

September 18, 2001

MEMORANDUM

TO: Members, Transportation and Infrastructure Committee

FROM: Don Young, Chairman

SUBJECT: Full Committee hearing on September 19th at 11:00 a.m. focusing on H.R. 2891 and the financial condition of the airline industry, room 2167 Rayburn.

PURPOSE

The purpose of this open hearing is to receive testimony on H.R. 2891 and other possible legislation to preserve the continued viability of the United States air transportation system, and to receive testimony on the financial condition of the airline industry in light of the tragic events of September 11, 2001.

BACKGROUND

There is serious concern that, without immediate and significant U.S. government financial support, many U.S. airlines may go bankrupt as a result of the September 11th attacks. Airlines say that the industry lost about \$330 million a day for each day that their flights were grounded. They expect to lose about \$24 billion in the next year. Several airline industry analysts will be testifying at the hearing on this issue.

Airlines also say that, on August 31, 2001, their aggregate industry cash balance was \$9 billion. They believe it will be a negative \$1.1 billion by November.

Based on the experience of the Pan Am 103 bombing and the Persian Gulf War and factoring in the severity and systemic nature of the September 11th attack, U.S. airlines are forecasting the following declines in airline revenue:

2001

September	60%
4 th Quarter	40%

2002

1 st Quarter	25%
2 nd Quarter	15%

As a result of this reduced demand for air travel, U.S. air carriers have already taken steps to reduce flight schedules, and are expected to announce the layoff of over 100,000 employees.

Continental Airlines announced Saturday that it will reduce its long-term flight schedule by approximately 20 percent on a system-wide basis, and will furlough approximately 12,000 employees in connection with this reduction.

Also, Northwest Airlines announced that it will reduce its system-wide flight schedule by 20 percent as measured on an available seat mile basis. The airline expects to begin schedule reductions immediately and have the new schedule fully implemented by October 1. In light of the schedule reduction, Northwest is reviewing its overall staffing and other resource needs. The airline will complete this review next week.

American Airlines, United, and Delta have also announced that they will reduce flight service by 20 percent. With these announcements, all of the nation's top five airlines have now disclosed that they are planning cutbacks.

H.R. 2891

To address the airlines' financial problems, last Friday night Chairman Young and Ranking Member Oberstar sought unanimous consent to bring up H.R. 2891 for immediate consideration. The bill offers relief to the airline industry by authorizing the President to delay quarterly tax payments, issue loans or loan guarantees up to \$12.5 billion, and compensate the airlines for losses up to \$2.5 billion.

The unanimous consent request was denied, so the bill could not be considered Friday night. The bill, and the underlying economic conditions facing the air carriers, will be the focus of the hearing on Wednesday.

AIRLINE PROPOSAL FOR EMERGENCY STABILIZATION PACKAGE

Airlines are working on an emergency stabilization package that they plan to submit to Congress this week. We understand that the industry will suggest a package of cash grants and other measures totaling \$24 billion, which is their estimate of the revenue declines and cost increases that the U.S. airline industry will experience as a result of the September 11th attack. The \$24 billion would be derived as follows:

- Provide an immediate cash infusion of \$5.0 billion to compensate the industry for revenue losses and cost increases stemming from the terrorist attack on the United States. (\$5.0 billion)
- During the period of September 1, 2001, through August 31, 2002, allow U.S. airlines to retain all ticket and cargo waybill taxes. (\$7.0 billion)
- Repeal the 4.4-cent per gallon federal tax on jet fuel for the period September 1, 2001, through August 31, 2002. (\$0.8 billion)
- Provide government grants, loan guarantees, or other government-backed instruments. (\$11.2 billion)

The airlines are expected to recommend that such cash infusions, grants, guarantees, or other instruments would be provided to the airlines proportionately according to each airline's available seat miles as of August 2001.

The airlines are also expected to propose legislation in three areas: aviation security, antitrust immunity, and liability protection.

Regarding aviation security, the airlines are expected to propose that the Federal Government: (1) provide financial support for all mandated safety requirements, including reinforcement of cockpit doors and enhancement of screening devices; (2) take over all security screening functions; and (3) provide Sky Marshals on domestic flights.

Regarding antitrust immunity, the airlines are expected to propose that legislation be enacted granting antitrust immunity to airlines certificated in the U.S. to meet and agree on reductions of the aircraft they will fly, routes to be served, and the frequency of service on specific routes, to allow the industry to adjust capacity in an orderly fashion to the new demand conditions created by the September 11th attacks. Under this proposal, airlines would not be permitted to discuss pricing, but they would be authorized to exchange such financial, revenue, and passenger data as is reasonably necessary to implement these agreements. All such meetings would be conducted under the supervision of the Secretary of Transportation and the Attorney General of the United States.

Regarding liability protection, the airlines are expected to propose that legislation be enacted to exempt the airlines' from liability for damage to persons and property on the ground. This proposal would not affect any existing rights of proper parties to bring claims against the airlines for all compensatory and punitive damages for the experiences and deaths of the airlines' passengers and crews.

INSURANCE

Although this is not included in the airlines' proposal, there has been some discussion that the Federal Government should become involved in insuring domestic flights against acts of terrorism.

Air carriers currently have insurance coverage for loss or damage due to a terrorist action. However, such coverage can be revoked with seven days notice. Aviation insurers located in London have reportedly already sent out letters of cancellation to the air carriers whom they insure. All other aviation insurers, most of whom are located in the U.S., are expected to send out letters of cancellation shortly. These letters of cancellation will start the 7-day cancellation notification period.

At the end of this notification period, the insurers will presumably offer insurance at new terms and prices. However, the new terms are expected to cover only damage and liability for the aircraft and the passengers on-board the aircraft, not collateral damage to persons and buildings on the ground. Insurance for collateral damage will reportedly no longer be offered at any price.

Currently, airlines pay insurance premiums equal to 5 cents per passenger per flight. It is our understanding that this is likely to increase to \$1.25 per passenger per flight under the new terms.

EFFECT ON AIRPORT AND AIRWAY TRUST FUND

Any suspension of the aviation excise taxes will have an effect on the Airport and Airway Trust Fund, which is the source of funding for the Airport Improvement Program (AIP), the FAA's capital and research programs, and a large portion of the FAA's Operations budget. It is difficult to estimate the effect on the Trust Fund, because revenue from aviation taxes will depend on passenger traffic and airline ticket prices, both of which are highly uncertain in light of the September 11th attacks.

Under the funding provisions of the Aviation Investment and Reform Act for the 21st Century (AIR 21), a total of \$12.2 billion should be spent from the Trust Fund in Fiscal Year 2002. Under a worst-case scenario in which no aviation taxes are collected during Fiscal Year 2002, the uncommitted balance as of the beginning of FY 2002 (which is approximately \$8 billion) would be the maximum amount that could be spent from the Trust Fund. This balance is sufficient to cover the AIR 21 guaranteed funding levels for AIP (\$3.3 billion) and the FAA capital program (\$2.914 billion), but would fall short of the overall \$12.2 billion that AIR 21, and both the House- and Senate-passed Transportation Appropriations bills, propose to spend from the Trust Fund in FY 2002.

WITNESSES

Witnesses will include airline representatives, airline industry analysts, and labor union representatives.