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Notified Jane in Wolthuis' office



October 8, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

AVIATION ACT OF 1975

The President is transmitting to Congress today the Aviation Act of 1975. This legislation is designed to provide consumers better air transportation services at a lower cost by increasing real competition in the airline industry, removing artificial and unnecessary regulatory constraints and ensuring continuance of a safe and efficient air transportation system.

This is the second legislative initiative in the President's program to reform transportation regulation. The Railroad Revitalization Act is currently under consideration by the Congress. Similar legislation to improve regulation governing trucking firms will also be submitted this session. These three bills constitute an unprecedented legislative agenda for reform of transportation economic regulation. When enacted they will result in substantial benefit to the American public.

Principal Objectives of the Legislation

1. To introduce and foster price competition in the industry. As a result of economic regulation there is little price competition in the airline industry. Generally, all interstate airlines providing scheduled service between two cities charge the same fares even though some airlines may be more efficient and could provide the same services at a lower price. The effect has been that consumers are paying more than they should for air travel. The bill would eliminate this problem by gradually introducing pricing flexibility that allows airlines to adjust fares within specified limits to accommodate changing market conditions. This will make airline services more responsive to consumer demands and will provide low-cost service.
2. To better meet consumer needs by permitting existing airlines to serve new markets and new carriers to enter the industry. Since its creation, the Civil Aeronautics Board has restrained competition by restricting the entry of new firms into the industry and controlling which cities existing airlines are allowed to serve. This legislation will remove these artificial barriers to entry and provide consumers the benefits of increased competition, including new and better service at lower costs. Qualified firms will be encouraged to enter new markets and offer air transportation services which the travelling public desires.

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3. To eliminate anticompetitive agreements among air carriers. The CAB currently grants antitrust immunity to all types of carrier agreements. Carriers are permitted to set capacity levels, to pool revenues, and to engage in other activities which deliberately dampen competition and increase costs to the travelling public. The bill would prohibit the CAB from approving anticompetitive agreements. However, carriers also enter into numerous agreements which are not anticompetitive but facilitate air transportation. For example, carriers agree to transfer baggage on connecting flights; they honor ticket exchanges and joint reservations for the convenience of their passengers. The bill permits the CAB to approve these useful agreements if the public transportation needs outweigh the potential anticompetitive effects.
4. To ensure that the regulatory system protects consumer interests rather than the interests of the airline industry. In addition to its regulatory responsibilities, the CAB, since its creation, has been charged with promoting the aviation industry. In promoting the industry the Board has limited competition and protected the industry rather than the public. The air transportation industry no longer needs government protection. Therefore, this legislation will diminish the Board's promotional responsibility and emphasize protection of the public interest through maximum reliance on competition.

Section-by-Section Analysis

1. Definition of Charter and Supplemental Air Services. To spur competition and provide consumers with a greater variety of air transportation services, this section removes rigid CAB restrictions on charter and supplemental services. In the future more airlines will be able to offer these services. (Section 3)
2. Policy Statement. The Act revises the CAB's declaration of policy to stress the desirability of competition and de-emphasize its promotional responsibilities. This change is a major step in focusing the Board's attention on protecting consumer interests rather than industry interests. (Section 4)
3. Procedural Improvements. In the past, slow and cumbersome regulatory procedures have tended to protect existing carriers from new competition by restricting entry. The bill proposes procedural changes which will require cases to be heard and decided expeditiously. (Section 5)

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4. Entry. The bill contains several provisions designed to gradually but substantially increase entry. It permits qualified applicants to provide nonstop service between points not already receiving such service from existing carriers. It requires the CAB to eliminate artificial route restrictions on operating certificates thereby permitting carriers to provide better more efficient service. New carriers which meet strict safety and financial standards may also gain entry by acquiring route authority from an existing carrier. Finally, the bill will permit existing carriers some discretion to expand their operations into new markets by between 5-10 percent each year, beginning in 1981. These provisions facilitate a gradual move toward a more competitive marketplace. (Sections 6,7, and 9)
5. Abandonment. The bill makes it easier for carriers to abandon uneconomic routes. Where continuation of air transportation service is in the public interest, Federal, State or local governments may subsidize the service. (Section 8)
6. Transportation of Mail. To facilitate transportation of the mails, airlines are required to publish schedules from which the Postmaster General designates mail flights. Where scheduled service is not available, the Postal Service is authorized to contract for the necessary air transportation services. (Sections 10 and 15)
7. Mergers. The bill provides a new merger standard and set of procedures similar to those applicable to the banking industry. This standard provides for the careful weighing of transportation needs against the anticompetitive effects of a proposed airline merger. (Section 11)
8. Intercarrier Agreements. The bill eliminates anti-trust immunity currently granted to anticompetitive air carrier agreements but permits CAB approval of other agreements which facilitate air transportation. (Sections 12 and 13)
9. Ratemaking. Under provisions of this bill, airlines would be free to raise or lower fares within specified percentage bands. Maximum prices would continue to be subject to CAB review, and the Board would be responsible for preventing predatory, discriminatory, and preferential pricing by the airlines. (Section 14)
10. Subsidy. The bill authorizes a study of the local service subsidy program. Recommendations for improving the current system will be sent to Congress within one year after enactment of the bill. (Section 16)

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OCTOBER 8, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

As part of my program to strengthen the Nation's economy through greater reliance on competition in the marketplace, I announced earlier this year my intention to send to the Congress a comprehensive program for the reform of transportation regulation. In May, I sent to the Congress the Railroad Revitalization Act aimed at rebuilding a healthy, progressive rail system for the Nation. Today, I am pleased to submit the Aviation Act of 1975 which will provide similar improvements in the regulatory environment of our airlines. To complete the package, I will soon forward similar legislation for the reform of regulation governing the motor carrier industry.

The result of the regulatory reform measures proposed in this legislation will have a direct and beneficial impact on the American consumer. Countless Americans use air travel on a regular basis in their jobs and for leisure activities. But for many Americans, air travel has become a luxury too expensive to afford. Part of today's high costs of air transportation are attributable to inflation and the rising cost of fuel and labor. But long years of excessive economic regulation also have added extra costs.

In 1938, when the Congress authorized the creation of the Civil Aeronautics Board, there was a belief that some form of Government intervention was needed to protect the infant airline industry. Accordingly the Board was instructed to regulate this industry to promote its growth and development. Entry into the industry was strictly controlled. Even those airlines allowed entry into the industry were controlled rigorously with respect to the markets they could serve and fares they could charge. Real competition was intentionally dampened.

In the almost four decades since economic regulation of airlines was established, this industry has grown tremendously. It can no longer be called an infant. Consequently, protective Government regulation established to serve the particular needs of a new industry has outlived its original purpose. The rigidly controlled regulatory structure now serves to stifle competition, increase cost to travelers, makes the industry less efficient than it could be and denies large segments of the American public access to lower cost air transportation. In a number of studies, economists estimate the cost of air transportation to American consumers is far higher than necessary as a result of overregulation.

The overriding objective of the proposed legislation is to ensure that we have the most efficient airline system in the world and the American public is provided the best possible service at the lowest possible cost. We must make sure that the industry responds to natural market forces and to consumer demands rather than to artificial constraints of Government. This legislation would replace the present promotional and protectionist regulatory system with one which serves the needs of the public by allowing the naturally competitive nature of the industry to operate. It provides the airline industry increased flexibility to adjust prices to meet market demands. And it will make it substantially easier for firms who wish and are able to provide airline services to do so. These measures will be introduced gradually to permit the industry to adjust to a new regulatory environment. Government will continue to maintain rigid safety and financial standards for the airlines. But the focus of the new regulatory system will be to protect consumer interests, rather than those of the industry.

(MORE)



I urge the Congress to give careful and speedy attention to these measures so the more than 200 million passengers who use our airlines every year are given the benefits of greater competition that will flow from regulatory reform of this industry.

GERALD R. FORD

THE WHITE HOUSE,
October 8, 1975

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