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THE PRESIDENT WAS SEEN *def*

## THE WHITE HOUSE

WASHINGTON

September 19, 1974

INFORMATION

MEMORANDUM FOR THE PRESIDENT  
FROM: KEN COLE *EC*  
SUBJECT: PAN AM *MMH*

Current Situation

Your decision to seek a private sector solution to the Pan Am financial crisis without federal subsidy at this time, received generally favorable press. (See Tab A) However, a story in yesterday's New York Times, based on "leaked" information and speculation, broke this story in a negative fashion.

There has been significant progress since your decision became known. Pan Am and TWA have a joint "merger team" and discussions are underway. Their creditors have met with Secretary Brinegar and at least one major bank - First National City Bank - has indicated that it may provide some interim financing. A joint creditors team has moved into Pan Am to develop a plan. Importantly, the Pan Am management is facing up to the realities of the problem and is developing serious plans to shed uneconomical operations.

The CAB formally denied the Pan Am request for interim subsidy and ordered an investigation of their long-term subsidy request and will look into the efficiency of the Pan Am management.

Action Underway

1. We are trying to correct any public impression that your Administration is not compassionate to the problems of Pan Am and its employees. For example:
  - Secretary Brinegar will hold a press conference tomorrow in Los Angeles (he is there for the Transportation Economic Pre-Summit) and stress this point.

- The Press Office and Administration spokesmen are stressing your desire for a private sector solution and your concern for the Pan Am employees.
  - Brinegar, Bill Eberle and other Administration officials have told airline and financial leaders that we will actively seek to remove government regulation and other roadblocks which prevent a private sector solution.
2. We are preparing for possible use procedural legislation to give you special powers to approve quickly a series of actions such as merger, sale of routes, restructuring, etc. Under Secretary John Barnum (DOT) has met with Pan Am officials tonight on this subject. Pan Am does not desire legislation if they decide only to merge with TWA. Discussions on possible legislation will be held tomorrow and over the weekend with the creditors and other interested parties. It is essential that we try to get general agreement by the airlines and creditors on a plan to restructure Pan Am before the legislation, if required, is submitted. The proposed bill should be narrowly drawn to fit the precise plan in order to minimize:
- objections by the domestic carriers which are inevitable if we seek broad authority to override CAB procedures and authority; and
  - attempts to attach a labor-protection provision to the bill, such as happened to the Amtrak legislation, which would virtually eliminate any chance of a successful merger.
3. The other action steps in the DOT plan are being pushed vigorously. (See Tab B for DOT's action plan. Other agencies have additional proposals.)
- Concerning our attempts to reduce excess capacity, State Department has just concluded negotiations with the British to reduce capacity on the North Atlantic by 20%. This will be announced tomorrow and Bob Ingersoll may brief the Press to underscore that this is another step in your overall plan to help the U.S. flag carriers.
  - The CAB has a proceeding underway to increase mail rates. Hearings have not begun and normally this is a very long process involving conferences between the Postal Service and the airlines, followed by Board action. We are supporting rate increase to reflect actual costs plus reasonable profit.

Pan Am wants legislation requiring the Postal Service to pay the Universal Postal Union (UPU) rate which is what the foreign carriers get. Foreign governments pay our flag carriers this rate and in FY '73, payments by the U.S. to foreign carriers amounted to only \$2.5 million, but foreign governments paid our carriers (mainly Pan Am) \$7.3 million. Total mail payment by the U.S. to our carriers was over \$111 million.

We are pushing hard for a realistic increase in the CAB mail rate which includes a surcharge to cover fuel cost increases. We currently oppose the UPU rate because it is an indirect subsidy -- way above actual cost plus reasonable profit.

Tomorrow DOT and CIEP staffs are meeting with Pan Am officials to discuss the mail rate question. They will consider:

- seeking to pressure CAB and Postal Service into agreeing quickly on a compensatory rate.
- seeking an immediate CAB mail rate surcharge to cover fuel price increases.
- making the new rate retroactive to March 1974 (when Pan Am filed) which would give Pan Am \$10 million for 1974 and \$12 million this year.
- special legislation to permit a quick resolution of the compensatory mail rate issue.

4. Concerning our Fly U.S. Flag carriers, Secretary Dent will hold a press conference early next week to urge travel agents and travelers to cooperate.

We will push hard on Pan Am, the other carriers and creditors to develop their plan. This will enable us to draft procedural legislation for use if necessary.

Secretary Brinegar has the lead and is working closely with Bill Eberle and my staff.