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THE PRESIDENT HAS SEEN...*def*

THE WHITE HOUSE

WASHINGTON

September 9, 1974

MEMORANDUM FOR THE PRESIDENT

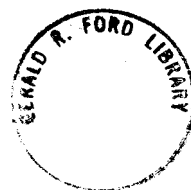
FROM: KENNETH RUSH *K.R.* *BR7*

I held a meeting Friday, September 6, 1974 with Ambassador Eberle of CIEP, Secretary Brinegar, Mr. Seidman, Mr. Ash, Gary Seevers of CEA, Deputy Secretary Ingersoll of State and representatives of Treasury and the Domestic Council to discuss the Pan Am situation.

No decision was reached because certain analysis essential to a final decision is still in process (e.g. Arthur Burns is having his staff check the effects of a Pan Am bankruptcy on the financial markets and the CAB and DOT are waiting for a report from Pan Am which will propose a drastic cost cutting program). After this work is completed we will be in a better position to evaluate the Administration action required and I will hold another meeting next Thursday, September 12 to review the situation.

It did, however, become apparent during the meeting that a complete review of our international aviation policy is necessary and that difficult decisions will need to be taken in the near future to provide for the restructuring necessary to make a private U.S. flag system viable. We will need to make decisions in three main areas:

1. Basic decisions as to what kind of U.S. international flag system we want to see evolve over the next few years. Decision making in this area would focus on such things as (a) whether it is essential that U.S.



flag service be maintained on all points now currently served by U.S. carriers; (b) whether we want to eliminate head-to-head competition among U.S. international carriers and (c) whether we want to consider a single U.S. international flag carrier owned by the domestic carriers (or, alternatively, a system of regional U.S. flag carriers).

2. Decisions with respect to medium term action to preserve the competitive position of our carriers in the present system. Decision making in this area would focus on such questions as (a) whether we should adopt a much tougher line with foreign governments in an effort to reduce excess capacity and (b) whether we would be willing to embark on a program of unilateral capacity control and risk breach of our bilateral air transport agreements.
3. Immediate decisions with respect to Pan Am. Decision making in this area would focus on such questions as (a) whether the Administration would support a subsidy (or other type of more limited financial assistance) to preserve Pan Am while a fundamental restructuring of its system took place; (b) whether the impact on the economy and financial community of Pan Am bankruptcy could be tolerated under present economic conditions; and (c) whether there is a course of action between subsidy and bankruptcy which would preserve Pan Am while at the same time forcing essential restructuring of its system.

Under the general guidance of Ambassador Eberle and Secretary Brinegar, the relevant departments and agencies are intensifying their work in order to reach early decisions in these areas.

