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THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

INFORMATION

September 16, 1976

gmc

MEMORANDUM FOR THE PRESIDENT

FROM: EDWARD SCHMULTS *ES*

SUBJECT: DOT Aircraft Noise and
Related Financing Proposal

At our meeting on Saturday I expressed some optimism for the passage of aviation reform legislation. My statement was based on the information set forth in the attached memorandum entitled "Prospects for Aviation Regulatory Reform."

Attachment

cc: Jack Marsh
Jim Cannon
Alan Greenspan

Prospects for Aviation Regulatory Reform

On October 8, 1975, the President sent to Congress the Aviation Act of 1975 which proposes fundamental changes in regulations governing our nation's airlines. Since that time, support for reform has grown significantly and at present, prospects for enactment of significant reform in this area appear good in the next session.

Evidence in Support of this Assertion

- The need for reform was substantiated in a lengthy report by the Senate Judiciary Subcommittee on Administrative Practices and Procedures. At Senator Kennedy's instigation, this committee held extensive hearings on CAB regulation and concluded in February of this year that current regulation no longer serves its intended purposes but rather acts to suppress the growth and economic health of the airline industry and causes consumers to be given less service at higher prices than would be the case absent rigid Federal controls.

- On April 8, 1976, Chairman Robson of the Civil Aeronautics Board testified before the Senate Committee on Commerce, Subcommittee on Aviation, that there is a substantial need to redirect existing economic regulation of airlines to increase reliance on competitive market forces rather than government controls to provide efficient, low-cost air transportation to consumers. The Board subsequently submitted legislation that would significantly revise their statutory mandate to delete their promotional responsibility and require consideration of the effect of the Board's actions on competition.

- On May 3, 1976, Senator Kennedy introduced his own legislation that calls for a greater degree of "deregulation" than was called for in the Administration's proposal.

- The Senate and House Aviation Subcommittees have held a combined total of 29 days of hearings on airline regulation and the Subcommittee Chairmen have both acknowledged the need for reform:

- . In June, Senator Cannon, in a speech to the Aero-club agreed with would-be reformers that more competition was needed in the industry and announced that he would be introducing legislation to encourage competition, to provide the airlines new fare flexibility and to expedite regulatory proceedings of the CAB. Introduction of that legislation is expected within the next three weeks.

- . Also in June, Chairman Glenn Anderson of the House Aviation Subcommittee and Gene Snyder, the Ranking Minority Member, introduced legislation which would provide carriers with considerable pricing and entry flexibility and encourage healthy competition. This bill addresses most of the major reform measures sought by the Administration.
- There is widespread agreement even among the airlines that some reform is necessary and desirable. Points on which most interested parties agree:
- . The need to revise the Aviation Policy Declaration in the Federal Aviation Act to stress the need for competition.
 - . The need to provide the airlines with greater pricing flexibility.
 - . The need to clarify or formalize in legislation recent Board decisions or statements, e.g., charter policies, the ability of carriers to operate as both a scheduled and a supplemental airline simultaneously, etc.
- The financial community's position on regulatory reform is divided on the future profitability of the airlines given reform. Although initially there was unanimous opposition to reform, now Saloman Bros., H. C. Wainwright & Co., and others have indicated that reform along the lines of the Aviation Act "would be a positive development".
- The need for regulatory reform and the Administration's efforts to encourage Congressional action have received major news treatment or highly favorable editorial press coverage in the Washington Post, the New York Times, Wall Street Journal, Chicago Tribune, National Journal, Christian Science Monitor, the Miami News and the Journal of Commerce, to name a few.