to help alleviate the cost of those rules. But let me tell you lest you misread my comments that the Department and the President are dedicated to implementing drug testing rules in safety related positions that make sense. The American people expect it.

All we have to do is meet the challenges to see that the rules that are finally implemented can in fact work. We are anxious to work with you over the next several months. If the courts as I expect they will implement some random testing or post accident testing on safety related jobs, we have to be ready to begin that implementation. In the meantime we can improve on the rules and we can listen.

Now, let me tell you about another problem that I'm anxious to work with you on and that is the issue of international cargo and container standards. I recognize that there is a significant problem on containers and the problems of heavy loads of containers off the docks as they go onto the highways and the lack of the ability by the trucking industry to sometimes control the loads as they appear off the trucks.

I think we can and should do more to address the question of container standards and similar issues involving handling of international cargo. We can begin by exploring with shipping lines, motor carriers, ports and shippers a shift to weight-based rates for container freight, and other solutions to insure that when freight comes off the ships it will meet the standards prescribed by the states throughout this country for highway weight limits. And also I think we can begin to explore possible shipper assumption of liability for overweight containers moving on U.S. highways and I pledge to do that.

Let me also say that these weight issues do limit productivity practices in some countries and we must assure that U. S. carriers are not placed with undue burden. So I am hopeful that we will move forward on negotiations with other countries for removal of barriers to U.S. goods and carriers. I can assure you that a level playing field is a top priority matter not only for the Department of Transportation but the Bush Administration. I am looking forward to working with your industry to insure that as you compete in the world, you are on a level playing field. And I think the Department and the ATA will have some significant dialogue next year as we move forward on these issues.

Another issue which I think is manifestly unfair and I am totally pledged to work with you on is the problem of dealing with uneven state registration laws and uncoordinated state tax reporting systems, which make no sense. Why should the American trucking industry pay $1 billion a year -- a good portion of which may be eliminated -- to fill out different forms to different states. This is an area where productivity can be improved and the price of a product can be reduced. This is also money that could be put into new equipment, paving a highway, building bridges. Instead, it's wasted productivity. The National Governors Association has recommended some solutions to achieve uniformity. This issue has been around much too long and I hope we can begin soon to work together to implement the NGA recommendations.

Now let me talk about another issue I know is also of key interest to you and it's also an issue that has been hanging around much too long. I'm talking about increased access. It is in rulemaking right now. The comment period closes December 1. Rest assured, we are going to deal with the questions of access, -- without riding roughshod over valid highway safety concerns -- and we are going to do it, <u>sooner rather than later</u>.

Now, you may still be asking yourselves: "What other positive steps will be taken to preserve what we have and build for the future?" Let me give you more quick answers.

We will strongly encourage research and development not only in truck safety but in highway and bridge construction and in every mode of transportation. I believe research and development is expensive but absolutely necessary.

We must preserve the integrity of the Highway Trust Fund. We are very aware that 40 cents of every dollar collected in the trust fund comes from your industry. The trust fund has served us well in the past and will be an important part of our future. It must be protected and in that area we need your help. There are those in the Congress and others who would use that for deficit reduction rather than the purposes for which it is raised. It is imperative that you solidify your position to make sure that if this issue comes up we protect our position.

We will target federal highway resources on systems of national significance which you rely on. And, we also must come up with new methods of financing highway construction. You will see a reduced federal share of the cost of individual projects. You will see more leveraging, more state, local government and private

sector involvement. You will also see more creative financing mechanisms -- probably some ideas that people haven't even focused on. It is the objective of our national transportation policy to make sure that we are doing everything we can from a creative nature to build and rebuild the nation's infrastructure. And finally you have my personal assurance that no one mode and no one method of travel will be unnecessarily favored over another. Just as we will expect a level playing field abroad, you have a right to expect a level playing field at the Department of Transportation.

Woodrow Wilson once said that "every great man of business has got somewhere a touch of idealist in him." The men and women of the trucking industry are well known for not only their strong belief in American tradition and values but also for their idealism.

When the earthquake hit Highway 880 a number of truck drivers in the office of a nearby trucking company were looking out the door at the freeway, thinking about the loads to be delivered that night when they saw the top lanes collapse.

For an hour and a half, the truckers worked alone, pulling people from the wreckage. They rescued about 40 injured or trapped motorists. When firemen and rescue crews arrived, the truckers led them to those

they'd been unable to free. Such action is typical of the people who drive the lonely road -- the people that you employ, the people glamorized in the popular country song, "18 Wheeler" and that is true of the trucking industry. I think we can be very proud of the trucking industry. I am very proud that the President has asked us to work together on national policies that will move America into the 21st century.

In 1956 when President Eisenhower started the Interstate Highway system he had a vision of "uniting the states." The legacy he left us, "Interstates" helped to build the strongest economy and the most powerful nation on the face of this earth. And, I should add, it also helped us build a very strong trucking industry. That transportation system which he has built, we must rebuild and preserve so it will be our legacy to future generations.