

FINANCIAL STATE OF THE AIRLINE INDUSTRY

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

SEPTEMBER 20, 2001

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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FINANCIAL STATE OF THE AIRLINE INDUSTRY

THURSDAY, SEPTEMBER 20, 2001

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 2 p.m. in room SR-253, Russell Senate Office Building, Hon. Ernest F. Hollings, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM SOUTH CAROLINA

The CHAIRMAN. The Committee will please come to order. Again, almost as important as safety, is the sustenance and continuation of airline service.

It strikes me that with the attacks both in Manhattan and here in Washington, that we as a Congress or Committee are going to have to decide up front that we are going to have to save the airlines, and once that decision is made, we have got to have a cutoff point of some kind. If you do it in a halfway approach, it strikes me that we will just get into a limbo year-in and year-out, where we have got to do this to save the airlines industry. Let us make the formative decision up front, put in a cutoff point, put in what is necessary, and then let us see if they can compete.

Having said that, let me yield to our distinguished senior Ranking Member.

STATEMENT OF HON JOHN McCAIN, U.S. SENATOR FROM ARIZONA

Senator McCAIN. Thank you, Mr. Chairman.

There has been some criticism about moving so quickly to consider a bail-out of the airline industry. I think we must move quickly. I wish we had more time. I wish we had several weeks to contemplate and get all of the facts and numbers.

I think there are several things we know. One is that the aviation sector was already in financial difficulties before last week's acts of terrorism, and I think that is an important point, Mr. Chairman. The airline industry does cycle with the economy, and with a poor economy the airline industry was in some significant difficulty before.

The fact is, now we have got thousands of layoffs, U.S. Airways with 11,000, Northwest with 2,000, Continental 12,000, American 20,000, United 20,000, Boeing now 30,000 layoffs. I think we need to act, and I think we need to act quickly. I hope that we will have

plenty of time, however, in our haste to determine exactly what the best package is.

I am not sure we would want to go back at this again and again and again, so I hope that the testimony today will help us fill in whatever information gaps we have.

Mr. Walker, we are glad that you are here to give us your objective assessment, and I must say again I know of no Member of Congress that does not want to help the aviation industry, but we do have an obligation to the taxpayers as well, and we also have the very thorny issue of liability, and I hope Mr. Walker will discuss that as well as our other witnesses.

I thank you, Mr. Chairman, for scheduling these hearings. I thank you for your leadership, and I thank you for your deep involvement in this very difficult and important issue to the American people.

The CHAIRMAN. Well, thank you, sir.

**STATEMENT OF HON. DANIEL K. INOUE,
U.S. SENATOR FROM HAWAII**

Senator INOUE. Thank you very much, Mr. Chairman. Our Nation's air carriers are the backbone of our economy. I believe all of us would agree with that. Much of our economy depends upon the existence of a healthy air transportation system, and I believe that we must provide financial stimulus to the airline industry, as Senator McCain has indicated, right away, expeditiously.

The package that has been proposed should give carriers and airport authorities the tools to maximize their flexibility, to respond to the business landscape that has changed dramatically since September 11. These tools include an early draw on antitrust exemptions as well as broader definition of airport uses that could be funded through the airport trust fund.

We expect carriers to utilize any resources approved by the Congress responsibly and for the good of the Nation. While today we are here to focus on the financial state of the aviation industry, I would like to take this opportunity to discuss the current state of those industries which depend upon the airline and aviation industry.

As an island State, reliable, safe, efficient, and affordable air transportation services are of far greater importance to Hawaii and its people than to the people of the 48 contiguous States. According to Government statistics, Hawaii relies on airlines for nearly 99 percent of its passenger travel. In Hawaii, air service is the only means of transporting people and goods from one island to another quickly and efficiently. It affects the cost of living and the quality of life of each and every one of our residents, whether they fly or not.

Hawaii residents have benefited over the years from the substantial number of visitors to and from our islands. However, the unprecedented events of September 11 threaten to critically change the state of affairs. Airline bookings to Hawaii have declined precipitously, as visitors are choosing to stay away from Hawaii. The State of Hawaii is bracing for a 44-percent decline in visitor arrivals for the month of September, and a \$1 billion decline in visitor expenditures for the next 3½ months.

In addition, the duty-free shops, which generate significant revenues for Hawaii's airports, are predicting an 80-percent drop in business. You may be interested to know, Mr. Chairman, that prior to September 11, an average of 5,000 visitors from Japan arrived in Hawaii daily. These visitors spend more per capita than any other visitor group. Since September 11, the Japanese carriers have been regularly sending nearly empty airplanes to pick up the Japanese visitors and return them home.

For example, just a couple of days ago, eight 747's from Japan arrived in Hawaii with an average of 36 passengers per plane. All the eight 747's returned to Japan filled to capacity.

Mr. Chairman, I look forward to hearing the testimony today on these important issues, and working with my colleagues toward a resolution that will maintain the viability of the United States airline industry, and the industry that depends upon it, and Mr. Chairman, I request that copies of a letter from our Governor, Benjamin Kayatano, and the mayor of the city and county of Honolulu, Jeremy Harris, be included in the hearing record.

The CHAIRMAN. They will be included.

[The information referred to follows:]

EXECUTIVE CHAMBERS
Honolulu HI, September 19, 2001

Hon. ERNEST F. HOLLINGS,
Chairman,
Committee on Commerce, Science, and Transportation,
Washington DC.

Dear Senator Hollings and Members of the U.S. Senate:

We in Hawaii join with our nation in extending our deepest sympathies to those who have suffered as a result of the tragic events of September 11, 2001.

The terrorist incidents have left few lives untouched, and the damage continues to take on new visages with each passing day. Of vital concern to our state and many others at this time is the devastating impact these events could have on the air carrier industry, and all that depends upon it.

The state of Hawaii, isolated in the middle of the Pacific Ocean, more than 2,000 miles from its nearest mainland neighbor, finds itself in a unique and unenviable situation.

As an island state, Hawaii relies on the airlines for nearly 99 percent of its passenger travel. The only other alternative mode of travel to Hawaii is by ship. Unlike the other 49 American states, Hawaii has no railroad or truck systems. As a result, the airlines are literally Hawaii's lifelines to the rest of the world.

Tourism dominates Hawaii's economy. A weakened air carrier industry would have a devastating impact on our tourism industry, economy and quality of life.

We are aware of Congress's intent to enact emergency relief to assist America's ailing air carriers industry through these difficult times. We join our sister states in supporting this effort.

In granting this relief, we urge that an assistance package be devised that is equitable. Not only must we ensure the strength and viability of the major carriers, but also the regional carriers so vital to our community.

In addition to financial assistance, we also ask for your consideration in temporarily easing anti-trust restrictions. These regional carriers must work together in certain areas, such as flight scheduling, in order to assure their virtual survival.

Hawaii is counting on your leadership and support in pulling our vital air transportation industry through this time of crisis. With your help, our air carrier industry can emerge strong and able to serve Hawaii and our nation long into the future.

With warmest personal regards, Aloha,

BENJAMIN J. CAYETANO
Office of the Mayor, Honolulu

OFFICE OF THE MAYOR
Honolulu HI, September 19, 2001

Hon. DANIEL K. INOUE,
Committee on Commerce, Science, and Transportation,
Washington DC.

RE: AIRLINE STABILIZATION INITIATIVES

Dear Senator Inouye:

I am writing for your support of the proposed initiatives to stabilize the U.S. airline industry that has been, severely affected by terrorist attacks on the United States. The U.S. commercial airline transportation system is vital to the economic health of the State of Hawaii the City and County of Honolulu and to the well being of the State's tourist industry.

Tourism is the mainstay of Hawaii's economy. In 2000, Hawaii's \$10.9 billion tourism and travel industry accounted for 27.9 percent of the State's economy and generated 181,050 tourism jobs or 32 percent of all jobs in the State. The center of the State's tourism industry is Waikiki, Honolulu. Honolulu represents 51 percent of all hotel rooms in the State and generates 71 percent of all international visitor days and 41 percent of all domestic visitor days in the State.

As experienced during the Gulf War, the economy of the State would be severely crippled without a viable tourism industry. Hawaii could see an increase in bankruptcies, unemployment and loan defaults. Thus, the proposed initiatives to stability the U.S. airline industry are critical to the viability of Hawaii's economy and its tourism industry.

The proposed initiatives include a package of grants and other tax relief measures amounting to \$24 billion to preserve the airline industry, as follows:

- \$5 billion to recover revenue losses from the total shut down of the commercial air transportation system
- \$7 billion to offset further revenue losses until August 31, 2002
- \$.8 billion by repealing the 4.4 cent federal fuel tax through August 31, 2002
- \$11.2 billion in the form of government grants, rebates and loan guarantees to provide additional liquidity

Attached is a summary of the proposed initiatives to support the airline industry.

Hawaii's tourism industry is dependent upon having adequate airlift or seat capacity from its major tourism markets. In fact, one of the Hawaii Tourism Authority's (HTA) strategic initiatives has been to increase scheduled air seats to Hawaii, following several years of decline. As shown in the following table, HTA has been able to increase scheduled air seat capacity to Hawaii by 73 percent over the past three years:

Hawaii Schedule Air Seat Capacity 1998–2000

Year	Schedule Air Seats	Change (percent)
1998	8,789,685	
1999	8,704,503	
2000	9,334,000 (E)	7.3

Source: Hawaii Tourist Authority and DBEDT.

Hawaii's tourism and travel industry is dependent on having adequate air access to its major visitor markets, such as Los Angeles, San Francisco, Seattle, Chicago, Dallas, Atlanta and New York in mainland United States and Tokyo, Osaka, Seoul, and other cities in Asia. To stimulate travel, we can implement aggressive promotional programs, underwrite visitor activities and cultural events, reduce prices and provide tax incentives to the visitor industry. However, without adequate air seat capacity, visitors interested in traveling here will not be able to secure air seats to Hawaii.

In supporting the proposed initiatives to stabilize the airline industry, I am also asking you to require the U.S. airlines to maintain their level of air service as provided prior to the terrorist attacks on September 11, 2001. Hawaii's economy, particularly its 668 hotels and 71,506 visitor units, cannot afford to have a reduction

in air seat capacity. Thus, any financial support to the U.S. airline industry should include a provision to maintain the past level of air service to Hawaii from its major visitor markets.

Thank you for your support in maintaining the viability of the U.S. airline industry and the economy of the State of Hawaii.

Sincerely,

JEREMY HARRIS,
Mayor

The CHAIRMAN. Senator Burns.

**STATEMENT OF HON. CONRAD BURNS,
U.S. SENATOR FROM MONTANA**

Senator BURNS. Thank you very much, Mr. Chairman. Thank you for holding this hearing. It seems like we have been talking about airplanes all day long. The airline industry has always been a fragile industry, even from the get-go, and now, at a time when we have had this disaster of 9/11, we are finding, we are hearing load factors as low as 25 percent whenever a 90-percent load factor is required to even break even, and therein lies the problem.

And also another problem that faces us, they have the infrastructure that is necessary to keep this society mobile. In other words, if you want to look at all the spin-offs, they are a necessary part of our transportation makeup that enables this country to be mobile and to do a high volume of business, both domestically and, of course, internationally, and so I think how we approach this is going to be very, very important to every segment, every economic segment of the American scene, so I am looking forward to hearing the testimony today. We know how important this is, and we also know that we will have a role to play, and identifying that role will be a very serious decision.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hutchison.

**STATEMENT OF HON. KAY BAILEY HUTCHISON,
U.S. SENATOR FROM TEXAS**

Senator HUTCHISON. Thank you, Mr. Chairman for holding separate hearings on the security issue and on this financial issue, because I think they are both very, very important. I think this Committee has such a key role to play in assuring that our airline and airport security is beefed up, but also that the financial security of our aviation industry is supported.

Almost 100,000 people have been laid off in the aviation industry, or the announcements have been made that they will be laid off. Clearly, we need to take action that would shore up this major industry, not just because it is one industry that is important, but because it has such ramifications throughout the economy. If the aviation industry cratered, the terrorists would have won, and we will not allow that to happen.

I think we need the expertise today that this hearing will address. I think we are going to have 100 percent support for shoring up our economy and assuring that our system of commerce is protected, but how we do it is very important for now and for the future.

I would like to ask the witnesses to especially address the liability issue so that everyone can understand the importance of this

issue, and I would hope, when we address liability, that we do not just address September 11. For the future I think we need to have a policy in this country, just as we would with a declaration of war, with a terrorist act, and what the responsibilities would be.

Lastly, Mr. Chairman, I would just say that a strong economy is going to help us with the added military commitments that we are going to need in the coming months, and possibly years, to really do justice to the problem that we face with terrorism. We are going to be in this for the long haul if we are going to eradicate terrorism from freedom-loving people in the world, and a strong economy is going to be necessary for us to finance and have the capability to do the added military operations that we will need.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator ROCKEFELLER.

**STATEMENT OF HON. JOHN D. ROCKEFELLER IV,
U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. Thank you, Mr. Chairman, and I am not looking at the airline executives now, Mr. Walker, but I am in a sense talking to them. This is about how, in fact, we can be helpful, and what is appropriate and what is necessary, and also the matter of doing it with some degree of completeness.

This is not, in my judgment, a bail-out we are talking about. This is a picking out of a particular American industry which has overwhelming economic implications not only for itself, but for aerospace, defense, and a ripple effect that is beyond imagination. Obviously the first consideration, is the safety of our passengers, and therefore the viability of our airlines financially is critical so that our passengers can have a plane to fly on, and to be safe on.

The airline executives need to understand that even as I was walking back from the hearing this morning, examples were piling up of people who were coming in here and saying, well, we need relief, we are important, too. It was mentioned this morning, there was a small dialog on it, in my State the question of steel is overwhelming, but I will tell you that the reason that I was really happy about coming to the Aviation Subcommittee with Senator Hutchison is that I know full well that my State of West Virginia has no economic future without proper airline service, and I also know full well that if there is drastically curtailed airline service, that the very first State, or one of the first States that is going to pay the price of that curtailment is going to be a State like West Virginia, in other words, the so-called end of the food chain syndrome.

Chicago, other places, may do better. We will not. We will be the first to be canceled, the first to be delayed, and already, today, 44 of our airline's workers, who work with airlines in our airports have been threatened with getting cut off. So, competition, being able to compete, a relatively poor state, difficult topography, airports on top of mountains, all of that makes it a very personal matter for me, but we also talk for the country, as we have to and need to here.

I do think, as I said this morning, that the people have taken aviation for granted. We have taken aviation for granted. We had

a hard enough time dealing with air traffic control and runway questions, much less questions of trying to shorten the amount of time that is allowed for air runways to be started. I am not a CEO, but I do know that airlines are companies, and that if airlines do not have revenues, they cannot operate, and if they do not have passengers, they do not have revenues.

So this extraordinarily potential downward spiral, the beginnings of which we are seeing right now, is a matter of the gravest national concern and national security. People have said, well, 55 percent of our flights were filled in this past week. Those were people returning home. It has nothing to do with what is the prospect for the ability of the American people to get back on airplanes, and their willingness to do so. That we will know much more about by the end of this coming week.

So if your stock value, if the worth of the value of your company drops by 40 percent, or 50 percent, the implications are overwhelming to every single American citizen, so this is a classic and important American problem, and a very, very important Commerce Committee hearing. The financial viability and future of the American airline industry. People are projecting load losses of 60 percent, 40 percent, 20 percent, depending upon which year you are talking about.

How do the American people come back to all of this? We discussed part of that this morning. Part of it will be what is available, and I will have a series of questions to ask at the proper time, but this is—people say, well, safety is what affects people. Well, airline financial viability affects them in every way, too, because if there are not airplanes to fly, or they are not sufficiently financially strong to maintain, then the country suffers grievously.

So I welcome this hearing, and I thank the chairman.

The CHAIRMAN. Senator Cleland.

**STATEMENT OF HON. MAX CLELAND,
U.S. SENATOR FROM GEORGIA**

Senator CLELAND. Thank you very much, Mr. Chairman. The events of September 11 were actually totally cataclysmic for this country. There will be more casualties than Pearl Harbor. Hundreds of thousands more lives were altered forever, lives of husbands and wives and mothers and fathers and sisters and brothers, and children left without a loved one. The cost of the human toll is incalculable.

There is also an economic cost, Mr. Chairman. The events of this day, September 11, have resulted in an economic ripple that threatens to severely damage key industries vital to America, among them the airline industry, aircraft manufacturing, travel and tourism, all of which critically affect the economic health of the United States. The airlines plan to lay off thousands of employees, and Boeing has announced it will lay off one-third of its work force. Incredible.

I saw a Continental pilot who came up to me the other day with tears in his eyes expressing his concern for the industry. I was in Atlanta just this past weekend, meeting with officials, and airlines must have a 60 to 65 percent planeload capacity filled even just to break even.

Yesterday, a Delta shuttle from Dulles to New York carried five people. We cannot continue to see this happen. These are industries critical to my home State of Georgia. The total economic impact on Hartsfield in the State of Georgia is almost \$17 billion a year. Delta's impact on the State of Georgia alone is in excess of \$10 billion annually, 5 percent of the total gross State product.

I am not advocating a blank check for the airlines, and I believe they have got to provide us certainly with concrete information outlining their specific needs. Based upon this data, though, I am confident that the Congress, the administration, and the industry and other affected groups will be able to reach agreement on the appropriate level and type of assistance needed at this difficult time.

Everyone seems to be tied into the airline industry, particularly in Georgia, particularly Metro Atlanta. I notice that even some company called Adventures Aloft, a hot-air balloon touring company in Lawrenceville, Georgia, is feeling the effect, so we are all impacted, but any Government aid will only be a stop-gap measure until the American public's faith in air travel is restored. I think this is the key.

Only when the American public regains its feeling of safety will the airlines experience real economic recovery. To that end, I support rapidly instituting some form of federal sky marshals on domestic flights. I further believe the security screening on airports should be uniform throughout the country, with qualified, trained, dedicated federal personnel staffing those posts.

Before September 11, we had a viable airline industry operating within an economy which, with all its temporary problems, was still the world's strongest. Indeed, that very economic strength is part of the reason this country was attacked. However, if the airline industry does not receive some stabilization from Congress, the American economy will be held back, transportation choices of the American people will be limited, and we will be in trouble.

According to a letter sent to Treasury Secretary O'Neill by Morgan Stanley, the major U.S. credit rating agencies have downgraded the debt securities of U.S. carriers dramatically and have signaled that there are likely to be more down-gradings. Short-term credit markets suggest that unsecured airline debt would cost 15 to 20 percent if available in any meaningful size.

Investors are nervously awaiting, Morgan Stanley continues, word on whether the industry will be able to secure both additional liquidity from the U.S. Government, and relief from what will surely be bankruptcy-inducing liability claims against carriers for collateral damage and loss of life caused by the tragic events of September 11.

Mr. Chairman, Congress has a national security obligation to help these industries to stabilize, and I will support efforts to do so.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Edwards.

**STATEMENT OF HON. JOHN EDWARDS,
U.S. SENATOR FROM NORTH CAROLINA**

Senator EDWARDS. Thank you, Mr. Chairman. I will be very brief. I just spoke yesterday, or the day before I guess now, with

Steve Wolf, Chairman of U.S. Air, who has over 11,000 employees in my state of North Carolina. It seems to me that the airline industry has two issues to address.

First, the short-term losses which I see described on the chart the first witness talked about, are very serious losses and losses we need to address very quickly. There is also the very serious issue of long-term stability, and I hope we use this opportunity to have some vision about addressing that issue.

Senator Hutchison mentioned the potential issue of liability. I think there is a way to make sure that the people who were the innocent victims of this terrorist attack are supported, embraced and taken care of, while at the same time making sure that the airlines have the sort of predictability and long-term security that they need, and I am sure that during the course of this hearing, we will talk about both short-term cash-flow issues and the issue of long-term stability. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Wyden.

**STATEMENT OF HON. RON WYDEN,
U.S. SENATOR FROM OREGON**

Senator WYDEN. Thank you, Mr. Chairman. I would just make two points.

First, knowing that the Committee was going to hold this meeting this afternoon, my phone has been ringing off the hook with people saying my workers and my companies have been clobbered too, and I would just hope that we would keep that in mind as we go forward with this discussion.

I happen to think that what we should be trying to do is structure a process that really goes in several stages. First, to get some immediate help to deal with the crisis, and second, to be able to evaluate later down the road whether additional relief and what types of additional relief ought to follow if it is needed and again, I look forward to working with our colleagues.

The CHAIRMAN. Thank you. Senator Breaux.

**STATEMENT OF HON. JOHN B. BREAUX,
U.S. SENATOR FROM LOUISIANA**

Senator BREAUX. Thank you, Mr. Chairman, once again for having a very timely hearing. I was thinking the other day right after the tragedy in New York and at the Pentagon, when we in the Congress gathered together in a very strong bipartisan fashion and immediately appropriated \$40 billion, I was struck by that and how fortunate it is that we live in a country that can do that. Most countries had they suffered what we suffered on September 11, could not come close to appropriating \$40 billion within a matter of hours to address this particular crisis. It shows you the strength of this country.

And the history of this country has always been that when industries and individuals are hurting because of circumstances beyond their control, we help. And if you look over our history, whether you are talking about New York City, whether you are talking about a Chrysler Corporation or a Lockheed Corporation, as well as in times of crisis throughout the world, we have been able to help, and this has been done very wisely and I think very effec-

tively. The question here is not just throwing money up in the air and hope it falls down where it will actually help somebody.

The question is for us to carefully craft an assistance program that helps one of the most important industries that this country has, and that's the airline industry. I think it is important to distinguish their conditions after September 11 and prior to September 11. These are distinct and very different problems, some that were caused by conditions beyond their control and some caused by the government's action in closing airports and air space, and some caused prior to September 11 by bad economic and management decisions by the various companies.

So how you strike that balance between pre-September 11 with post-September 11 is indeed a challenge when considering the concept of all the tools we have, grants, loans, tax subsidies, and I do not think we ought to settle on one, but we ought to give the aviation industry the authority and the tools that they need.

I would suggest that perhaps we need some type of an oversight board to make sure that this concept really is followed from the beginning to the end with people who know how these programs should be run, and must be run. I am very supportive of the concept and want to help in any way that we can.

The CHAIRMAN. Senator Allen.

**STATEMENT OF HON. GEORGE ALLEN,
U.S. SENATOR FROM VIRGINIA**

Senator ALLEN. Thank you, Mr. Chairman. I think this day of hearings in this Committee addresses the most important issues as we go forward as a Congress after this disaster. Some of the details we will be trying to figure out and discern, we will probably never find out as far as this war on terrorism.

But the issues of aviation affect people in their everyday life. They are accustomed to air travel. Some would like to be more accustomed to it in rural areas such as West Virginia and some places in Virginia and other states.

The purpose of this hearing, though, is to discuss matters of aviation, air travel and our airlines, which are so vital for our commerce, for our security as a nation, as well as for our way of life.

Senator Wyden mentioned a standard. Yes, you do have to have a standard. You have to have some criteria by which you determine whether the taxpayers and the government are going to provide loan guarantees or bridge loans, or any of the other sort of federal assistance. Clearly a standard has been met as far as the airline industry in that they were the only ones who were grounded and told to stop operating, which was a wise decision by Secretary Mineta. Thankfully he acted as quickly as he did. Clearly there were expenses to the airlines whether it is salaries or any of the other costs, who were all operating with no revenue.

So I am not going to take any more time other than to thank you, Mr. Chairman, and also Senator McCain. I look forward to finding a logical way to compensate the airlines for the lost revenues from the actual event and from the lost revenues thereafter, and to determine what we can do to rebuild a good competitive aviation air travel system in this country. This system was not in very good shape before September 11, 2001 and now it is in worse

shape. It is going to take years to get back to where it was prior to this event. But what we need to do is keep it going for America's security and our way of life. Thank you.

The CHAIRMAN. Very good. Senator Nelson.

**STATEMENT OF HON. BILL NELSON,
U.S. SENATOR FROM FLORIDA**

Senator NELSON. Mr. Chairman, over 20 years ago I was a freshman and voted for the bailout for Chrysler. And in hindsight, that was a correct vote, it was a correct vote for America. Now as a freshman again, I intend to vote for this financial package.

But Mr. Chairman, I do not want to see this financial package going into excessive payments for management, it ought to be for what it ought to be for, which is as a major economic component of this nation's economy to help get this airline industry back on track.

As a former insurance commissioner of the state of Florida, I am also interested that we see that the insurance companies, which is a cost of doing business for the airlines, pay out what is rightly due and do not unjustifiably cancel their coverage in the future for these airlines.

And third, that we watch what are going to be the new charges of premiums as a result of the payouts of millions of dollars, even billions of dollars, in their insurance policies.

So I want us to scrub this with a fine tooth comb. Thank you, Mr. Chairman.

The CHAIRMAN. Very good. Senator Brownback.

**STATEMENT OF HON. SAM BROWNBACK,
U.S. SENATOR FROM KANSAS**

Senator BROWNBACK. Thank you, Mr. Chairman, and thank you and the ranking member for holding the hearing. I think this is a very important topic. I intend to support an overall package but I am concerned that we have proper oversight and not be a blank check, and we not rush too fast, even though we have to move, I think, with some pretty good speed to help a industry that is cash oriented. This is an industry that depends on a very heavy cash-flow and they have had that shut down, and I think we are going to hear from some of the airlines today. If the figures I am hearing are correct, the decline (much of that) has not recovered and if the people I am talking to are accurate, recovery (it) is going to be very slow.

People got spooked, and I think it is going to take some time, so it is something that we need to do to maintain this national asset that we have to use. This is our major means of moving people around the country in a very free and open society and if we do not have it readily available, it really is going to hurt the overall economy and our ability to operate.

I want to point out one additional issue that I want to put on the table that I do not know is really in many people's view screen; the flight schools in the country that have come under a great deal of scrutiny, as well they should for what has recently taken place. I am hopeful that this is going to be an area where we will tighten up and look who is getting flight training, understand why they are

getting flight training. This is something we can use as an asset and in our security.

There are roughly 2,400 flight schools in the United States. Virtually all of them are small businesses. They are shut down out of the air right now. They operate under visual flight rules for the most part. They are estimating that they are losing approximately 12 to \$15 million a day. These are mostly small businesses that they are operating.

I raised at the earlier hearing the point that we need to get to some point fairly soon where they can get back in and use in the air. The commercial airlines are, I think that is wise and that is good. I think we need to be careful as we do this, but we need to get these folks back in the air, and we may have to look at a part of the package working with these small businesses. There are 2,400 of them in the United States and they are still grounded. They have zero revenue and still the capital structure that they are struggling with, and no access to major capital markets because they are generally all small businesses.

The manufacturers, aircraft manufacturers in my state sell to these individuals, and are they going to be able to continue to purchase the planes that they are currently buying? I think we have to look at this as another component and piece of this package.

Thank you.

The CHAIRMAN. Thank you. Senator Kerry.

**STATEMENT OF HON. JOHN F. KERRY,
U.S. SENATOR FROM MASSACHUSETTS**

Senator KERRY. Thank you, Mr. Chairman. Obviously this Committee is united in recognizing our need to respond to the economic impacts of what has happened to the industry in the last days, but I echo my colleagues, a number of them here who have pointed to the fact that there are sort of two levels or two areas of concern that we have to face.

One is what has happened since September 11, a billion dollars of loss and the extraordinary downturn in ridership. But the second is, and Mr. Chairman, you have been a leader in this for years, and talking about the overall structure of our airlines in country, and that is an ongoing problem.

This is an industry that carries some \$26.1 billion of debt. Each aircraft costs about \$50 million to \$250 million; that has to be serviced. It is very capital intensive beyond that because of labor costs and overhead, et cetera.

And the fact is, it has to I think ride at about 65 percent capacity to break even, and even in the best of times I gather is only running anywhere from 75 to 80 percent.

So it is an industry where all of us have been struggling for a long period of time about how you get from here to there, what the pricing mechanisms are from certain places, and the level of service that troubled all of us as a consequence of the overcrowding, the lack of capacity and the infrastructure to support it. So this Committee, I am convinced, needs to think about that carefully as we go through this process.

And I want to just put my comment of the morning in context. We have to do this as a matter of economy and I understand that,

and I am not thinking of sort of holding one hostage to the other, but what I am expressing is a certain frustration that if national security is the concern, and it is even as we think of this, and we recognize what happened when one sector of our transportation grid was knocked out. We look at the prescience of a General Eisenhower, who helped build the road system of the country, I just want us to think about how we take the best components of the rail, the ones that work that we know.

I am not trying to use this as an excuse for building something people do not want, but I am thinking about how we ought to make the overall structure, as we expend the taxpayers' hard-earned money, that we at least have some thinking about that as we go forward to help this industry get back on its feet, because of what it means to tourism, to all the linkages, hotels, taxis, car rentals, restaurants, all the way down the road. It is a critical component of our economy and we have to find a way to get back there as fast as we can.

The CHAIRMAN. Thank you. Senator Fitzgerald.

**STATEMENT OF HON. PETER G. FITZGERALD,
U.S. SENATOR FROM ILLINOIS**

Senator FITZGERALD. Thank you, Mr. Chairman, and I would have a full statement I would like to enter into the record.

The CHAIRMAN. It will be included.

Senator FITZGERALD. I would like to say a few things for the record. I appreciate your calling this hearing. I am very concerned about the airline employees that live in my state of Illinois. Obviously Chicago is a major transportation hub, major home for United and American, and I have tens of thousands of airline employees.

I was at the airport yesterday talking to many of them. I saw the skycaps lined up outside. They all said that they were going to lose their job today. And I am very concerned about it and I want to do whatever we can to help.

But I have to tell you, I approach this hearing with a great deal of concern. And that is concern for whether a federal bailout is the right and equitable means to deal with the problems of the industry. I sit here as a representative of the people, not the industry, and while our focus here is on the industry, the people too will be substantially affected by our actions.

They may not be in the room, the room may just be filled with airline industry lobbyists, there may not be any lobbyists for the average Joe back there, but they are working hard at jobs across the country and they are depending on us even as they work, not to forget them in the fervor of the moment. I represent an awful lot of hard working taxpaying Americans, and they may potentially take by our actions in this Committee anywhere from a 17 to a \$24 billion hit.

The people I represent would have to work awfully hard for an awfully long time to recoup that loss. In evaluating airline stocks, a market analyst said today, "It's simple. Either the shareholders or the taxpayers take the hit." Again she said, "Either the shareholders or the taxpayers take the hit."

Well, she's right. As the bailout that I have heard being discussed is structured, the fundamental fact is that either the shareholders or the taxpayers will take the hit. And at least to this Senator, it is not intuitive that the right thing to do is to shift the cost of the industry decline from the investors in airline stocks toward ordinary taxpayers.

The shareholders are in many instances sophisticated institutional investors, and of course the airline executives are amongst the biggest investors. They may be people familiar with the industry who understand the inherent risks in airline stock. They will be protected by a federal bailout.

The people that will pay, on the other hand, are the ordinary Joes, the men and women who just go to work every day, feed their families, and may not have a nickel to invest in the market in the first place. And yet, these are the people that are being called upon to bear the cost for shareholders who have seen their investment go sour.

Can this be right? And if we conclude this is right, can we guarantee to the employees of the industry that there will be no layoffs, that the American people will have stepped in?

I think that all of us realize that what we do here today is not just important for this industry but for many others, as it will set a precedent for how we deal with similar claims from other industries. In my office now, I am fielding calls from hotels, restaurants, travel agents and others, for a similar bailout package.

Will we hear from the insurance industry or manufacturers and retailers? And if we approve what is before us today, can we turn them down, can we say no, we are just going to bail out the airline industry. Who finally will bail out the American taxpayer?

So my question today will be, is there another way? Is there a way to minimize the destruction without asking the American people who have borne so much in the past several days to take it on the chin once again. That is one of the many questions that I would like to explore today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Boxer.

**STATEMENT OF HON. BARBARA BOXER,
U.S. SENATOR FROM CALIFORNIA**

Senator BOXER. Well, in light of what was stated, I feel compelled to simply say that it is not as simple as shareholders versus taxpayers; there is a lot more in this equation for this Senator, which is that people were killed by terrorists. We did not declare war but we all say in essence, we are at war against these terrorists.

And the question is, do the terrorists win not only by probably selling short, which we do not know if they did, which by the way would add another level of repulsiveness to all of this, but are we going to be a nation that has a transportation system that moves our economy forward? If we do not, then they win.

So I think it is a lot more complicated, because I would agree with you if it was just a situation where this happened without this incident. I mean, if people had that attitude, we would not have moved with Chrysler; I think history has shown that worked out.

We would not have moved when New York City was in crisis. We might not have moved even when particular areas get hit with earthquake, flood and fire.

I just felt I wanted to respond. I also, however, believe——

Senator FITZGERALD. Would the Senator yield?

Senator BOXER. Let me finish my statement.

Senator FITZGERALD. OK.

Senator BOXER. Because I also believe that the Senator from Illinois is telling us to think very carefully, which I appreciate and I think is necessary. I mean, I want to associate myself with his comments that we have to know what we are doing. I think Senator Wyden alluded to this. There are other industries, we have to be careful.

I was a little stunned to see that a lot of our airlines, Mr. Chairman, can only last 2 weeks, that if things take a turn for the worse, they are out of is business in two or 3 weeks. That is a stunning revelation to me. If you talk to most small business people who go into small business, they have enough cushion to hang in there through a recession or through a year's time. It is a little stunning to me. So I think we need to probe that and we need to look at this.

I also have the list of the CEO compensation here and I think we do have to be careful that we do not forget about those skycaps and the people in the lower echelons as we have a couple of executives here making 11, \$12 million a year, I do not want to pump taxpayer money to keep that in there. And when one of the airlines people came to talk to me before, I said look, I am very sympathetic but I want to hear the sacrifices you are going to make at the top echelons while you are asking everyone else.

So I think what I want to say to my friend from Illinois is I think it is a good thing that he has these concerns, I just do not agree with him that it is as simple as he stated it, and I for one am looking forward to supporting very strongly a package, Mr. Chairman, that I hope you and Senator McCain and other leaders in this Committee will put together that keeps this industry going.

The CHAIRMAN. We have important witnesses here. Senator Burns.

Senator BURNS. I have already done it.

The CHAIRMAN. You have? Senator Carnahan.

**STATEMENT OF HON. JEAN CARNAHAN,
U.S. SENATOR FROM MISSOURI**

Senator CARNAHAN. Thank you, Mr. Chairman. Last Tuesday's terrorist attack is having an immeasurable effect on our country. We are devastated by the tremendous loss of life and property, and sense of security, but we are prepared to take the extraordinary steps that are needed to address this situation.

Last week we acted with unity and speed to provide \$40 billion for relief effort and to authorize the use of force. I believe that we must also deal promptly and decisively on another front; insuring the ongoing stability of the aviation industry should be an immediate priority.

First of all, as we discussed this morning, we need to act quickly to heighten security in our airports and on commercial aircraft. If

we can make America feel safe, they will begin to fly again. Unfortunately, improving security will not be enough.

Our nation's airlines are clearly suffering. The Federal Aviation Administration's decision to ground commercial aircraft last week had a disastrous economic impact. And while most airlines began operating again last Thursday, it is unclear when carriers will be able to resume their full schedules. Moreover, it appears that ticket sales are declining, which will further weaken this already distressed industry.

The attackers who took down our buildings must not succeed in taking down our airline industry as well. It is our duty to provide a meaningful economic recovery package to help stabilize the airline industry.

A number of proposals are currently being considered. They include extending credit or guaranteed loans to the airlines. It also includes providing direct compensation for losses sustained as a result of last week's events. I am extremely supportive of these measures.

But any recovery package must also address the issue of liability for the airlines. In a letter sent yesterday to Secretary O'Neill, executives at Morgan Stanley said, and I quote: "Investors are waiting word on whether the industry will be able to secure both additional liquidity from the U.S. Government and relief from what would surely be bankruptcy inducing liability claims against carriers for collateral damage and loss of life caused by the tragic events of September 11."

I am fully aware of the complexities involved in addressing this matter. I am confident, however, that we can find a solution, one that will insure the long-term strength of our nation's airlines.

I also believe that any relief package for the airlines must include an additional component. We must in good conscience assist our displaced workers. This Congress must demonstrate that while we stand ready to bolster the airlines, we are also committed to supporting the men and women who are the heart and soul of the industry.

Even if a stabilization package for the airlines is quickly approved, a certain number of layoffs are inevitable. Airline executives estimate that as many as 100,000 workers could lose their jobs in the next few weeks. Mr. Chairman, the problems afflicting the airline industry will cast a long dark shadow across the homes and cities of America if we do not step in to help these displaced workers.

It is imperative that we act a meaningful relief package designed to both reinforce the airline industry and to provide support for displaced workers. Thank you.

The CHAIRMAN. Thank you. The Committee is pleased to have Mr. David Walker, the Comptroller General of the General Accounting Office. Mr. Walker, we are glad to recognize you. Your statement in its entirety will be included in the record, and you can highlight it as you wish.

**STATEMENT OF DAVID M. WALKER, COMPTROLLER GENERAL,
GOVERNMENT ACCOUNTING OFFICE**

Mr. WALKER. I will do that, Mr. Chairman. Thank you for the opportunity to testify on this important issue of national interest today.

I would like to give you a context for my testimony before I summarize it, because I know a number of the members that are represented here today.

First, I have significant direct experience dealing with airlines that are in financial distress as a former executive director of the Pension Benefit Guaranty Corporation and chief negotiator for that corporation.

Second, I have flown over two million miles on a variety of airlines, and I know that many of you are frequent fliers.

And third, some of you know that my wife is a flight attendant with Delta Airlines, with over 31 years of experience. What you don't know is that she was flying on a 757 last Tuesday morning on September 11 from Boston to the west, and there but for the grace of God goes her. And so this is a very serious issue for all of us.

Clearly, while the human toll of last week's events were tragic and significant, there were economic implications as well. For example, the aviation and related industries have suffered significant additional financial losses which are projected to continue, perhaps threatening the viability not just of individual firms but the industry as a whole.

The continuation of a strong vibrant and competitive air transportation system is clearly in the national interest. A financially strong air transport system is critical not only for the basic movement of people and goods, but also because of the broader effects this sector exerts on the overall economy. As a result, the Federal Government may need and want to provide financial assistance to this industry.

In fact as many of you have already stated, it's not a matter of if, it's a matter of how. At the same time, as several of you have also stated, care must be taken to assure that the interests of the Federal Government and the American taxpayers' interests are safeguarded in connection with any such assistance program.

Congress is currently considering various proposals to provide financial assistance specifically to the airline industry. In my longer statement today I include a variety of information which I would commend to you, but I outline several key principles that might provide certain guidance to the Congress and which you might want to keep in mind in debating how you might want to structure such assistance.

These principles are based upon GAO's prior work and lessons learned from previous federal financial assistance efforts, including those dealing with large corporations such as Chrysler and Lockheed, as well as public entities such as New York City. They can be grouped into three broad categories; clearly defining the problems that need to be addressed, tailoring the appropriate tools of government to address the identified problems, and protecting the interests of both the Federal Government and American taxpayers.

In summary, the government needs to clearly define the specific nature of the problems confronting the industry, separating out short-term needs from long-term challenges, and industry wants from genuine needs.

While all airlines are facing major financial challenges, government assistance cannot nullify the serious but difficult financial positions that several carriers faced prior to September 11. As a result, the Congress may wish to consider which losses are being incurred that would not have been incurred but for the tragic events of September 11.

Moreover, the Congress may also wish to further distinguish between losses that are directly attributable to federal actions, such as the closure of the entire national air space or Reagan National Airport, and those that are due to consumer shifts that may occur and may relate to overall demand for air travel.

It's also appropriate to consider these factors I think not only with regard to the timing but the amount and the nature of the type of financial assistance that Congress might seek to provide.

The government has a range of tools it can consider to address the problems of the industry, from loans and loan guarantees, to grants and tax subsidies, to a limitation of liability or relief from liability in certain circumstances. The selection and design of the tool is critical to targeting federal aid on the immediate problems, insuring the sharing of responsibility by all industry stakeholders, and promoting accountability to the Congress and the American people.

Federal aid should be used as a targeted and temporary action, and it should be designed to restore the industry to self sufficient financial position. Because these assistance programs can pose uncertain levels of risk to the Federal Government, it is important to include appropriate mechanisms to protect the government and the American taxpayers from excessive or unnecessary losses.

Specific mechanisms, structures and protections should be implemented that are prudent and that provide a prudent use of taxpayer resources and manage the government's risk, consistent with a good faith attempt to meet the Congressional goals and objectives of any federal financial assistance.

In conclusion, clearly the tragic events of September 11 have had a dramatic impact not only on many individual Americans but on our nation as a whole. Given the clear national interest in a sound aviation system, it is appropriate that the Federal Government consider measures to assist this critical industry in recovering from tragic events of last week.

At the same time, any such assistance needs to be properly targeted, managed and overseen in order to protect the Federal Government and American taxpayers. The application of clear principles to the consideration of federal assistance is especially important, since actions to assist the commercial aviation sector are likely to set precedents for additional parties already coming forward and seeking relief.

In addition, we must be prudent about the decisions we make for this industry because we still have long-range fiscal challenges in other areas of the federal budget and the economy.

GAO stands ready to assist the Congress in examining this issue, and we have been inundated with requests as you might imagine, and we are looking forward to working with the Congress to address these and other issues.

Thank you, Mr. Chairman, I would be happy to answer any questions.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT OF DAVID M. WALKER, COMPTROLLER GENERAL,
GOVERNMENT ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to testify on an issue so important to the national interests. On September 11, 2001, thousands of Americans were killed or injured through terrorist attacks at the World Trade Center and the Pentagon and in the crash that occurred in Pennsylvania. We mourn their deaths and extend our deepest sympathies to their loved ones. While the human toll of last week's events was tragic and significant, there were economic implications as well. The jobs of many employees and the retirement funds of others are threatened in the aftermath of these attacks. In addition, aviation and related industries have suffered significant additional financial losses which are projected to continue, perhaps threatening the viability not just of individual firms, but of the entire industry. Estimates of the total expected loss for major U.S. commercial passenger airlines for this year range from over \$4 billion by many industry analysts to over \$20 billion by certain airline officials. The continuation of a strong, vibrant, and competitive commercial air transportation system is in the national interest. A financially strong air transport system is critical not only for the basic movement of people and goods, but also because of the broader effects this sector exerts throughout the economy. As a result, the Federal Government may need and want to provide financial assistance to this industry. At the same time, care must be taken to assure that the interest of the Federal Government and the American taxpayers are safeguarded in connection with any such assistance program.

The Congress has already appropriated \$40 billion for emergency expenses to respond to the terrorist attacks on the United States. Among other purposes, these funds are available to provide increased transportation security. Now, the Congress is considering various proposals to provide other financial assistance specifically to the airline industry. In my statement today, I would like to discuss some broad principles or guidance that the Congress may wish to bear in mind when it considers providing financial assistance to the airlines. We base our observations on prior GAO work and lessons learned from previous federal financial assistance efforts, including those directed to individual large corporations (such as the Chrysler Corporation and Lockheed Aircraft Corporation) as well as public entities, such as New York City.¹ These principles and guidelines can be grouped into three broad categories: clearly defining the problems that need to be addressed, tailoring the appropriate tools of government to address the identified problems, and protecting the interests of both the Federal Government and the American taxpayers.

In summary:

- The government needs to clearly define the specific nature of the problems confronting the industry—separating out short-term needs versus long term challenges and industry wants from genuine needs. While all airlines are now facing major financial challenges, government assistance cannot nullify the serious but different financial positions that several carriers faced prior to September 11. As a result, the Congress may wish to consider what losses are being incurred that would not have occurred “but for” the tragic events of September 11. Moreover, the Congress may wish to further distinguish between losses that are directly attributable to federal actions (such as the closing of the entire national airspace or Reagan National Airport) and those that are due to consumer shifts that may occur in the overall demand for air travel.

¹See, for example, *Troubled Financial Institutions: Solutions to the Thrift Industry Problem* (GAO/GGD-89-47, Feb. 21, 1989), *Resolving the Savings and Loan Crisis* (GAO/T-GGD-89-3, Jan. 26, 1989), *Options For Dealing With Farm Credit System Problems* (GAO/T-GGD-87-11), and *Guidelines for Rescuing Large Failing Firms and Municipalities* (GAO/GGD-84-34, Mar. 29, 1984).

- The government has a range of tools it can consider to address the problems of the industry, from loans and guarantees to grants and tax subsidies. The selection and design of the tool is critical to targeting federal aid on the immediate problems, ensuring the sharing of responsibility by all industry stakeholders, and promoting accountability to the Congress and the public. Federal aid should be viewed as targeted and temporary, and it should be designed to restore the industry to a self-sufficient financial position.
- Because these assistance programs pose an uncertain level of risk to the Federal Government, it is important to include appropriate mechanisms to protect the Federal Government and the American taxpayers from excessive or unnecessary losses. Specific mechanisms, structures, and protections should be implemented to be prudent with taxpayer resources and manage the government's risk consistent with a good faith attempt to achieve congressional goals and objectives of any federal financial assistance program.

Defining the Problems to Be Addressed

Although U.S. commercial airlines have been subject to cyclical swings in profitability since deregulation, the industry has never before faced financial hardship of the magnitude currently being discussed. During the mid- to late 1990s, major airlines generated significant profits. Yet in the past year or so, as the economy slowed and fuel prices rose, the industry's profits turned to losses. Until last Monday, industry analysts had projected that the U.S. commercial airline industry would lose over \$2 billion in 2001. Of course, not all carriers faced the same financial challenges prior to the tragic events of last week. Southwest Airlines and Continental Airlines, for example, were still able to report net operating profits during the first two quarters of the year. United Airlines, on the other hand, reported net operating losses exceeding \$600 million. Following last Tuesday's tragedy, some industry analysts estimated losses for the major airlines will now exceed \$4 billion for the year. Even airlines that had reported second quarter operating profits are now experiencing significant financial difficulties. According to reports from industry analysts, these losses are of an unprecedented magnitude.

During the first few days of trading this week, airline stock values have been very volatile—most dropped by roughly 40 percent on Monday, although they rebounded somewhat in trading on Tuesday. A variety of factors may be behind this decline, including uncertainty about the airlines' future and public statements by airline executives that they may need to file for bankruptcy protection if the Federal Government does not offer significant financial assistance to the industry.

The airlines appear to face both short- and long-term financial needs. The most immediate threat to many carriers is reported to be inadequate cash reserves and negative projected cash flows combined with a tightening or denial of credit by commercial lending institutions. This liquidity problem is likely due to the interruption in operations following last week's tragedy. The Department of Transportation closed U.S. airspace for several days, basing its decision on what it felt was in the overall interest of the nation, given the facts and circumstances existing at the time. Some analysts have estimated that U.S. airlines lost tens of millions of dollars every day they could not operate. In addition, the Federal Government has not yet decided when and under what conditions it may allow Reagan Washington National Airport to reopen. This situation has clear financial implications for the airlines and other businesses with significant operations at that facility. Additionally, commercial lenders may be less willing to extend credit to the carriers because of uncertainty about the industry's economic viability.

The industry also faces potential longer-term financial needs. Some analysts are further concerned that last week's tragic events may have a profound and lasting effect on the demand for air travel. Although it is too early to tell how passenger demand will be affected in the long term by last week's events, it is clear that the airline industry now has significant excess capacity, given the current and near-term expected demand. In addition, several carriers had excess capacity prior to the events of September 11.

The long-term viability of American Airlines and United Airlines as individual corporate entities could be heavily impacted by the extent to which they are found to be legally liable for claims stemming from the events of September 11, 2001. If these airlines are found to be liable for claims stemming from the loss of life, personal injury, and property damage that occurred, their potential liability is likely to be unprecedented. While these carriers presumably have liability insurance, insurance coverage typically has limits beyond which the insurers had no legal liability. Also, although airlines are responsible for the safety and security of their own flights, if American and United had arrangements or contracts with other carriers

or security firms to provide security, those firms may also share liability with American and United.²

Furthermore, lenders and insurers will undoubtedly be concerned about losses from possible future terrorist events. As a result, the issue of potential limitations on liability for losses relating to such events needs to be resolved in order to provide stability to related market activity.

Tailoring the Authority and Tools to Address Defined Problems

After the problems confronting the industry are better defined, the Congress can then better determine which policy tools may be most relevant to addressing the particular goals of the assistance program. The Federal Government has a range of policy tools that might be considered to help the industry—grants, loans, loan guarantees, regulatory relief, and tax subsidies are leading examples. Different tools may be more appropriate for addressing different needs. Each tool has different implications for the Federal Government and for the industry. These implications need to be carefully weighed and balanced.

Our previous work on federal programs in general suggests that the choice and design of policy tools have important consequences for performance and accountability. Regardless of the tool selected, the Federal Government should take steps to design and manage the assistance with the following considerations in mind. First, immediate assistance should be targeted to address the short-term problems associated with the attack last week, not to resolve the longer-term structural problems affecting particular carriers in the industry. Second, the federal assistance should be designed and managed to promote shared responsibility by all interested parties in the industry's recovery from last week's tragedy. Additionally, incentives can be provided to help strengthen the longer-term competitive position of the industry in the market. Finally, accountability should be built in so that the Congress and the public can have confidence that the assistance provided was prudent and consistent with the accomplishment of stated public objectives.

Historically, the Federal Government has used loan guarantees in its financial assistance to specific companies. Such guarantees assume that the federal role is to help the industry overcome a cyclical or event-specific crisis by gaining access to cash in the short term that it otherwise cannot obtain through markets. Loan guarantees and loans alike assume that the aided firms will eventually return to financial health and have the capacity to pay back the loans. Credit assistance is often premised on the provision of various forms of collateral and equity to protect the federal interest, as well as various concessions by interested parties to share the risk and promote a stronger outlook for the firm in the future.

Other tools are under consideration as well. For instance, grants may be appropriate for reimbursing airlines for losses attributable to direct actions mandated by the Federal Government, such as closing the national airspace and particular airports. This decision, while prudent and understandable, had a direct and negative impact on the airline industry—carriers would not have incurred certain losses “but for” the acts of the government. Grants can provide an infusion of cash in the short term and can be part of the recovery process. Grants can be designed with eligibility criteria to target them to those most in need as well as to ensure a federal agency role in approving plans and applications up front from prospective grantees. As with credit, grants can be conditioned on various concessions by interested parties.

Tax subsidies have also been proposed. For example, the carriers are reported to have proposed being able to retain all ticket and cargo waybill taxes and for relief from the federal tax on jet fuel. Unlike grants and loans, tax subsidies are a more automatic tool of government and do not generally permit the degree of federal oversight and targeting that these other tools do. Generally, tax subsidies are designed to be available by formula to all firms that satisfy congressionally-established criteria. Federal oversight of tax subsidies generally comes after the fact through audits of firms by the Internal Revenue Service. While federal oversight is less direct, many argue that tax subsidies have certain inherent advantages as well. For example, they can quickly become available for firms and are generally less costly to administer.

Federal direct spending might also help to relieve the industry of certain costs. For instance, it has been suggested that the screening function at airports be taken over by the Federal Government, thereby freeing up resources in the industry.

Although the Congress may well decide there is a compelling national interest in providing financial assistance to ensure the viability of the commercial airline in-

² Additionally, because insurers recognize additional risks and because they face the high cost of paying potential claims, liability insurance premiums for the entire industry could rise considerably in the future.

dustry, no one envisions that this industry should remain under federal protection indefinitely. Having an exit strategy at the beginning will provide congressional guidance to the airlines and the program administrators on how the industry should emerge from the assistance program.

Protecting the Interests of the Federal Government and American Taxpayers

Various mechanisms can be built into the design of an assistance program and its oversight to protect the interests of the Federal Government and American taxpayers. The Congress may want to create an oversight board whose membership reflects the diverse elements that contribute to the assistance program. For example, to administer the loan guarantee program created to assist Lockheed, the government established a three-person board consisting of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission. Staff could also be detailed from federal agencies represented on the board to support the board's review and oversight function. It would also be prudent to provide the board with access to the financial records of any recipients of assistance under the program. Furthermore, prior federal assistance programs for failing firms and municipalities gave us the authority to audit the accounts of the recipients; this authority enabled us to support congressional oversight of the program's administration.

If a board is established to oversee federal financial assistance for the airline industry, the board could be tasked with implementing specific procedures and controls over the financial assistance program to protect the government's interests. The board could also be required to report periodically to the Congress on the assistance program's operations and results and the board's stewardship of the program. The board would likely be the logical entity to establish clearly defined eligibility criteria for borrowers, consistent with statutory direction provided by the Congress, and establish specific safeguards to help protect the government's interests. The specific safeguards could vary, depending on the nature of the financial assistance tools used. Examples of safeguards over loans and loan guarantees include the following.

- Potential borrowers should demonstrate that they meet specific eligibility criteria, while at the same time demonstrating that their prospective earning power, together with the character and value of any security pledged, provides reasonable assurance of repayment of the loan in accordance with its terms.
- Potential borrowers should clearly state the purpose of the loans so that the board can make appropriate decisions about terms and conditions, as well as collateral.
- Fees can be charged by the government to help offset the risks it assumes in providing such assistance.
- The government's loss exposure can be reduced by a requirement for pledged security or liens as collateral.
- For loan guarantees, the level of guarantee can be limited to a given percentage of the total amount of the loan outstanding.

The oversight board would be in a position to monitor the status of loans and guarantees on a regular basis and to require regular reporting on the part of the borrowers regarding their cash flow, the results of their operations, and their financial position, including independent audits of their records, as appropriate.

In evaluating applications for direct loans or loan guarantees, the oversight board would be charged with acting on applications as quickly as possible to meet the objectives of the assistance, while thoroughly analyzing the risks to the government of providing the loans or guarantees. Examples of external risk factors involve the pricing and demand risks that are currently impacting the airline industry. Internal borrower risks, however, result from a borrower's own disadvantages or limitations, which may have been present before the recent, tragic events, but are now being magnified by those events. Potential borrowers would need to clearly state the purpose of the financial assistance and provide operating and financial plans that integrate their internal and external risk factors so that appropriate decisions can be made about the nature and amount of assistance to be provided by the government.

Another potential tool for providing financial assistance would be grants for specific purposes, as noted previously. Examples of safeguards over grants include the following:

- Applicants should demonstrate that they meet specific eligibility criteria and clearly specify how they will use the assistance they receive.

- The oversight board should have clearly defined procedures and criteria for approving grants.
- The oversight board should monitor the use of grant funds on a regular basis, and require regular reporting on the part of the recipients regarding the use of funds and results, including independent audits of grantees' records.

Additional protections to the government's interest could be achieved by tying financial assistance to certain concessions from the recipients of the assistance or others who have a stake in the outcome. For instance, recipients could be required to provide the government with an equity interest in exchange for the assistance, or with priority claims guaranteeing that government loans or government-guaranteed loans be paid first, thus subordinating other lenders' interests.

Conclusions

Clearly the tragic events of September 11, 2001 have had a dramatic impact on not only many individual Americans, but also our nation as a whole. Obviously, those who lost their lives and their family members and friends have been affected the most. However, as we have discussed today, there are significant implications for the U.S. economy—and the airline industry has been affected in a dramatic and fundamental way. Given the clear national interest in a sound aviation system, it is appropriate that the Federal Government consider measures to assist this critical industry in recovering from the tragic events of last week. At the same time, any such assistance needs to be properly targeted, managed, and overseen in order to protect the Federal Government and American taxpayers.

My remarks today have focused on principles the Congress may wish to consider as you contemplate possible financial assistance for the airline industry. These lessons are drawn directly from GAO's support of Congressional efforts over several decades to assist segments of industries, firms, the savings and loan industry, and even New York City. Our counsel hinges on three basic elements:

- (1) the need to clearly understand distinct dimensions of the problems confronting the industry, including short- and long-term concerns as appropriate;
- (2) the need to carefully tailor appropriate tools to address well-defined problems; and finally
- (3) the importance of crafting effective mechanisms, controls, and oversight to protect the interests of the Federal Government and American taxpayers.

The application of clear principles to the consideration of federal assistance is especially important, since actions to assist the commercial aviation sector are likely to set precedents for additional parties already coming forward and seeking relief. In addition, we must be prudent about the decisions we make for this industry because we still have long-range fiscal challenges in other areas of the federal budget and our economy.

It is important to remain mindful that in a market economy the federal role in aiding industrial sectors should generally be of limited duration and purpose. The assistance should be structured to ensure that it prompts the industry to recover and become self-sustaining in the future. It may be appropriate to distinguish between losses that are directly attributable to federal action (such as closing the nation's airspace) and those that are due to either individual circumstances of carriers or broad shifts that may occur in the market demand for air travel. While this is a difficult and tumultuous time, the Congress would be prudent to be clear about precise objectives of assistance to the industry and assure a clear path for how the industry can be expected to emerge from the assistance program—hopefully as a vibrant, stable and efficient force in the American economy.

GAO stands ready to assist the Congress in examining this issue—as well as the many interrelated issues brought to the fore by these tragic events—including measures to improve airport security, provide air marshals, and examine the future of Reagan Washington National Airport.

This concludes my prepared remarks. We hope that our testimony today has been of assistance to you.

The CHAIRMAN. Thank you, Mr. Walker. I understand you to say there is short-term and then long-term financial assistance. I have a feeling that the Administration is on target with respect to the short-term. The news carried the 5 billion to keep them whole and going, particularly some of the small airlines, and another 3 billion to take care of the safety needs and otherwise, about 8 billion.

The reason I say that is you can imagine how it got totally out of hand in the sense of up, up and away. This thing occurred on Tuesday. I was handling the counterterrorism bill amongst other things on the floor Wednesday; I was told of a 2.5 billion relief bill. By Thursday, the Senator from Missouri had 5 billion. On the House side by Friday, it was up to 15 billion. By the Sunday shows it was to 20 and by the first of the week it was 24 to 30.

Coming back down into reality with the 5 and the 3, that sounded like sense to me, and yet on the other hand it seems to me that there's going to have to be some kind of long-range assistance. Does it see to you that way also?

Mr. WALKER. I think so, Mr. Chairman. I think clearly you have a situation where there are significant losses that are being incurred that probably satisfy that but-for test, that there are certain actions that have been taken by the Federal Government that caused—

The CHAIRMAN. That would be in the nature of loan guarantees perhaps?

Mr. WALKER. Well, the Congress might want to consider different options. For example, you could decide that if there were certain losses that were incurred, that were only incurred because of actions by the Federal Government that relate to the events of September 11, you might decide you want to provide grants for that amount of money, and give immediate cash infusions and give immediate assistance for that amount of money because it directly related to the events and it was caused by actions of the Federal Government, for example, the closing of the air space or Reagan National Airport, which continues to be closed. That is for your consideration.

But longer term, to the extent that there are significant changes in consumer demand, that's something that's going to have to be worked out. There is going to have to—

The CHAIRMAN. How is that worked out? You are the Senator, what are you going to have to vote for? The reason I am asking the question is it seems to me like a loan guarantee, but then I heard the Secretary of Treasury saying before the Banking and Housing Committee, that there was not going to be any such thing as loan guarantees, and of course the airline stocks went right to the bottom immediately with that comment made by the Secretary of the Treasury.

I am trying to correct the comment if I possibly can, so that we will calmly go into this in a deliberate fashion, and not panic the market or otherwise.

Mr. WALKER. My understanding, Mr. Chairman, and I obviously can't speak for the Administration because I work for the Congress, but my understanding is what the Administration is talking about is some type of direct immediate financial assistance, some type of liability limitation, and in addition to that, is not talking about loan guarantees at the present point in time but has not taken that off the table, recognizes that there may be some need for loan guarantees, but my understanding is they are trying to move an immediate package for assistance now and then to consider what if anything else might be necessary, but you would have to ask the administration about that.

The CHAIRMAN. Well, I think the immediate package will move. Incidentally, that is more in the jurisdiction of the Banking and Housing, Senator Sarbanes and others, they have the expertise with respect to this.

And incidentally, since I handled the Chrysler loan which was put on to the State, Justice, Commerce Appropriations Bill, Lee Iacocca restricted himself to a dollar a year. I want to see how many volunteer for that.

On the matter of limiting liability, they obviously have the coverage for the individual loss in flight. Now the collateral damage, I can see these insurance companies being subrogated to the insurance companies being subrogated to the insurance company. We need Senator Nelson on this one. They would be ad infinitum. Is there some kind of cutoff to that? Otherwise, we can't build enough courthouses for the hearings.

Mr. WALKER. Well, Mr. Chairman, clearly the liability issue is not only a liability issue with regard to the events that occurred on September 11. It also places a cloud over the ability of airlines to be able to continue to purchase liability insurance on a reasonable basis going forward. I'm sure Senator Nelson can tell us about that.

There are precedents for this. For example, there is something called the Price-Anderson Act, which deals with nuclear power plants, that there was a recognition back many years ago of the possibility of a cataclysmic event occurring in conjunction with nuclear power plants, either due to a terrorist act or otherwise, and there was a provision provided for whereby certain liabilities in excess of certain amounts, would be assumed by a central party. And so that is something you may want to look at.

The CHAIRMAN. Can we do that in your opinion *ex post facto*?

Mr. WALKER. Well, I'm not a lawyer, Mr. Chairman, so your—

The CHAIRMAN. You sound like one.

[Laughter.]

Mr. WALKER. I don't know if I should say thank you or not.

The CHAIRMAN. Thank you very much, Mr. Walker. Senator McCain.

Senator MCCAIN. Thank you, Mr. Walker. We are all happy that your wife is well and safe. Let us run through what we are dealing with here. \$5 billion in immediate grants, that is fine, in your view?

Mr. WALKER. Well, the Congress has to make that choice. I think clearly there is short-term bleeding that has to be stopped and something needs to be done quickly.

Senator MCCAIN. \$3 billion for safety and security.

Mr. WALKER. There is absolutely no question as GAO reports have shown, that we need to take dramatic steps in the security and safety area.

Senator MCCAIN. We need an oversight board such as we had for other areas where money was obligated for specific purposes such as this.

Mr. WALKER. I believe that would be prudent and is consistent with what the government has done in the past.

Senator MCCAIN. I have a letter from Morgan Stanley addressed to Secretary O'Neill. "Today there are virtually no markets open to

these carriers. The U.S. airline industry has been an industry with enormous need for capital. Today, however, the risks go beyond those which can be analyzed and priced. Unresolved and unquantifiable liability claims will effectively bar the airlines involved in the tragic events of September 11 from access to capital markets. There will be no functioning capital markets for the U.S. airline industry until the uncertainty with respect to both liquidity and liability are eliminated. Even then, access is likely to be severely limited, et cetera." Do you share the view of Morgan Stanley?

Mr. WALKER. I think clearly, in order for there to be any stability to come back to the market here, that you have to deal not only with the short-term financial problem but also the liability issue.

Senator MCCAIN. You have to deal with the liability issue.

Mr. WALKER. You have to deal with the liability issue. And I also believe that it's clear that there is a significant supply and demand imbalance with regard to capacity. Some of that existed, frankly, prior to September 11, and there is going to have to be a rationalization at some point in time of that excess capacity.

Senator MCCAIN. So it is a matter of how we deal with the liability. The Price-Anderson provision which, I believe can be made retroactive, being familiar with it to some degree.

How do you differentiate between the problems as you mention in your written statement that the airlines already had, they were already losing, some airlines were losing billions cumulatively, between what they were already losing and what they have lost as a direct result of this act of terrorism?

Mr. WALKER. Well first, obviously there were projections of what each carrier was expected to do for the year before this tragic event occurred, and as I said, obviously those losses have escalated dramatically for every carrier that was going to have losses, and for those that were expecting to have net income for the year, of which there were not many, they are obviously being adversely affected as well. I think you have to look at what was likely to happen prior to this event, and I would recommend that you consider the but-for test, but for this event, as well as what role did the government have. In other words, you know, what role did the government have that could have had some impact on these losses?

To the extent that it had a more direct role, you may want to lean more toward grants or toward other forms of assistance. To the extent that it didn't have a more direct role, then you may want to consider loan guarantees or other types of assistance, but if you do that I think one of the things that's going to have to be carefully considered is now to differentiate between who should get them on what terms and how long, because not all carriers are equal with regard to their economic viability, not all carriers are equal with regard to their capacity imbalances, et cetera.

Senator MCCAIN. So the but-for clause is very important in our addressing these problems.

Do you hear the same information that I do that one or more major airlines will shut down within days if we do not act?

Mr. WALKER. I have heard, as has been publicly reported, that a number may declare bankruptcy. That's not necessarily shutting

down. As you know you can file for Chapter 11 and not shut down operations.

Senator MCCAIN. Have you heard shutting down?

Mr. WALKER. Pardon me?

Senator MCCAIN. Have you heard shutting down?

Mr. WALKER. I haven't personally.

Senator MCCAIN. Are there any lessons to be learned from the Persian Gulf War experience, which was the last time that the airlines, because of an act not of their making, have suffered significant financial difficulties?

Mr. WALKER. I'm sure there are. I wouldn't want to reflect right now. I think it is important to note, however, that as you know Senator, the airlines also have a role to play in time of war with regard to additional lift capacity to the extent that lift capacity is necessary for military purposes.

Senator MCCAIN. So you do not see any particular parallels?

Mr. WALKER. I really have not thought about it, Senator. I would have to think about it.

Senator MCCAIN. Well, we thank you, Mr. Walker, as always. We need your objective assessment of the situation and I think it will be very helpful to us as we move forward with this package. I thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Inouye.

Senator INOUE. Mr. Chairman, I just have one question. In all the statements made by my colleagues, words such as act swiftly, act expeditiously, act now, we can't waste time, time is of the essence. More specifically, how much time do we have?

Mr. WALKER. I think that Mr. Mullin, who is going to testify on behalf of the industry, might be able to give you a better feel for that. Clearly there is a need to do something now with regard to the hemorrhaging with regard to cash-flow, and I think that's what the Administration is proposing to do, is some type of an immediate infusion as well as some type of liability relief.

I think to the extent that you talk about loan guarantees, there could be significantly higher sums for extended periods of time where more judgment would have to be used as to whether and under what circumstances and conditions, terms and conditions those would be granted. That's a different matter.

You may want to move expeditiously to address things that need to be done expeditiously and then set up a mechanism such as Senator McCain suggested, and others, of some type of a control board or whatever to determine whether or not there is going to be something else done and if so, what those terms and conditions would be.

Senator INOUE. By acting now, you are talking about by tomorrow or Monday?

Mr. WALKER. That's up to you, Senator. Soon, obviously soon.

Let me also add that I am scheduled to fly to Hawaii and Asia in October, and I am planning on going, but I can't make up for all the spending that otherwise would have occurred.

Senator INOUE. Thank you, sir.

The CHAIRMAN. Thank you. Senator Burns.

Senator BURNS. I have not so much a question of your testimony, Mr. Walker, but in a statement, the formula on the infusion of cash

into the lines is going to have to be a little bit different than has been put forth by the Administration right now because of essential air service, and my state relies on essential air service and those funds in order to provide service to underserved areas. They are experiencing the same thing as the majors are.

And also, I think there is, some case could be played for general aviation just a little bit in this whole thing because of the time they were down. Of course, the majors were back in the air before general aviation was.

So, do you have any thoughts about those airlines that fall in that classification of essential air service?

Mr. WALKER. Well, I think clearly that's an issue that the Congress is going to want to look at. It's very similar, quite frankly, to the Postal Service. I mean, you have certain parts of America, rural America, whether it be Alaska, whether it be Montana, whether it be, you know, other parts of the country that no matter what the cost is, there is a national public commitment and an interest to make sure service is provided there. So that's something I expect the Congress would be concerned with, as well as these other aspects of air travel that have not gotten back in the air yet.

Senator BURNS. I just wanted to make a statement. When we go to debating all this, that I see no structure, to where it all goes into the big carriers, and I think probably the chairman of the subcommittee understands that, and I thank the chairman.

The CHAIRMAN. Good. Senator Hutchison.

Senator HUTCHISON. I pass, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Rockefeller.

Senator ROCKEFELLER. To followup exactly on what Senator Burns was referring to, this is a discrete and specific question. If the airlines all operate individually, major and minor, or their subsidiaries, then that means that decisions that affect small rural airports will be made individually by airlines, and there will be no guarantee or even hope perhaps, that individual small airports have service.

So I put this to you and ask for your reaction. And I do not ask for comment on matters of antitrust, et cetera. What would happen if the airlines and those subsidiaries, regional jets and otherwise, one of which, ACA, that will testify today, were to under a carefully calibrated system, under the supervision of the Department of Transportation working not apart from them but with them at the table, or the Department of Justice, were to sit around and say look, we have a hub and a spoke system, we cannot cutoff the spokes. Americans are not placed equally geographically but they have similar potential rights geographically.

That if they were to not, and I do not want to use the word collude, because that implies they are doing it by themselves, but under the monitoring in the room of the Department of Transportation or Justice, that they were to be able to say all right, we have not done these couple of airports and we do not do them now, but we understand they have to be served, so we will do these two, with the DOT, DOJ walking, listening, you do those three or whatever. So that each rural airport to the extent possible is guaranteed at least service if not as much, at least service, so they are not cutoff and condemned.

Mr. WALKER. Well, obviously there are pros and cons to that approach, and it does have economic implications. As you properly point out, to the extent that it would be under government supervision, then again, I'm not a lawyer, but obviously you wouldn't have collusion among the parties solely, there would be some supervision.

It would theoretically be possible to have issues like this considered by the control board as a condition of financial assistance. And so, you know, these are some of the issues that the Congress may want to consider and you know, unlike past financial assistance, where typically you have dealt with a Chrysler, which is a single corporation, or Lockheed, which is a single corporation, or New York City, which is a single city, we're talking about multiple enterprises here and multiple objectives that have to try to be achieved, all the more reason why I think you are going to need some type of control board to oversee.

The Secretary of Transportation potentially could be on the control board. Historical models are typically contained in past GAO reports. I've got a copy of one here that we did a number of years ago that is still relevant for this discussion. So those are the kind of issues that might be discussed and debated either outside the control board or within the control board.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Cleland.

Senator CLELAND. Mr. Walker, thank you very much and again, thank you for your service to our country and thank you for your wife's service to Delta and this country.

May I say, if you could step back just for a moment and help me here. I am trying to think this thing through. What kind of problem do we really have? Is it a financial problem, is it an access to capital problem, is it an expansion of the runway problem, is it too little competition or too much competition problem? I am beginning to believe that we have a fear problem. I said that today in the security hearing that if we do not handle the fear problem that American people have about fearing to fly, that we can pump a lot of money, we can do a lot of things, we can do a whole lot of things with the airlines, but if we do not go after the fear problem and put together some elements of action that are confidence building in nature, we will not be able to build that market back up to 60 or 65 percent where the airlines break even, and even beyond that where they begin to make some money.

I just want to get your take on that. What is our root problem? Is it fear of flying now? I mean, what is the difference between now after September 11 and the situation on September 10? I think we had some challenges, I think we had some problems, but we had 650 million people flying, and were talking about a billion people flying in about 5 years from now, and we were worried about capacity and building new runways and you know, we were pushing the envelope and we were rocking and rolling, OK?

We are post-September 11 now. What do we have now that is different than say September 10? Is it not at the root of the problem the fact that people will not get on an airplane and fly?

Mr. WALKER. Short-term, I think we have two problems. We've got a severe cash-flow problem and obviously cash is what's key in

order to survive and continue to operate, and more companies go into bankruptcy because of inadequate cash-flow, even if they're making money. But in this case airlines both have negative cash-flow as well as not making money.

Second, a liability issue, that's clearly an issue that's a short-term and a long-term issue. In addition to that, I think you put your finger on something. I don't know if I would use the word fear, but there clearly is significant apprehension on behalf of the American public at large with regard to whether or not they should fly now unless they really need to fly. So in other words, I think what's happening is that people are making a judgment, is this a want or a need, can I put this off for a period of time when things cool down and I have a little bit more confidence with regard to security and I have a little bit more confidence that would cause me to go ahead and get back on the plane.

So I think part of it is a timing difference, a large part of it is a timing difference. It's hard to measure. Some may well be a permanent difference, some may well be individuals, especially in certain parts of the country, like the northeast corridor, may decide that a higher percentage of people are now going to take Amtrak, which has financial problems that could be helped by this, than otherwise would be the case, because they have that alternative, versus the shuttle.

But when you're talking about longer distances, the train obviously is not as viable an option because time is money.

Senator CLELAND. May I just followup on that?

Mr. WALKER. Yes, Senator.

Senator CLELAND. Then would you accept the proposition maybe that we are dealing with a twin headed monster, maybe not a single headed monster. It is not just maybe that the root cause is fear, that we do need to take other actions that are themselves confidence building measures, certainly for the airlines themselves in order for them to stay on their feet, the financial piece, the infusion of money piece, the loan guarantee piece.

I will say to you that I think we are entering a new era here. We generally talk about government and the private sector working in partnership to accomplish a goal, but I think this is a unique partnership. We are not seeking to nationalize or buy the airlines, but we are in effect investing some taxpayers' money in them and serving as a banker of last resort and so forth.

I think it is going to take, shall we say some maybe unique supervision of this, I am not sure what, but you pointed out some oversight committee, do you not?

Mr. WALKER. Control board, oversight board, call it what you want. I do agree wholeheartedly, Senator Cleland, that the government must take steps now in cooperation with the airline industry to deal with the security issue. It's not just a matter of the screeners. It's also better control over credentialing of airline employees, credentialing of law enforcement officials and a variety of other things. It's the air marshal issue. I mean, there are a number of issues that absolutely positively have to be addressed, because that will help to regain public confidence, reduce apprehension and obviously to help the industry as well as our economy.

Senator CLELAND. Thank you very much and we appreciate your willingness to help this Committee structure such a proposal. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman. When Chairman Hollings announced this hearing and people around the country knew we were going to meet on this topic, the phones basically started ringing off the hook and people would say look, I know the airline industry has taken some tremendous hits, but so is my company, so are my workers. And my question to you, Mr. Walker is, given the interest in this Committee in making a principled decision, and trying to be fair to all of the affected industries, does GAO have anything resembling, if not a road map, at least some principles that we might, you know, look at in terms of trying to decide how and when and how much, so that we can stand up in a town hall meeting and say we are being fair to these various interests?

Mr. WALKER. We do, Senator Wyden. I will provide to the Committee a copy of a report that we actually issued a number of years ago, but is still relevant today. It's a report that's entitled Guidelines for Rescuing Large Failing Firms and Municipalities. In this particular case we're dealing with an industry, which makes it more complex. You're also dealing with a lot more money, but I would be happy to make that available to the Committee.

Senator WYDEN. The other question I wanted to ask is how much of what is being projected is based on really ill defined notions of when passengers are going to return? I am looking at the airline projections, and the airline industry says that things would be down obviously 60 percent in September and the fourth quarter, 40 percent, and then into 2002, the first quarter, 25 percent. Are you comfortable with how they are making those calculations about when passengers are going to return and how many are going to stay out?

Mr. WALKER. Senator, we have not been asked nor have we looked at any of the projections that the airline industry may have made or even what the Administration is doing. I only am aware—

Senator WYDEN. Isn't that a key factor?

Mr. WALKER. Absolutely. It's a key factor in projecting revenues and therefore, resulting cash-flows. And it deals directly with what Senator Cleland talked about. How quickly will public confidence be restored such that revenue passenger miles and load factors will end up increasing, hopefully to the point of getting past the break-even point.

Senator WYDEN. But it strikes me as being important to have somebody independent making an assessment about that, either the General Accounting Office or somebody else.

Those were the only questions I wanted to explore. Thank you, Mr. Chairman.

Mr. WALKER. Senator, I think that's particularly more important to the extent that you are talking about longer term assistance. If you are talking about the short-term need that exists, the infusion, especially if it relates to government actions, you may not need it.

But for long-term assistance like loan guarantees or whatever, clearly that's something.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman. Senator Wyden actually asked exactly the question I was wanting to pursue and dealing with where do we stop. I mean, it is a political problem for us, because I have the hotels, motels, entertainment industry, the tourism industry which is big in New Orleans, and Louisiana, already talking about, you know, we have suffered economically and we need to be a part of any kind of assistance program.

And I guess what you have done in that paper is to sort of give us an economic reason—we have to handle the politics of it, which is our job, but I mean, we have to have some basis for making those decisions and I think it would be helpful if you could get me a copy of that report, and certainly to all of us on the Committee. I think it would be helpful, thank you.

Mr. WALKER. A lot of it, Senator, has to do with national security. A lot of it has to do with issues like to what extent does the government have direct control. Obviously, you know, the government runs the FAA, the government controls the air space. Obviously the airlines have an impact on national security, the airlines have an impact on fuel and the economy. But we have various factors that this Committee and the Congress may want to consider, as well as others.

Senator BREAUX. Thank you.

The CHAIRMAN. Very good. Senator Allen.

Senator ALLEN. Thank you, Mr. Chairman. Mr. Walker, just as Senator McCain brought up in the beginning, your standard of the "but-for" test is one that is very much similar to the way I look at this matter. The airlines received \$5 billion in compensation from the Federal Government after the FAA shut down the nation's airports. In addition, the FAA has created stricter safety standards and there is certainly a cost associated with these new standards compensating the airlines and creating new safety standards makes a great deal of sense.

Now when you get to the loan guarantee piece of this I was struck by how it seemed like a similar sort of thing is done when you're trying to get a new investment in a state and create new jobs. We are talking about loan guarantees which have some sort of value, whatever amount it may be. But what if we came up with an approach to financial assistance or loan guarantees based on a performance grant approach.

I do not know what the criteria would be. Normally in economic development it is an amount of investment and number of new jobs created. That is not necessarily the way this would work, but you would have a criteria where you measured certain positive activity, jobs saved as opposed to created, and service levels to various cities.

Have you thought of any sort of positive incentive approach to these loan guarantees?

Mr. WALKER. There may be ways to work something in with regard to the terms and conditions, but I think you have to keep in mind, Senator, that presumably the reason that they would be coming to the Federal Government is because they are in financial

distress, and so therefore, the ones that are hurting the most are going to be the ones that are coming. Ultimately what has to happen is there has to be a tradeoff, because if you're making the loan on behalf of the taxpayers, presumably you want to have, you want to believe that you're going to get repaid within a reasonable period of time.

Now there is a lot you can do on interest rates and terms and things of that nature if you will, but you know, and obviously to the extent that there is less of an adverse impact on job loss or whatever, as long as they can still repay the loan, you may want to somehow, you know, reflect that in what the terms are, or adjust the interest rate or something of that nature, if you will.

But I think it requires a lot more thought. The bottom line is, if you're going to provide loan guarantees to deal with a longer term issue, the longer term transition issue because of the uncertainty about when people, when consumer confidence is going to be increased, it's going to be a lot more difficult.

Senator ALLEN. Let me ask you this final thing as time is running out. Where is the claw-back provisions? In Virginia, whenever we would put some of these incentives in to bring businesses to the state there would always be a claw-back. If the airlines don't perform, for example one of these airlines does go bankrupt, where are the taxpayers in the line of creditors?

Mr. WALKER. Clearly what happened in the past, and I believe what was in the case of Chrysler although I will double check it, is the government got a priority in the event of bankruptcy, it got a priority claim.

In addition to that, the government got an equity kicker. To the extent that it worked, the government received certain warrants, and in fact that turned out in hindsight to be a good deal for the government.

Senator ALLEN. Finally, Mr. Chairman, on the liability issue, how can the government pass a law changing a cause of action retroactively or an ex post facto approach? Has that been done before?

Senator FITZGERALD. Yes.

Senator ALLEN. I am always amazed at what the Federal Government does.

The CHAIRMAN. Senator Nelson.

Senator NELSON. Mr. Chairman, I just had two issues.

We have this estimate report, estimating that passenger loads were going to be off by 40 percent in the future. Now if a major financial house is sending out that kind of news to the marketplace, is it any wonder that we see the kind of precipitous drop in airline stocks? And I think Senator Cleland is on to the major issue there, that to restore that confidence and turn this around, getting the airlines flying with loads is one of the most important things that we could do.

The second thing that I would urge for the Committee's consideration is the question of the liability question and the insurance question. That is perhaps one of the items that could take down major airlines so quickly, particularly if liability and property damage coverage were to be canceled in the near future.

And I notice that Mr. Walker, who has a very good insight into this, made the statement that that is one of the critical factors. Would you expound on that?

Mr. WALKER. I think the liability issue, not only with regard to the events of September 11, but also the overlapping of the liability issue with regard to the industry as a whole, is clearly an issue that needs to get resolved. We talked about one model, which is the Price-Anderson model. My understanding, the Administration is talking about some type of stop loss, where the government might end up assuming losses in excess of a certain amount, but I don't really know, I've just gotten bits and piece of it.

But I think there is general recognition that the liability issue is something that needs to be addressed quickly.

The CHAIRMAN. Senator Edwards.

Senator EDWARDS. Mr. Walker, tell me what this money we are talking about appropriating today or tomorrow, sometime very soon, tell me what impact you think that is going to have on all these people who are going to lose their jobs.

Mr. WALKER. It's not necessarily going to guarantee that people aren't going to lose their jobs, and the reason being is there clearly is a significant supply and demand imbalance. There was some excess capacity, especially on behalf of certain carriers, before the events of September 11 occurred, now there is a broad-based excess capacity within the industry.

And keep in mind, that in the Chrysler situation and in other situations, there were significant reductions in levels of employment in order to be able to save jobs long term rather than to save jobs short term, so there are some tough decisions that are going to have to be made. In providing this assistance, although ask Leo Mullin, who can speak on behalf of the industry, it is no guarantee you are not going to have job losses.

Senator EDWARDS. Can you address that issue? As many of my colleagues, I am concerned about those people. In my state, I think I mentioned, we have over 11,000 people who work for U.S. Air, and some of my colleagues have lots of airline industry workers in their state, and I think we need to put some attention on that issue. We have an awful lot of folks who could lose their jobs, totally innocent victims of what happened last Tuesday.

Mr. WALKER. Part of the question you may want to ask, Senator, is but for the financial assistance, what would happen? To what extent might the carrier file for Chapter 11. To the extent the carrier files for Chapter 11, that's reorganization. They are going to have to end up restructuring their debts, the shareholders are going to take a hit, and they are going to have to end up somehow trying to get their revenues and costs in line, and there are going to be job losses associated with a Chapter 11 restructuring. Obviously if the carrier can't do a Chapter 11—

Senator EDWARDS. But there are going to be people who lose their jobs—

Mr. WALKER. Absolutely.

Senator EDWARDS.—in this country as a direct result of what happened last Tuesday, are there not, in the airline industries?

Mr. WALKER. Yes. I think there were going to be people who were going to lose their jobs in the airline industry before the

events of September 11, and there are going to be more people that are likely to lose their jobs because of the events of September 11, even if you provide assistance.

Senator EDWARDS. Second question. Is there some way going forward, not talking about what we are going to do immediately, that we could provide financial incentives to passengers to get them on airplanes? You know, whether it's a tax deduction, tax credit, something to cause them to want to fly? I mean, the issue of fear of flying is obviously an issue that we are addressing on the security front, but is there something we could do to provide some financial incentive to get people on airplanes? Because that also impacts not just the airline industry, but all the attendant industries that many of my colleagues have been talking about, the hotel industry and many others.

Mr. WALKER. Obviously Congress can do a lot of things through the tax code and through the appropriations process. The difficulty is trying to understand what the nature and amount of that incentive would have to be in order to be able to deal with the apprehension. My personal view is that the thing that the government needs to do the most is to deal with the security issue. I mean, to deal with the security issue and to take definitive steps.

And I think the security issue, quite frankly, is not just a government issue, it is also an airline issue. The crews have not been trained for the new threat. The crews were trained to deal with a hijacking by being submissive, do what they say, allow them—you know, because the assumption was that you were going to be flying to Cuba or someplace else you didn't want to go, but you were going to be coming back. We are clearly in a different ball game.

In addition, the cockpit, access to the cockpit, obviously that has to be reinforced. There are a number of things the airlines need to do. So as has been mentioned by several members here, there needs to be a partnership approach. The government has to do certain things, the airlines have to do certain things and frankly, the citizens have to do certain things.

Senator EDWARDS. Thank you.

The CHAIRMAN. Senator Brownback.

Senator BROWNBACK. Thank you, Mr. Chairman. Mr. Walker, just a short question about the associated industries. You mentioned in your study you look at the broad-based industries. A company that announced similar layoffs the same day, virtually, that the airlines did was Boeing Corporation; they announced 20 to 30 percent layoffs in manufacturing. I do not know that they moved a plane last week, and I think they are looking some time into the future. What do you think about working with Boeing, or would there be a way for us to press Airbus, their major competitor, to reducing its either subsidy level that goes to them or getting the two in a better competitive situation, as Boeing takes this huge hit here in this country from sales of domestic airliners here?

Mr. WALKER. Well presumably, the reason that Boeing is contemplating significant layoffs is because, A, they may be concerned that existing orders are going to be canceled, especially if airlines go into bankruptcy. And second, they are concerned that the future projection of demand for air travel may have been significantly

modified in some way and therefore, people aren't going to need as many airplanes.

These issues, by the way, exist in Europe as well. I mean, while Europe wasn't directly affected by the events of September 11, they are not immune from events such as occurred on September 11. And so, you know, we have some preliminary indication, although Leo Mullin may be able to talk more about behavioral impacts of air transportation in other parts of the world as well.

Senator BROWNBACK. That is all I have.

The CHAIRMAN. Very good. Senator Kerry.

Senator KERRY. Mr. Chairman, thank you very much. Once again, I do not want to make it sound simplistic, but I do think that we are more worried about the post-September 11 than we have to be, and the larger problem in the airlines is pre-September 11 with respect to this Committee.

If we do three or four things, I think you can get people flying again pretty soon. The first and most important you just mentioned is the security issue. If we guarantee Americans that there is a federal system in place that is strong and capable for screening passengers, and if we guarantee Americans that nobody can get into that cockpit again, and then you market the new safety in a significant way and combine it with extraordinary low fares. And I think part of our bailout ought to be that those steps are coming in one, two, three, very fast.

And then we are going to sustain the notion of a major marketing campaign in the country with public officials and others flying, with the media joining in the effort to prove how safe it is, and with the fares, and you will fill those planes up again just the way they were before, I think very rapidly, I am convinced of that.

If we federalize the security, we are going to be saving the airlines a billion dollars a year right there. Now should we not factor that in to whatever this bailout is, that if all of a sudden there is a transfer of that payment, that's a component of what we are now doing, correct?

Mr. WALKER. Absolutely. One way you could help is to assume responsibility for something that otherwise the airlines are responsible for, such as screening.

Senator KERRY. So there is one component of saving cost there.

The second thing is, I would like you to come back for a moment to the worker issue. 10 percent of the work force, almost, is being laid off. I think about 1.2 million employees, 100,000 plus, and there may be more. These workers, how many of them do you think fit the but-for, how many are directly as a consequence of what happened in this immediate downturn of September 11?

Mr. WALKER. I wouldn't want to hazard a guess there, Senator Kerry.

Senator KERRY. Do you not think we should try to figure that out? I mean, it seems to me we have some obligation here to try to help those people in some way. I mean, they are directly impacted, their lives are impacted, and that also helps the economy. If they have a capacity to transition into something or to be sustained, it seems to me we are going to help them in terms of their consumer capacity.

Mr. WALKER. That would be difficult but not impossible to do, but it is something I think you would have to have another body such as a control board or something to be able to take a look at that if you are going to do it.

Senator KERRY. Well, would you not agree with me that if you do have these safety measures addressed rapidly, right up front, America knows the screening is unprecedented, America knows no pilot, you just do not have access, no terrorist can get into the cabin, you cannot turn your airplane into a missile, and you have a marshal conceivably, do you not think you are going to appeal to Americans in a remarkable campaign that would bring them back, particularly with extraordinarily low fares which we as part of the bailout ought to sustain as a matter of bringing people back?

Mr. WALKER. That's one form of assistance you could provide, to subsidize for a period of time. I believe it is absolutely essential that steps be taken with regard to the security issue immediately. You can't guarantee, nobody can guarantee that events will never happen again, but there's a lot that you can do to significantly reduce the risk.

And in fact GAO, as you know, Senator, has done a lot of work on this area, including what do other countries do with regard to screening and other procedures, that I think can help inform the Congress.

Senator KERRY. Well, it is interesting, though, to note that none of these hijackings took place with a gun and none of them walked in with a big box. I mean, security did work to that extent. This was low tech, it was smart, but low tech. It was remarkably thoughtful in thinking out the reaction to the terror threat in the plane, and ostensibly the reaction to the threat was that the pilot opened up the cabin, came back to do something about it, and that gave people access, or the terror to the flight attendant gave people access, or the door itself was so weak it gave people access.

But it seems to me that that is something that everyone knows we could deal with, so if you are reducing a terrorist to the choice, God knows how, if the screening improves over what we had, that did not allow them to have a gun, it did not allow them to have a bomb, it is already pretty good, and if it gets better, then the likelihood of anybody being able to bring down a plane, I tell you, the comfort level is extraordinarily high.

Mr. WALKER. I think there are some things that can be done that can increase confidence if the public is made aware.

Senator KERRY. Let me ask you a critical question. Go back to September 10. Were there on September 10 some airlines that were not going to make it or should not make it that we should not be bailing out?

Mr. WALKER. There were some airlines without mentioning names on September 10, that in my opinion, there were serious questions as to whether or not they were going to be able to survive without going through Chapter 11.

Senator KERRY. And what then is our responsibility with respect to that but-for application and looking at September 10 and making a judgment about what agony we may be prolonging by this open-ended bailout, or should it be more surgical in terms of our own actions?

Mr. WALKER. I think it clearly needs to be more surgical with regard to the extent that you're talking about providing assistance for anything other than but-for events for which the government had direct responsibility, for example, but for the event of the government closing down the airspace. If you want to do something that goes beyond that because of the decline in consumer demand, such as loan guarantees or whatever, you are going to have to differentiate.

Senator KERRY. Mr. Chairman, thank you. I would just say to you, Mr. Chairman, the best bailout for all these other businesses that Senator Wyden and others are hearing from, whether it is car rentals or restaurants or hotels, is getting people back in these planes.

The CHAIRMAN. Yes, sir.

Mr. WALKER. And Senator, one of the things that has to happen and I think it has already, is to change what you can carry on to the plane. I mean, there is too much carry on in the planes right now. And second, my wife herself disarmed a passenger 3 months ago of a four-inch knife that was allowed. That's not acceptable.

The CHAIRMAN. Senator Fitzgerald.

Senator FITZGERALD. Mr. Walker, I thank you for your help in talking about the safeguards we can have. The reason I have been concerned and said before, and Senator Boxer picked up on this and was disputing my suggestion that this is a question of whether the risk is borne by airline shareholders or by the taxpayers, the reason I say that that is the simple choice here is because unlike other bailouts, in this case what is being proposed is that we just get out the ladle and give taxpayer money and get nothing in return.

Now if you look to say the Continental Bank bailout, the government got 80 percent of the stock of Continental Bank. We didn't enrich the shareholders of Continental Bank, we took an equity position. And to the extent that we are called upon to contribute equity to the airlines, is it not wrong to not get equity in return, get preferred stock or common stock?

Even in the Chrysler bailout, the government was given I think 14 million warrants which we later sold at a profit. Once the Continental Bank got itself back on its feet, the government did an IPO of the stock, and I think it is just wrong to not get something in return for our investments.

Mr. WALKER. Senator, you make a good point. My view is that the Congress may want to consider that if the Congress, if the U.S. Government took certain steps that caused certain losses, e.g., closing the airspace for a period of time, that you might want to view that differently than if, in the case of Chrysler, where there were loan guarantees, which might be necessary and the Congress may or may not want to do, and as part of the terms for loan guarantee, you may well want an equity stake as well as a priority in bankruptcy and several other things, which is what happened in Chrysler and what has happened in other deals.

So I think it depends on what is the nature and amount involved.

Senator FITZGERALD. Well clearly, there may be a claim for those 3 days that there was a shutdown on the government edict, but

they are asking far beyond their possible damages for that, figures as high as \$24 billion.

Mr. WALKER. It obviously doesn't pass the straight face test.

Senator FITZGERALD. Now if we make loans, can we not take collateral? I mean, what is wrong with us taking their unencumbered jets as collateral? And what is wrong with us having a collateralized loan? Why does it have to be just gifted?

Senator KERRY. Would you yield just for a minute on that?

The CHAIRMAN. Wait a minute. It is his time. We have two more panels and several witnesses.

Senator KERRY. Aren't most of those planes on lease anyway? I understand insurance companies own the better part of the planes and they just lease them.

Mr. WALKER. A lot of the planes are leased. I don't have the numbers in front of me but a lot are leased.

Senator FITZGERALD. I think that was in the testimony of Morgan Stanley.

The CHAIRMAN. Right. Senator Boxer.

Senator BOXER. Thank you very much. Mr. Walker, you are a very clear thinker and I appreciate that very much. I also appreciate that you have not said the word paradigm at all, neither in your oral statement or in your written statement and I am grateful. For some reason that word just makes me think bureaucrat, and you have not done that, so my apologies to anyone here who has used it.

We are talking here about a bailout package or a rescue package, however one wants to term it, and a financial assistance package, we can call it whatever we feel comfortable calling it, and I really do think the vast majority of members here will support it. But I want to pick up on Senator Kerry's point, which you also talked about, and Senator Breaux's point, that we are looking at pre-September 11 in terms of this package, and post, and we do not want to throw, if you will, the very overused expression, good money after bad by investing taxpayer funds, if you will, or granting them or lending them, to companies that were going to go under anyway in any case.

Now that puts us in a position, Mr. Chairman, of picking winners and losers, a very hard thing for us, a very difficult thing. I am wondering if you have given any thought of how we can feel comfortable that we are setting aside all political considerations and we are really making a decision based on the merits. Have you given a thought to some type of a process?

You talked about a control board, but I assume that was after the package. So is there any independent entity we can look toward before we do the package that you think would be comfortable, how about GAO as an example?

Mr. WALKER. Well, Senator, obviously we are happy to provide assistance to the Congress, but I really think it depends upon what is the nature of the package. For example, if the Congress decided that it wanted to move immediately to provide grants to deal for the losses that were incurred due to direct events that were within the control of the government, if the government decided it wanted to do something on the liability side for the industry as a whole, if the government decided it wanted to do something on the secu-

rity side, which is something that is necessary for the overall government, and if the government stopped short of saying it wants to end up making a lot of loan guarantees, all right.

Then you may not have as much of a need, you know, for picking winners and losers. On the other hand, once you get into the situation of trying to extend credit or guarantee loans, or do something which is something that the government did not have a direct causal effect for, it did not cause in any way, then I think you're going to have to have a control board or something, because the Congress as an entity realistically can't deal with those issues. I mean, those are details and that's why I say you need some type of entity, which has been the case for every prior federal assistance ever.

Senator BOXER. Right. But as you point out, this is a little different because we are talking about an industry, so it is a tougher call. You are going to have colleagues in this body and the other body who have those companies in there, and I am just saying how difficult it will be for us.

The last point, I just want to underscore what Senator Cleland has talked about I guess this morning, and has been echoed by many others on both sides here, the issue of safety. Because frankly, from where I sit here thinking about it, someone who has traveled more than a million miles and intend to continue, if people do not feel good about it, if they do not get back in those planes, it does not matter what we give, it is over, because it is not an endless situation.

So I would just like to say to you, Mr. Chairman, and to my friend Senator McCain, as you two take the leadership along with Senator Hutchison and others, Senator Rockefeller, I hope that you will put this front and center. I believe that I could get as optimistic as John Kerry, maybe not today but maybe in a little while when it is a few more days away from this tragedy, but it will take a tremendous amount of action.

I love Norm Mineta but, I did not get as much as I wanted. I got so much more from the panel that a lot of folks did not hear, they were so clear in what they said. The pilot said I want to be in a fortress when I fly, that is what I need, then I know everything will be OK. I mean, he was clear.

The airlines said we need you to take security off our hands, we really cannot do it, it is not our thing. We need to do that. And we need air marshals in every plane. It is pretty clear what we do.

You know, I am going to support helping this industry, but if we fail to do what we need to do on the safety side, it is a complete waste. I have been in a lot of hearings, Mr. Chairman, and I am so honored to be on this Committee, but this has been today so far, and I will stay for the last minute, an extraordinary experience, and I think that I have a better handle because of the wisdom of my colleagues and of the witnesses, so thank you.

The CHAIRMAN. Thank you very much, Mr. Walker. We are indebted to you.

We have now the Panel II, Mr. Leo Mullin, the president of Delta Airlines, and Mr. Kerry B. Skeen, the chairman and CEO of Atlantic Coast Airlines.

Mr. Mullin, we are going to lead off with you, and we appreciate very very much your appearance, and your statement in its en-

tirety will be included in the record. You can highlight it or deliver it in full, as you wish.

**STATEMENT OF LEO MULLIN,
PRESIDENT, DELTA AIR LINES**

Mr. MULLIN. Thank you very much, Mr. Chairman. I will go through most of it but highlight a few points.

First of all, thank you for providing the opportunity to testify here today on behalf of the Air transport Association and its members. We are extremely grateful to you, Senator Hollings, Senator McCain, and Members of the Committee for convening this hearing so quickly.

We also commend you for the hearing you held today on important aviation safety and security issues, and for the swift capable leadership you are providing as our nation stabilizes and recovers from the heinous attack of September 11.

Airline safety has been our consuming activity and we are pleased and grateful for the Federal Government's efforts made in this critical area. We are now running today with safer and more secure processes than we have ever had, and we are working to restore our reputation as by far the nation's safest mode of transportation.

While the safety goals are being met and flight operations have returned to 70 to 80 percent of pre-September 11 schedules, the financial damage to our industry is devastating and it poses yet another threat to air transportation. Air transportation, as has been mentioned many times, is the engine that drives our nation's economy. A vital industry at all times, it is especially important now as our nation works for a return to normalcy.

But this industry has been destabilized by a near total 4-day shutdown, steep declines in passenger demand, sharp increases in insurance premiums, and rising costs for essential heightened security measures. Mr. Chairman and Members of this Committee, under current circumstances and without immediate financial support from the government, the future of aviation is threatened.

Today there are virtually no private sources of capital open to airlines, which are by their nature capital intensive. Financial liquidity in the industry is poor. Even with the self help that all airlines are taking, almost no airline is strong enough to survive for long facing the upcoming challenges.

Therefore, Mr. Chairman, on behalf of the industry, I am here to ask your help in the development and approval of a package of transition aid so that as Secretary of Transportation Norman Mineta said recently, "We do not allow the enemy to win this war by restricting our freedom of mobility."

As airline operations began to return on Friday of last week, the CEOs of the industry under the aegis of the ATA, turned their attention to this looming crisis and developed a three-prong request for assistance.

The first addresses the financial underpinning required to maintain the industry's capacity to serve. The second relates to the liability issues arising out of the tragic role case on aviation in this attack on America. And the third deals with the need to provide resources for our enhanced aviation security programs.

Let me begin with the financial, the first component, which is the need for direct financial aid. In effect, we as an industry experienced roughly 4 days of near zero revenue while we continued to accumulate almost all expenses. Since the airline industry spends about \$340 million a day, their direct costs of the 4-day halt in operations was approximately 1.36 billion.

Looking beyond those 4 days, we have used our actual numbers so far, as well as projections based on the disasters of PanAm 103, and the implications of the Gulf War to estimate that revenues from September 15 to September 30 will likely reach only 40 percent of what we had expected prior to September 11. Based on that, estimated daily losses for the 4-day shutdown total 3.36 billion.

Added together, those two numbers bring the September losses to \$4.7 billion. Adding 300 million for losses by cargo and other carriers not part of the ATA to the 4.7 billion number, we arrive at a cash infusion amount of \$5 billion for immediate term damage associated with September alone.

Next we work to determine the effect of reduced revenue during the upcoming months on each company's cash position, the method which best reflects our needs for funds. As Senator Wyden has mentioned, we assumed the traffic for fourth quarter would grow to 60 percent of the previous expectations, to 75 percent of expectations by the end of the first quarter of 2002, and to 85 percent of expectations by the end of the second quarter of 2002, a pattern by the way, that would follow the response after those previous disasters.

Prior to the events of September 11, the industry had forecast an aggregate cash balance on June 30, 2002 of positive 8.5 billion. With these revenue assumptions, our new estimates now indicate instead a negative \$15.5 billion cash balance. Thus, the events of September 11 are forecast to have a negative \$24 billion impact on the industry's cash position.

Mr. Chairman, it's the arithmetic. It follows very clearly.

Now none of us knows precisely in the upcoming period. These estimates pertain to a situation that has never occurred. Hence, we also ran these same numbers in an optimistic and pessimistic mode. Optimistically, the swing in case balance could run just under 18 billion as opposed to the 24, or pessimistically as high as 33 billion.

To minimize our requests for aid, we would recommend that the industry and government use the optimistic projection of just under 18 billion rather than the best estimate of 24. This implies some risk, but it is our job to do the very best to absorb that risk as part of our collaboration with the government.

Now given our request for \$5 billion to address the immediate impact in September, we would then as a second part of the financial portion of this package, ask the government to provide access to 12.5 billion in loan guarantees to assist with the potential shortfall through June 30, 2002. Our total request including the 5 billion in grant and the 12.5 billion in guaranteed loans is for 17.5 billion in financial assistance.

Mr. Chairman, our industry's need is urgent and immediate. We understand that these are large numbers but we must also empha-

size that we face an enormous problem with potentially devastating repercussions for our nation's full recovery.

The second topic relates to the liability issues arising out of the tragic role that was cast on aviation in this attack on America. The events of September 11 are unique, with terrorists for the first time in history using a commercial aircraft as an instrument of destruction.

We believe that the resolution of claims arising from this act of war should be resolved by Congress enacting appropriate federal law rather than be resorting to widely divergent principles of state common law. If that is not the case, then while American, United and any other airlines named as defendants will necessarily defend themselves in litigation, the massive response and uncertainty as to the outcome of litigation will almost certainly frustrate an airline's ability to raise needed capital in the short term.

Therefore, we would propose as the second part of our program that legislation be passed by Congress that first reaffirms the right to bring claims against the airlines for the experiences and deaths of the airlines' passengers, as it does now. However, such legislation should also stipulate based on the fact that this was an act of war, that the airlines would not be liable for the damage to persons and property on the ground.

This seems the fairest way to insure that appropriate parties have the right to pursue their legal rights, that airlines are not further victimized by these terrorists, and that airlines can instead continue the work of rebuilding our nation's aviation system.

A related problem is the concern for huge increases in insurance premiums. The carriers are experiencing drastic increases in premiums, totaling as much as a \$1 billion increase for the industry. And insurers are also severely reducing coverage limits.

We simply do not have the resources to pay for such increases, which are a prerequisite for airline operation, we cannot fly without that insurance. Mr. Chairman, it is absolutely critical that this issue be addressed in your legislation, as it is a critical element of the overall financial impact of this tragedy on our industry.

The third and final component of our program deals with the need to provide resources for the enhanced aviation security programs which our nation is undertaking. The events of September 11 marked a sea change in the way we as a nation need to think about air security. It's time for a unified federal security system, calling forth the government's extensive resources and expertise, including its intelligence gathering capability and its relationships with foreign governments.

Our proposal, Mr. Chairman, is that the Federal Government should provide financial support for all future mandated safety requirements, including the reinforcement of cockpit doors and enhancement of screening devices, strengthen the intelligence gathering analysis and distribution processes, take over all security screening functions, and provide sky marshals on domestic flights. The government—by the way, they are on international flights already.

The government's assumption of a stronger role in aviation security by assuming these responsibilities will be an important step

that will go far in addressing the issues which are at the heart of public concern over the events of September 11.

In closing, Mr. Chairman and Members of this Committee, our proposal is only intended to stabilize the financial condition of the industry. It is not a bailout, but rather a package designed solely to recover the damages associated with the heinous acts of September 11, nothing that went before. And it gives the airlines a chance to continue to serve as the economic engine and offer the public service it is our duty to provide.

The current industry situation is urgent. While the financial components of this recommendation I have presented today are most directly related to airline viability, the issues of liability and security are also important factors in our industry's crisis.

Because of variation in financing cycle and other differences between carriers, several airlines are facing decisions in just the next few days that will dramatically influence their future course and indeed, public perception of the industry.

Under ordinary circumstances in ordinary times, Congress should not and would not make decisions of this magnitude without length debate. These are not ordinary times or ordinary circumstances. And as a result, the airline industry is requesting that you move decisively now.

Thank you, and my panel colleague and I will be glad to answer questions.

[The prepared statement of Mr. Mullin follows:]

PREPARED STATEMENT OF LEO MULLIN, PRESIDENT, DELTA AIR LINES

Mr. Chairman and Members of the Committee:

Thank you for providing the opportunity to testify here today on behalf of the Air Transport Association and its member airlines.

We are extremely grateful to you, Chairman Hollings, Senator McCain, and Members of the Committee for convening this hearing so quickly.

We also commend you for the hearing you held earlier today on important aviation safety and security issues and for the swift, capable leadership you are providing as our nation stabilizes and recovers from the heinous attack of September 11.

For airlines, safety has been our consuming activity—and we are pleased and grateful to the Federal Government for the efforts made in this critical area.

We are now running with safer and more secure processes than we have ever had and we are working to restore our reputation as by far the nation's safest mode of transportation.

But while the safety goals are being met and flight operations have returned to 70 to 80 percent of pre-September 11 schedules, the financial damage for our industry is devastating—and it poses yet another threat to air transportation.

Air transportation is the engine that drives our nation's economy.

A vital industry at all times, it is especially important now as our nation works for a return to normalcy.

But this industry has been destabilized by:

- A near-total four-day shutdown
- Steep declines in passenger demand
- Sharp increases in insurance premiums
- And rising costs for essential heightened security measures.

Mr. Chairman and Members of the Committee, under current circumstances and without immediate financial support from the government, the future of aviation is threatened.

Today, there are virtually no private sources of capital open to airlines, which are by their nature capital intensive.

Financial liquidity in the industry is poor.

Even with the self help that all airlines are taking, almost no airline is strong enough to survive for long facing the upcoming challenges.

Therefore, Mr. Chairman, on behalf of the industry I am here to ask your help in the development and approval of a package of transition aid so that, as Transportation Secretary Norman Mineta said recently, "We do not allow the enemy to win this war by restricting our freedom of mobility."

As airline operations began to return on Friday of last week, the CEOs of the industry, under the aegis of the ATA, turned their attention to this looming crisis, and developed a three-prong request for assistance.

- The first addresses the financial underpinning required to maintain this industry's capacity to serve.
- The second relates to the liability issues arising out of the tragic role cast on aviation in this attack on America.
- The third deals with the need to provide resources for our enhanced aviation security programs.

Financial

Let me begin with the first component, which is the need for direct financial aid.

In effect, we as an industry experienced roughly four days of near- zero revenue while we continued to accumulate almost all expenses.

Since the airline industry spends around \$340 million a day, the direct cost of the four-day halt in operations was approximately \$1.36 billion.

Looking beyond those four days, we have used our actual numbers so far as well as projections based on Pan Am 103 and the Gulf War to estimate that revenues from September 15 to September 30 will likely reach only 40 percent of what we had expected prior to September 11.

Based on that, estimated daily losses for the four-day shutdown total \$3.36 billion.

Added together, this brings September losses to \$4.7 billion.

Adding \$300 million for losses by cargo and other carriers not part of ATA to the \$4.7 billion number, we arrive at a cash infusion amount of \$5 billion for immediate term damage associated with September alone.

Next, we worked to determine the effect of reduced revenue during the upcoming months on each company's cash position, the measure which best reflects our need for funds.

We assumed that traffic for the 4th quarter would grow to 60 percent of previous expectations, to 75 percent of expectations by the end of 1st quarter 2002; and to 85 percent of expectations by the end of the 2nd quarter of 2002.

Prior to the events of September 11, the industry had forecast an aggregate cash balance at June 30, 2002 of \$8.5 billion; with these revenue assumptions, our new estimates now indicate instead a negative \$15.5 billion cash balance.

Thus, the events of September 11 are forecast to have a negative \$24 billion impact on the industry's cash position.

Now, none of us knows precisely what will happen in the upcoming period—these estimates pertain to a situation that has never before occurred.

Hence, we also ran these same number in an optimistic and pessimistic mode.

Optimistically, the swing in cash balance could run just under \$18 billion or pessimistically, as high as \$33 billion.

To minimize our request for aid, we would recommend that the industry and government use the optimistic projection of just under \$18 billion rather than the best estimate of \$24 billion.

This implies some risk, but it is our job to do our very best to absorb that risk as part of our collaboration with the government.

Given our request for \$5 billion to address the immediate impact on September, we would then, as a second part of the financial portion of this package, ask the government to provide access to \$12.5 billion in loan guarantees to assist with the potential shortfall through June 30, 2002.

Our total request—including \$5 billion plus \$12.5 billion—is for \$17.5 billion in financial assistance.

Mr. Chairman, our industry's need is urgent and immediate.

We understand that these are large numbers, but we must also emphasize that we face an enormous problem with potentially devastating repercussions for our nation's full recovery.

Liabilities

The second topic relates to the liability issues arising out of the tragic role cast on aviation in this attack on America.

The events of September 11 are unique, with terrorists for the first time in history using a commercial aircraft as an instrument of destruction.

We believe that the resolution of claims arising from this act of war should be resolved by Congress enacting appropriate federal laws rather than by resorting to widely divergent principles of state common law.

If that is not the case, then while American, United, and any other airlines named as defendants will necessarily defend themselves in litigation, the massive response and uncertainty as to the outcome of litigation will almost certainly frustrate airlines' ability to raise needed capital in the short term.

Therefore, we would propose as the second part of our program that legislation be passed by Congress that first reaffirms the right to bring claims against the airlines for the experiences and deaths of the airlines' passengers.

However, such legislation should also stipulate, based on the fact that this was an act of war, that the airlines would be not be liable for the damage to persons and property on the ground.

This seems the fairest way to ensure that appropriate parties have the right to pursue their legal rights, that airlines are not further victimized by these terrorists, and that airlines can instead continue the work of rebuilding our nation's aviation system.

A related problem is the concern for huge increases in insurance premiums.

In addition, carriers are experiencing drastic increases in premiums totaling as much as \$1 billion for the industry—and insurers are severely reducing coverage limits.

We simply do not have the resources to pay for such increases which are a prerequisite to airline operation.

Mr. Chairman, it is absolutely critical that this issue be addressed in your legislation as it is a critical element of the overall financial impact of this tragedy on our industry.

Security

The third and final component of our program deals with the need to provide resources for the enhanced aviation security programs which our nation is undertaking.

The events of September 11 marked a sea change in the way we as a nation need to think about security.

It is time for a unified federal security system, calling forth the government's extensive resources and expertise, including its intelligence gathering capability and relationships with foreign governments.

Our proposal, Mr. Chairman, is that the Federal Government should:

- Provide financial support for all future mandated safety requirements, including reinforcement of cockpit doors and enhancement of screening devices.
- Strengthen intelligence gathering, analysis, and distribution processes.
- Take over all security screening functions.
- Provide sky marshals on domestic flights.

The government's assumption of a stronger role in aviation security by assuming these responsibilities will be an important step that will go far in addressing the issues which are at the heart of public concern over the events of September 11.

In closing, Mr. Chairman and Members of the Committee, our proposal is only intended to stabilize the financial condition of this industry . . .

It is *not* a bailout, but rather a package designed solely to recover the damages associated with the heinous acts of September 11.

And it gives the airlines a chance to continue to serve as the economic engine and offer the public service it is our duty to provide.

The current industry situation is urgent.

While the financial components of this recommendation I have presented today are most directly related to airline viability, the issues of liability and security are also important factors in our industry's crisis.

Because of variation in financing cycles and other differences between carriers, several airlines are facing decisions in just the next few days that will dramatically influence their future course and, indeed, public perception of the industry.

Under ordinary circumstances, in ordinary times, Congress should not and would not make decision of this magnitude without lengthy debate.

These are not ordinary times, nor ordinary circumstances—and as a result, the airline industry is requesting that you to move decisively now.

Thank you, and my panel colleagues and I will be glad to answer any questions.

The CHAIRMAN. Thank you very much. Mr. Skeen, similarly, we are delighted to have you, sir, and your statement in its entirety will be included, and you can give it in full or highlight it as you wish.

**STATEMENT OF KERRY B. SKEEN, CHAIRMAN AND CEO,
ATLANTIC COAST AIRLINES**

Mr. SKEEN. No, the Regional Airline Association as well as Atlantic Coast Airlines, which I am the chairman of, we support ATA's position 100 percent.

I do have just a few anecdotes to add to what Leo just said. Again, thank you very much for having me here today. I appreciate the opportunity to address you.

My company, Atlantic Coast Airlines, I think is a good case study to look at in terms of the regional airline industry. We have an excellent partner, sitting to my left, is Delta Airlines. We fly as Delta Connection in the Boston and Laganardia areas, and then our other partner, United Airlines, we fly as United Express, predominantly out of Washington Dulles, and our headquarters is out a few miles from here in Dulles, Virginia.

So, you don't know it's Atlantic Coast Airlines but you do know us, and I look around the room and many of you, we fly into your states quite frequently and serve a lot of markets that quite frankly would not be served if it wasn't for the type of service that regional airlines bring to this country.

So with that, I think the points are just two. And one is, we're so intertwined with the majors that we definitely, our first and foremost concern is that obviously they are vibrant, they survive, because we have no future because we are so dependent on our connectivity in terms of the network.

The second point is that we are separate companies, we are a publicly traded company, and there is no equity position in our company like many of our membership's, and so it is important that we also participate because our industry, the regional industry's losses have been real, on a relative term, much smaller than the majors but still very real to our employees and to our shareholders.

The regional jets, I think all of you know the regional jet story well. It has transformed this industry in the last few years. My company is in a rapid process of phasing out turboprops. We had 60 turboprops in our fleet a year ago. By the end of 2003, we will have no turboprops, that is the plan, because we have 81 regional jets on order to complement the 77 we already have.

What has transpired in the crisis that we are in today truly jeopardizes our ability to execute that plan. Just this week, since September 11, we had three of our aircraft financings back out, so it is truly a problem if we are going to continue to upgrade the level of service to the communities that we serve and that are so important to your various districts.

Security I won't touch on, because obviously I think it has been well said here today and we fully support the federalization of the security program.

And insurance, just to give you a relative benchmark for a small company but very big numbers on us, we were notified of an in-

crease in our passenger liability insurance which we have to do by Monday. This year our insurance bill will run on liability about \$2 million dollars; next year under the new charges, new surcharge that has been invoked on us, that will be \$8 million, so an increase of \$6 million, and you can imagine what it is for the larger carriers.

So again, I appreciate your time and because of the lateness in time, I will turn it over to questions. Thank you very much.

[The prepared statement of Mr. Skeen follows:]

PREPARED STATEMENT OF KERRY B. SKEEN, CHAIRMAN AND CEO,
ATLANTIC COAST AIRLINES

Senator Hollings, Senator McCain, and distinguished Members of the Committee, thank you for inviting me to appear before this panel.

I testify before you here today as Chairman and Chief Executive Officer of Atlantic Coast Airlines Holdings, Inc., based in Dulles, Virginia and as a Board Member of the Regional Airline Association (RAA). ACA, which is headquartered in Dulles, Virginia, operates a fleet of 118 aircraft and provides service to 66 cities in the U.S. and Canada, and employs over 4,000 professionals.

Before beginning my testimony and on behalf of the 4000 aviation employees of Atlantic Coast Airlines, I would like to extend our most sincere thoughts to the victims and families and rescue workers and all those whose lives have been forever changed by the acts of war carded out against all Americans last Tuesday. Our employees live and work and serve in the cities of Washington, DC and New York, and none of us will ever forget this tragedy.

We are heartened by the rapid action of the United States Congress in passing the 2001 Emergency Supplemental Appropriations Act, to provide funding for the victims of these tragic acts of terrorism and to help prevent such a horror from recurring. As the people of Atlantic Coast Airlines pause to grieve and reflect on these horrific acts, we must also focus our attention toward the commitment we have made to our customers and employees to keep air travel safe and reliable.

Regional airlines, like major airlines, depend and rely on a consistent source of revenue to keep their fleets in operation. The three-day grounding of commercial airlines during the aftermath of these terrorist acts inflicted staggering losses across the regional airline industry. At a minimum, the financial losses resulting from the nationwide groundstop and subsequent reduction in passenger traffic will put a tremendous burden on regional carriers' ability to continue current and future operations. Without immediate and sufficient emergency assistance, many regional carriers will be forced to cease operations, leaving passengers in small and medium sized rural communities in nearly every state of the nation without access to the nation's air transportation network.

Furthermore, while the main headline for the regional airline industry over the last five years has been the rapid replacement of turboprops with regional jets, the ability of regional carriers to continue the transition from old technology to new technology, and to dramatically improve the quality and reliability of service to hundreds of communities, is likely to come to a grinding halt without some help. Atlantic Coast Airlines, for example, operated with 60 turboprops in its fleet last year. We were on track to retire all of those turboprops and to replace them with state-of-the-art regional jets by year-end 2003. To meet this commitment to providing better service to communities with faster and more comfortable aircraft, ACA has 81 regional jets on firm order in addition to the 77 regional jets already in our fleet. Without some form of government support, it will be extremely difficult, if not impossible, for us to continue financing and obtaining insurance for regional jets in today's environment.

Background

Before moving on, I would like to provide some background so that you may better understand the regional airline industry and its contribution today. Last year, the regional airline industry accounted for 1 out of every 8 domestic passengers who flew in the United States. Of all the airports in the United States, nearly 70 percent have no mainline service at all but are instead served exclusively by regional carriers. Regional airlines provide the only link to the national transportation network for 271 airports in the lower 48 states. Their importance is even more pronounced in Alaska and Hawaii, where regional carriers provide the only scheduled airline service at 198 of these states' 222 airports.

For the last few years, regional airlines have been the fastest growing segment of commercial aviation. In the year 2000, regional airlines carded 85 million passengers, or 12 percent of all domestic passengers traveled on a regional carrier. Regional airlines accounted for 42 billion available seat miles and 25 billion revenue passenger miles in 2000.

FIGURE A

Regional Airline Transport Statistics in 2000:

Passenger Enplanements (Millions)	Revenue Passenger Miles (Billions)
85	25

Many regional airlines work in close cooperation with the major airlines through code sharing agreements. Of the 95 regional airlines in the United States today, 14 of them are wholly owned by major air carriers. Three of the regional airlines are partially owned. Still, other airlines like Atlantic Coast Airlines are independent, publicly traded companies that operate under codeshare or marketing agreements with one or more major carriers. Atlantic Coast Airlines has codeshare agreements with both United Airlines and Delta Air Lines. As such, Atlantic Coast Airlines relies heavily upon the survival of United and Delta for our own continued viability. The significant capacity reductions recently announced by many major airlines are already having a serious impact on regional carriers and if continued, are likely to lead to staggering losses for many of the carriers.

Despite these close working relationships with major carriers, regional airlines operate as separate financial entities and have been impacted by the aftermath of last Tuesday's terrorism in many ways that are unique to our particular segment of the airline industry. Whether or not a major airline has an equity position (ownership or part ownership) with a given regional, that regional carrier cannot support and maintain employees, cannot finance the acquisition of new aircraft, and ultimately, cannot continue to provide service to small and medium sized communities across the nation if it does not generate sufficient passenger traffic. In light of this, we recommend that all financial assistance be distributed in a way that allows regionals to receive direct financial assistance as separate entities rather than through a method which is reliant upon major airlines to mitigate regional airline losses.

The major airlines have identified several areas where airlines are in critical need of government assistance and are asking for \$24 billion in aid. Estimates of the support necessary for the regional airlines are proportionate to those losses estimated by the majors based on the regional airline industry available seat miles for last year. The regional airline industry last year accounted for just under 5 percent of the available seat miles produced by the major carriers.

The Regional Airline Association estimates total industry short-term losses will equal roughly \$1.3 billion. While our specific funding needs differ slightly from those of the major airlines, our request is in line with the request of the major airlines considering our proportionate available seat miles.

There are other factors, besides the immediate losses related to the groundstop imposed last week, that are likely to have a material impact on regional carriers. These include the inability of airlines to obtain reasonable insurance rates, the inability to obtain reasonably priced capital or in some cases credit at all, higher costs associated with additional security measures, reductions in equipment utilization resulting from the increased passenger processing times, higher oil prices, lower share prices, and reduced consumer confidence.

We therefore urge Congress to include additional support for regional carriers in any relief package to be provided to the major airlines, and urge that the support be provided directly to the regional carriers. That support could take the following form:

1. An immediate cash infusion in direct grants earmarked for regional airline industry to help mitigate losses associated with last week's groundstop.
2. Federalization and government financial sponsorship of security screening. In instances where regional airlines are uniquely impacted by additional security measures—a particular concern for regional airlines who exclusively serve cities and who operate small aircraft we urge federal assistance for implementation of any security directives. Since the government holds the intelligence information, and currently must filter it through FAA, to airlines, a more effective system would be to place security in hands of government so they could take immediate and appropriate countermeasures without the delay and added confusion of human factors.

3. Financial assistance in the form of low interest loans to provide working capital until passenger confidence levels improve and airline load factors return to sufficient levels to sustain carrier operations. The regional airline industry by nature is capital intensive and therefore highly leveraged and as a result needs access to capital at reasonable rates. Airlines expect difficulty financing aircraft acquisition; some carriers have even experienced difficulty obtaining replacement parts and spare parts because of supplier concerns over short-term airline fiscal health and commensurate ability to pay.
4. Assistance dealing with rapidly escalating insurance costs. All carriers face enormous rate hikes, and many with near-term policy extensions worry that insurance may not be available at all. Additionally, aviation underwriters have begun to impose significant surcharges on existing coverages starting next week. Significant could mean a 10 to 50 percent increase in existing liability premiums, surcharges of \$1.25 per passenger per segment, and 700 to 1000 percent increases in airline hull insurance. Some form of assistance in this area, either through government guarantees, government underwriting, or the establishment of a war-risk insurance program, are absolutely critical to the recovery of our industry.
5. Additional funds for the Essential Air Service program to provide DOT latitude for real-time rate adjustments to offset carriers losses and prevent service terminations associated with the drastic reduction in traffic. Additionally, such cash is necessary to continue subsidizing service at current and soon-to-be designated EAS markets. This is especially critical considering the announced capacity reductions; many markets not currently receiving subsidy may qualify and put an enormous cost burden on the program. Additionally, DOT must immediately consider incremental subsidy rate increases to cover cost increases and revenue reductions associated with the drastic reduction in traffic.

The Regional Airline Association arrived at these numbers after discussions with member airlines on the financial impact of Tuesday's events and the new security mandates that are now in place. Based on these responses, RAA anticipates revenue losses per airline will range from \$130 thousand to \$3.7 million per day (depending on the size of the operation) due to the federally issued nationwide groundstop. Beyond these losses, revenue loss forecasts for the next four months are anticipated to be between from \$8 million to \$20 million per airline and total long-term revenue losses for some of the larger regional airlines could approach \$100 million, based on conservative estimates of reduced capacity and traffic, but not including costs associated with higher insurance premiums and aircraft financing.

Most regional airlines responding to this question said that, without some form of financial relief, airlines will undergo drastic downsizing, reduce service to communities, and in some cases completely cease operations. Regional airlines form the transportation backbone that supports the economies of many smaller and medium-size communities, and the ripple effect of dramatic service cutbacks or termination of service to those communities will have staggering impact on the economy of the United States at large.

Conclusion

We at Atlantic Coast Airlines take our commitment to our passengers traveling to and from smaller and mid-sized communities seriously. Government assistance in the forms described above will provide the necessary life support our industry needs for the short term so that we can recover as an industry and be here to serve our communities for the longer term. As we continue to strive to keep air travel safe and reliable for our passengers, and for our employees, we respectfully request that Congress step up now and help us ensure that the regional airline industry along with service to almost 669 communities throughout the United States does not become the next casualty from the acts committed against the United States on September 11.

This concludes my prepared statement before the Committee. I thank you and all the Members of this Committee for your timely response and immediate efforts to secure assistance for airlines struggling under the weight of this national tragedy. Atlantic Coast stands ready to assist you in any way we can as you continue those efforts. Because the very viability of our industry depends upon the timeliness of this hearing and government assistance, we thank you sincerely for your efforts.

The CHAIRMAN. Mr. Mullin, I am glad you are the witness, because you and I have had discussions before with respect to the airlines operation. I have the greatest respect for you and know you

to be a heck of a good operator. And yet, categorically, you say it cannot be a bailout; wait a minute, it could be. We had an airline CEO tell us last year, you either approve my merger plan or I am going bankrupt. His plan has been turned down.

And otherwise, just looking at the airlines involved in this up in New York and here, you can see that those airlines and the airlines were responsible, were just recently fined because they did not have security, and it was very lax and otherwise in that regard.

A lot of those things go through a senator's mind that—do not worry about me, I am going to vote, because I do not think we can afford to dilly around, I think we are going to have to give the short-term assistance, period, so that we can look objectively as to the security measures and everything else for getting this thing back going again.

But in the long-term, the airlines, you would not call them well run operations in the United States. I have been here 35 years watching it. When we had the old Civil Aeronautics Board, the old CAB used to watch you, and the whole airline was all developed to service on the public convenience and necessity. The community got together, built the field, the tower, went to the CEO like yourself and said, look, can you bring us service, now we have the runways and everything. And they would come to Washington, and I participated in those hearings, but the community itself then had control.

Now with this hub situation, you control Atlanta, the phone rang. Good God, you ought to hear the telephone calls I have gotten around here. You cannot go to the bathroom that you do not get another call. But in any event, you folks have been calling around, you have your K Street lawyers, they have put on the full court press, and you all got a monopolistic situation that we cannot even get any competition.

When we got some down in Texas, we knew it was predatory pricing, but then you have the antitrust technicalities and so forth, and the court on an antitrust law technicality could not call it predatory.

So in going forward with these billions, let us make sure we do not have predatory pricing, that we do have some competition, that we really are not helping those who are bailing out, because that would be a bailout, those who are about to say ta ta and good-bye, those who have been paying inordinate executive salaries.

I know the people in the airports, and they are the best. I talk to them, they look out for me and they work hard, and there is no waste there, but the system is way out of kilter, way out of kilter. They are constantly full, I do not know whether it is 85 percent or 65 percent, but I am traveling with 100 percent. And they are constantly saying we will give you some free tickets anywhere in the continent if we can get two more leaving, two more leaving, so they have a system of overselling, and otherwise.

We have got to get better operation in the airlines themselves, that is what is bothering a lot of the senators. You can tell from their questions that we are having a very difficult time trying to get competition in the industry itself, and when it costs \$917 for a round trip ticket from Washington to Charleston and back for coach class, that is way out of kilter, and do not tell me about the

senior citizen and the aged citizen, and buying 3 weeks ahead of time and all that. That is not airline service that we are going to put billions out for.

You all got to get back to where people ought to be able to go within a week and buy a ticket and get a reasonable price. I mean, I can fly to Frankfurt, Germany and back for \$279, but I cannot go to my own home town other than government rate, for 900 and some odd dollars.

That is the kind of thing that—I am going to vote billions, but I do not want to vote billions for that. You can comment as you wish.

Mr. MULLIN. Well, Senator—

The CHAIRMAN. I could not get you into direct service. I am going back, do not tell me about, oh, look how many more passengers we have got. I had three direct flights up, but not only with National, but I had Delta serving Charleston. You all gave it up, you took your sweetheart deal at Atlanta and they took their sweetheart deal at Charlotte, so do not talk to me about your bailout.

Yeah, I see how you look. I wish I could see you on TV. I hope they run this thing again.

[Laughter.]

The CHAIRMAN. And that is the way it is at Detroit and that is the way it is at Pittsburgh, and that is the way it is in Chicago, and we do not want to finance those sweetheart deals. We are trying to get competition and real service, and there are bills galore. We have three bills on the floor right now.

The distinguished ranking member, let me yield to yield to him. I take it you do not want to comment, do you?

Mr. MULLIN. I would like to make one comment, Senator.

The CHAIRMAN. Yes, sir.

Mr. MULLIN. Just one. I have appreciated our dialog on a number of those issues in the past. There are two things I think I want to say about it.

One is that we have attempted to in a very clinical way associate particularly our financial requests with this tragedy. All of this is intended to be just associated with that, there are no other public policies that we have introduced, many of which are on the agenda that you have just outlined here. So from that standpoint it is a clean one, intended to allow for the urgency that the situation provides for, because if we get into those right now we will have a lot of discussion, and the financial need is so urgent.

The second is, I would like to make a comment on safety. This whole issue is about safety. Many of you, Senator boxer, others, have all commented on the crucial ingredient of safety. We were asked yesterday in the House hearing about whether we could employ marketing programs to get the passengers back on the airplane, and several of you have noted the absolute truth. The most important thing we have to convey to the American traveling public is that this is safe.

And I think that the deepest regret that everybody in aviation has is that we operate by far the safest mode of transportation and we have lost, hopefully temporarily, our reputation. In the years 1998 to 1999, we had 650 million passengers a year travel on our airplanes without a single fatality. When you look at that versus

any mode of transportation, this is a wonderfully safe mode of transportation. It will be terrifically safe going forward because of the efforts that have been made by the Federal Government and the industry together to really deal with this incredibly horrible situation. Thank you, Senator.

The CHAIRMAN. Thank you. Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman. I would like to followup. Mr. Mullin, maybe they are safe, but not secure, and there were report after report, study after study, from the Inspector General of the Department of Transportation, GAO and others, that security was not anywhere near the standards that we wanted it to be at airports. So I think it is important to put that into perspective and that is why we are going to appropriate \$3 billion to upgrade security and safety, and perhaps take it to a large degree out of the hands of the airlines. The airlines have not done a proper job in taking care of security at airports, and I think that is not just because of this tragedy but because of various reports and studies we have had in the past.

My problem here, and we are going to obviously give you the money and I hope be able to come up with liability provisions that are acceptable and try to get this situation under control. My problem is, not every airline is the same, and I am impressed by that chart. But what if that was just Southwest Airlines on that chart, Mr. Mullin, it would be a little different, would it not?

What if it was just one of the airlines that is in more serious trouble? It would be a little different. Your problem and American's is that you need liability protection. You can still get some access to capital markets. Other airlines, their problem is they need an infusion of cash right away, because they do not have any cash reserves.

So what we are doing here, and it is the only way we can do it, I am lamenting rather than objecting, and that is that. We are coming up with a one size fits all bailout, and there are different challenges that different airlines face. That is why I think it is important what the previous witness, Mr. Walker was talking about, the but-for.

In other words, there were airlines that were in trouble before this tragedy occurred, right?

Mr. MULLIN. Yes.

Senator MCCAIN. And there were airlines that were doing pretty well before this tragedy occurred.

Mr. MULLIN. Yes, that is correct.

Senator MCCAIN. So it is really important that whatever we do, it does not cure all the ailments that an airline is experiencing.

Now, can we expect some concessions, or maybe you might even call them sacrifices in the area of executive compensation and also labor agreements, including those that were recently concluded that gave as much as 40 percent pay increases for executives that might have been eligible over a 5-year period to a \$123 million compensation package? This is one of the reasons why I am sorry we have to rush into this. Can we expect something in that area as well, Mr. Mullin, Mr. Skeen?

Mr. MULLIN. We are going to be taking the executive compensation, absolutely, I think that as you would know, Senator McCain,

most executives in this country have a compensation program that is comprised of a salary, an incentive compensation commonly called a bonus, and then long-term program associated with stock options or stock.

Those stock option and stock programs by virtue of what has happened are virtually worthless and I think very few of us will get any incentive compensation. I think you could see an expectation that incentive compensation, excuse me, executive compensation in this industry—

Senator MCCAIN. Are you going to go back to labor and ask to look at some of this?

Mr. MULLIN. Yes, we are.

Senator MCCAIN. And have you gotten any indications from labor?

Mr. MULLIN. I don't have them from Delta's perspective at this moment, but you have heard the announcements on the labor cut-backs that have been taken and many of those have to be done in respect also of the labor agreements that have been forged.

Senator MCCAIN. You are happy with \$5 billion cash injection to start with. Mr. Skeen?

Mr. SKEEN. Yes. And I would also like to add to the answer on the executive compensation. Our board met on Tuesday of this week and the top five executives of the company did accept a pay reduction in basic compensation, as well as suspend all the bonus compensation which Leo touched on, which is a major component of our at risk compensation. So it's definitely at risk now, meaning it's not going to happen.

And when you look at individuals such as myself, who is one of the original founders of this company, so there is pain here in terms of the equity side too.

Senator MCCAIN. I do not want to waste too much time on it, but 5 billion is good. \$3 billion for safety and security; is that good?

Mr. MULLIN. Yes.

Mr. SKEEN. Yes.

Senator MCCAIN. Consolidating all suits in one United States District Court, is that important to you?

Mr. SKEEN. Yes.

Mr. MULLIN. Yes. Anything that moves the liability. I am not a lawyer but yes, as I understand it, that's a very good move.

Senator MCCAIN. Certain assumption of obligation by the Federal Government after the claims or the insurance money has been exhausted that the airlines have.

Mr. MULLIN. Yes, that's very important. It's important both with respect to the incident itself, mostly involving American and United, it might involve some others, who knows, and certainly going forward, is to protect all airlines from that threat. Else, the financial markets would view us as having a contingent liability, which would just prohibit us from accessing capital markets.

Senator MCCAIN. And certain limitations to the airlines for what happened on the ground as opposed to the air.

Mr. MULLIN. Right. The passengers on the plane are currently covered under current law, and we do not advocate a change in that. It is the issue of the passengers on the ground, or the people on the ground that's at issue.

Senator MCCAIN. My time has expired. Mr. Skeen, did you want to comment?

Mr. SKEEN. I agree entirely with what Leo said.

Senator MCCAIN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Inouye?

Senator INOUE. In order to avoid redundancy, may I simply say that the chairman and Senator McCain have very well articulated some of our concerns.

Having said that, I like all of my colleagues, I too have received telephone calls. I would like to bring up two groups of calls and ask for your comment. I have had calls from labor leaders suggesting that the airlines would use this occasion, this crisis, to fire people, that they would be unjustifiably firing people.

Second, I got calls from travel agents telling me that the airlines will use this crisis to eliminate commissions.

Your comment, sir.

Mr. MULLIN. On the first, I guess I could only comment from the standpoint of Delta, and we will absolutely not be doing that. We are going to have to have a force reduction at Delta. We have no choice. We are operating right now with about a 30 percent or so load factor, we have 80 percent of our planes back in the sky, and there is no way we could continue to operate with the kinds of losses that that would imply without changing staff.

But the people at Delta are Delta, and this is the most heart-breaking activity I am ever going to be involved in at Delta Airlines is to have to do this. And so from our standpoint, we have every intention of treating our employees the very best we can under the circumstance, and we have the hope that we can get them back just as fast as we can, hopefully when the market turns up and the passengers return.

On the issue of the travel agents, the travel agents are our partners, over 50 percent of our revenues are generated by travel agents. We recognize their need for appropriate compensation. There has been a wide range of difference of opinion on that and we are going to have to work that out with the travel agent community over time as it goes, Senator Inouye.

Senator INOUE. As you have heard, all of us have used the words, we have to act now, swiftly, expeditiously. What is your timetable?

Mr. MULLIN. Well, the timetable is extremely urgent. There are three of the top ten airlines that are facing imminent crises of bankruptcy. There is one of them who officially recorded that yesterday at the House hearing, which was America West, which describe its immediate term plight.

And I would say, I can't speak for the others. I will say that Continental Airlines did in fact default on 70 million of equipment trust certificates on Monday, which is in, the EETC market is absolutely vital to all of us going forward, it's our key mode of equipment financing. So there are things happening in this which indicate some airlines may be lining up for that option and the decision is imminent, I think within days.

Senator INOUE. So you would prefer something happening tomorrow or Monday?

Mr. MULLIN. Yes, sir, I would.

Senator INOUE. Thank you, sir.

The CHAIRMAN. Thank you. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman. Mr. Chairman, I think that many of the questions being raised here are quite legitimate and I think you would agree that it is our responsibility to do this in a way that has accountability attached to it.

Mr. MULLIN. I do agree with that, Senator.

Senator HUTCHISON. One of the issues that has been raised in other contexts is the small community issue. We now have several communities, San Angelo, Abilene, and Waco that I know for sure are losing Continental's service completely, and I am very worried, and I understand that the economics of this are not critical at all, but can you make any suggestions because Delta has a regional airline component as well. Can you make any suggestions to us about a responsible way to approach support for our smaller communities, and would an antitrust exemption be helpful in this regard on a very temporary basis until we get back to say 80 percent of normal? What is the best way to assure that our smaller communities all over this country are not axed, left to never get service again?

Mr. MULLIN. I think that is a very serious issue, Senator Hutchison. I think one good element is that there is, as you know and as you just mentioned, an increase in regional jets which are uniquely tailored to serve those smaller communities. And from Delta's perspective, as the operator of the largest regional jet operation in the country, we intend to continue that inflow to us which would provide a mechanism for say down gauging a main line jet and putting on a regional just, and still having that service during that, possibly during that time when the traffic grows back up to the point where a larger jet might be put pack.

I think in the issues where there is more than one carrier on a route, that yes, I would support your suggestion under extremely tight rules and oversight, that those conversations go on, say, between two carriers where one of them stays in the market. I think the government would have to define exactly what those guidelines are because I do not advocate the abdication of the antitrust rules just generally, and I think in the time during this crisis that that's a very good idea that should be pursued.

Kerry, did you want to respond?

Mr. SKEEN. I would agree entirely, that it's the regional jets really that are the answer that will prevent or minimize, I don't think you can sit here and say prevent 100 percent, but minimize the impact of the small communities. Delta has been very active in matching really the size of aircraft to the potential demand, and I think they have, as Leo said, more regional jets coming, and I'm very heartened to here him say that's going to continue, that philosophy, because obviously it affects my company.

Senator HUTCHISON. We should at least assure that a community wouldn't lose all air service, because then you have an airport and all the costs of an airport, and not to mention that people would have a hard time accessing other major airports from which they could embark all over the world. I think this is a major problem for rural areas all over our country. I think we need to make it part of how we deal with this package without trying to get in and

make business decisions for people and then say well, but we required you to do this why did you fail.

We don't want to do that. But on the other hand, if we are going to be involved in getting over the hump for our aviation industry, I do not want millions of people all over the country to be left stranded.

The other question I would like to ask you is the one that we have heard recurring in our offices and in all of the questions that we are getting on talk shows how would you answer the question about other industries that are also suffering because of the aviation crisis, and even if they are not affected by aviation, just by the crisis itself? How would you differentiate what we would do for the airline industry with those other companies and businesses that are having problems?

Mr. MULLIN. Well first of all, I am generally supportive of, this is a time I think for helping everybody, so I would not argue for the airlines at the expense of anybody. I would only argue the airline case.

I think the airline case really derives from two points. One is that we were uniquely used as the weapon of destruction in this just terrible event of September 11. Never before in the history of aviation has a commercial airliner been essentially converted to a missile, targeted on a building in the center of New York. It was just an awful thing to contemplate, that nobody had ever dreamed of, so our industry has this unique feature of having been uniquely involved in this tragedy.

I think the other aspect is what all of you have said around this table pertaining to the fundamental role that the airline industry provides in supporting the economy. There are studies that say that the airline directly in some effect, with a multiplier effect, accounts for 10 percent of the gross national product of this country. And we have heard many instances when you hear about tourism and the restaurants and the hotels and so forth, where the comment was made by one senator that by far the best thing that could possibly happen to them is to get the airlines flying and get the customers back on the planes, and I think that that's the key reason.

This industry has a unique role to play in our economy and none of those other elements of our economy are going to grow and prosper if we don't get the airlines back and get the passengers on the plane.

Senator HUTCHISON. Well, getting the security package is what will bring the flying public back and that will be the best way to shore up the airline industry.

Mr. MULLIN. Yes.

Senator HUTCHISON. Thank you.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Thank you Mr. Chairman. I want to start off by saying to both of you what I am sure you already know, and that is, had I been in the Congress at the time I never would have voted for deregulation, because I saw what happened to jet service from United, Eastern and American in West Virginia. So that, let that stand.

Second, I want to take a little bit of a different tack here. There is an instinct, I think, when you all have made very very clear in the conversations which we had with Senator Hutchison on the telephone, and other conversations, that this is only something based upon September 11.

Mr. MULLIN. That's absolutely right.

Senator ROCKEFELLER. There is a tendency I think on the part of some of us and perhaps the American public as we get into a subject like this, to recall slippages in the past or things that were not done in the past which might have been done, and thus to water down in effect the urgency of the situation that we face now, which is to my mind, No. 1, the survival of an aviation industry on a national level, and second, the survival of the state that I happen to care about called West Virginia, which is in danger of losing, at the end of the food chain, a whole lot of service, providing us with no future. So I want to bring that perspective.

Second, it has been raised here that if people were not doing well before, or as well as they might have been doing, that maybe we should not make them whole. My answer to that is that in the state that I come from and a lot of other states I know, there are certain of those airlines that are referred to which under the worst of circumstances may have two, three, four, 5 years of life ahead of them, given our support, and will therefore provide the only service available to almost 2 million people who I represent and care about very strongly.

So that the concept of, if you are sort of weak and have not been making it, then let us kind of write you off and start from the beginning, again, that takes us back to pre-September 11. That is not where we are on this. That is not what this is about.

My third point would be that it is not my impression—well, let me say it this way. I would have gone further on loan guarantees, and I do not have to really make a big I point of that because I think the President has been very clear in saying that is not off the table. But there has to be perception, not only on the part of travelers, who feel safety and therefore get back on your airplanes and provide part of the financial viability that we are talking about, as well as receive the safety, but there also has to be a sense of viability on the part of financial markets, which do not just look on the next week or 2 weeks but which look to the future. In our conversation, people were talking about projections 2 years out, which were not very happy.

So my final point is the following, that it is not my impression having watched the steel industry in West Virginia, and many others, that airlines can afford to wait until they have absolutely no cash left whatsoever to file for a Chapter 11.

Mr. MULLIN. That's correct.

Senator ROCKEFELLER. They have to have the assets in order to restructure, which means they have to make earlier decisions than we may be aware of, and not being fully aware of all the financial conditions of the airlines, although I think the Department of Transportation now is, this is a very large factor in terms of what happens in aviation financial viability and therefore, success in this.

With that I will end, Mr. Chairman, and ask for a comment from either on this point. And you made that, Leo Mullin, and that is that you know, the steel industry is huge in West Virginia and it is in 16 other states, 15 other states. The airline industry is absolutely and totally fundamental to the future of this country. I think it has surpassed the highway system in terms of its economic importance to the country, that is my view of the place I represent, and I suspect it may reach further than that. So I am interested in your comments, either of you.

Mr. MULLIN. I absolutely agree with everything you said, and to pick up particularly on the last point, it's one of the most crucial elements of why it is so urgent to do this. You have pointed out that an organization that has contemplated bankruptcy, and with the kind of revenue streams that I have outlined here, 30 percent load factors, so forth, with the heavy fixed costs that we have in the industry, we just bleed red ink very very quickly.

And so if an organization looks even 20, 30 days ahead, and says that without some kind of resource behind it that allows us to contemplate an existence beyond that, it makes its decisions now to husband cash, so that when in fact that decision to head into bankruptcy does occur, it goes into bankruptcy with cash to enable it to continue to function.

So you were absolutely correct, that is the decisionmaking process that I believe, Delta is not in this circumstance, but I believe the other airlines that are facing this, that that's the decision process that they are going through right now, and hence, the urgent need for this financial package.

I would add also that in terms of this situation, this financial aid that has been put forward here, all of us, even those that are the best capitalized airlines, including Delta which is near the top, are going to face the tidal wave of problems that are associated with the kinds of forecasts I have outlined here. We may be a month, we may be 2 months, we may be 3 months, that's about the extent of it. American, United, any of the larger most successful airlines in the world, would be in that state.

But by virtue of the way, and in other circumstances we talked about apportioning this on the basis of the percentage of available seat miles that an airline has in this country. So in Delta's case, it's about 16 percent, so about 16 percent of this money would go to Delta. And in all of these other cases where some of these airlines are weak, they would only get a percentage based on their seat miles. Therefore, that does not allow an excess of funds to go to propping up the airlines that were weak prior to September 11.

Once we get set on a sound financial footing, everybody is kind of fighting it out like they were before. I think that's the best way to do it. You have captured exactly the right point with respect to the urgency of it from a financial perspective. We need it now.

Mr. SKEEN. And I will just add that the confidence just has to be restored to the capital markets. I mean, it is for us. We on a relative basis in the regional industry, financially we are at the very top of that list in terms of successful profitable carriers and here this we find that we lose financings on three aircraft where you know, 6 months ago we may have over capacity on certain credit issues. And trying to finance aircraft today, we are extremely

nervous that you know, that this pipeline is drying up immediately and we have growth coming, we have aircraft coming that we are concerned we won't be able to finance.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Very good. Senator Cleland.

Senator CLELAND. Thank you very much. Mr. Chairman, I was just sitting here thinking of a line from Ernest Hemingway, his definition of courage was grace under pressure, and Mr. Mullin, Mr. Skeen, we are very proud of you and your industry for showing incredible grace under pressure since September 11. You are under tremendous stress and pressure, as are all of your employees. We are very proud of you for hanging in there.

Mr. Mullin, let me just say that I just want to go over the three key points that we are down to. At the end of the day here, it does seem like you summarized it, and I think these two hearings say it loud and clear, three key elements of restoring, shall we say, confidence in the American public for flying again, and confidence in the financial markets, Mr. Skeen, that you mentioned.

Two, confidence building challenges. And again, I think so much of this has to do with psychological impact of what happened. Of course that is exactly what a terrorist is, spreading terror, spreading fear, creating chaos. So the extent to which we can then rebound and gain confidence, whether in the financial markets, among our passengers and in our country itself is the extent that we are healing up and pulling this back together.

But the three elements I gather in restoring confidence in the aviation industry are one, security. I put that first.

Mr. MULLIN. I agree.

Senator CLELAND. And Mr. Mullin and Mr. Skeen, I am delighted to hear, and I think I heard you right, that you do favor what I would call the federalization of the security checkpoints. When I was at Hartsfield, which is the busiest airport in the world, Delta's headquarters this past weekend, it was obvious that the security personnel there were unanimous in wanting to upgrade those checkpoints, make them federal officers, a domestic version of say the Customs Service, trained professional skill and career path and so forth, so we get out of this minimum wage, part-time worker, 300, 400 percent turnover a year kind of culture.

Mr. MULLIN. We agree with that.

Senator CLELAND. Yes, sir, thank you.

Second, liability, I certainly understand that and you have distinguished it, responsibility for those in the air, liability help for those on the ground. But I would like, Mr. Mullin, to get you to talking a little about liquidity. You have been on the other side of the financial marketplace. Before you came to Delta you had a long history in the financial services industry, banking and so forth.

Can you step back one step and look at it as if you were in the financial services world now? What would turn you on to support the airlines again? I gather it is a lot of the recommendations you made, but give us your—put that hat on and look at it from that perspective and talk to me a little bit about that. I was concerned that Senator Rockefeller pointed out that a bankruptcy decision has to be made early in order to maintain the cash so you can reor-

ganize. Can you tell us a little about seeing this problem from that point of view of the financial services world?

Mr. MULLIN. I believe you, Senator Cleland, did read that Morgan Stanley letter. Did I recall that correctly?

Senator CLELAND. Yes, sir.

Mr. MULLIN. I could have written that letter as a banker, and so I would associate myself completely with the presumptions that were in there. That was a hard hitting letter. It essentially said that under the current circumstances, there is no financing available to this industry right now. And were I on the other side, through 15 years of banking as you stated, with First Chicago, I would have associated myself with those thoughts.

Senator CLELAND. And yet I find it hard to believe as I read in the paper today that in effect, the value of stocks and bonds of aviation companies in this country are the equivalent of junk bonds. I find that hard to believe, quite frankly.

Mr. MULLIN. If I may point out just one thing, just by way of how far that this has fallen. America West now has a capital market evaluation of \$100 million. That's about the price of one 777.

Senator CLELAND. And yet on the 10 of September, the market out there was 650 million passengers a year, growing so that the last time you testified before us, I remember you were sitting right there and pressuring for added capacity, a fifth runway at Hartsfield and so forth.

Mr. MULLIN. I am going to be back requesting that on a happier day.

Senator CLELAND. Yes, sir. But that tells me that basically what we are facing is a temporary crisis. I think there are long-term challenges for the aviation world but I think what we need to do is do those things to get us through this temporary crisis, a series of confidence building measures, to restore confidence by the financial markets and American people in the aviation world.

I do want to get that insight on the liquidity part, and is it your understanding that what you have asked for here, if we give it to you, if we respond quickly and appropriately here, that that will trigger or act as confidence building measure or measures to the financial world that is now looking at you?

Mr. MULLIN. We do believe that. And I think it's important to emphasize how crucial it is to have all of the components. The 5 billion again, which sounds like a very very large number and it is, but the 5 billion is derived arithmetically as just the losses associated with September. By the end of September, in effect that money is used. The \$12.5 billion loan program or whatever equivalent program is developed that somehow provides that amount of cash eventually to the industry is an essential element as well, to give the financial markets and creditors longer term confidence in the industry so that they will invest.

The added \$3 billion in security is great. That helps us with respect to adding the sky marshals and the like, it gives great confidence in safety and security to the traveling public.

We really need all of the elements, and the liability I might add, very very swiftly. I mean, representations are having to be made by our companies right away in terms of what kind of contingent liabilities we have. This is such an obvious one of any of us who

had the kind of contingent liability that United and American have spoken of as associated with it, none of us could take that and then do any kind of financing.

Senator CLELAND. Both of you have been very articulate today. Mr. Mullin, you have been an articulate spokesman for the aviation industry in America. I support your plan and we thank you for coming.

Mr. MULLIN. Thank you very much, Senator Cleland.

The CHAIRMAN. Thank you. Senator Wyden.

Senator WYDEN. Thank you very much. Mr. Mullin, like my colleagues, I am going to support an emergency package. I do have some questions though about some circumstances in this debate that clearly do have ripples to aviation policy as a whole and that is what I want to ask you about.

For example, the document that was sent out originally, proposed initiatives to stabilize the airline industry as a result of the terrorist attacks in the United States of America calls for Congress to pass antitrust immunity for the airlines so that they can talk about reductions in the aircraft they will fly, routes to be served, and frequency of service on specific routes.

It is not clear to me where you all stand on the antitrust immunity issue today, so I think it would be helpful if you would just clarify that so we sort of know once and for all where you all are on the issue.

Mr. MULLIN. Philosophically, we are not for the abandonment of the antitrust rules but in response to Senator Hutchison's point, and I thin Senator Rockefeller, I believe you would associate yourself with the views of Senator Hutchison that in the smaller size communities, it's crucial to take whatever steps we can to maintain service during a period of economic crisis.

And to the extent that you have more than one airline serving an area and if we are splitting traffic which is reduced to a considerable degree, both of us may make the decision to leave, therefore leaving no service. And if in fact by a discussion we could determine that one airline would stay, and you would have to have that discussion in order to determine that, then I would think in that narrow sense that that would be an appropriate discussion to have.

Senator WYDEN. All right. Well, this document I have was prepared by your group, and so when you say philosophically we are not for antitrust immunity, and I will make this document available to you but it came from you, it says Congress should pass a bill granting antitrust immunity.

Mr. MULLIN. I am familiar with that document.

Senator WYDEN. That does not reflect the industry's position anymore?

Mr. MULLIN. No, I think what I just said is closer to it.

Senator WYDEN. Good. On the question of trying to arrive at an appropriate sum of money, and in stages, have you all opened your books to someone independent for purposes of taking a look at this issue? In other words, we are going to have to stand up at town hall meetings and say to the various groups that are also hurt, that we have been fair to all concerned. One of the ways that it will be easiest at least for me is to say, you know, the General Accounting Office took a look at this.

Mr. MULLIN. We are all prepared to do that, Senator.

Senator WYDEN. That has not been done yet.

Mr. MULLIN. It has not been done yet, no, in light of the crisis that we face. But from the standpoint of, there have been comments about some kind of a review board, an oversight process.

Senator WYDEN. That is fair.

Mr. MULLIN. We are OK with that.

Senator WYDEN. So you are saying that as Senator Rockefeller and Senator Hollings take out a sharp pencil and get down to these numbers, you all are willing to work with the Committee and the GAO to open the books in a way that protects people's proprietary interests, so that we can see where these dollars are going?

Mr. MULLIN. Yeah. We are prepared to establish whatever procedures are appropriate.

Senator WYDEN. The last question I wanted to ask, on the projections point, how much is due to projections with respect to lost passengers and how much would be due, say, to your sense that it will take more time to process passengers individually in terms of security? Can you break that down?

Mr. MULLIN. The projections that we have put forward here are almost solely associated with the lost passenger aspect. You read off the assumptions and those assumptions are the assumptions that we used, and the assumptions that led to the \$24 billion estimate, which is the ones that you read. As we have stated, we are basing ours on even more optimistic assumptions, therefore lessening the need from 24 to 18. But there are—it is not frankly a sophisticated analysis, it is very straightforward.

Senator WYDEN. Last question. On this idea of structuring a process so that it goes in two tiers, with the idea of Congress giving some emergency assistance so as to sort of staunch the bleeding right now, and then setting up a process so that we can come back and look at what if any additional help is necessary, what are your thoughts on that?

Mr. MULLIN. Well, I'm afraid I have to be against that right now, for the reasons that when we are looking at the future viability of the industry, given the fact that all of us are buying airplanes all the time, making capital investments, several references to Boeing, regional jets and so forth, all of us do equipment financing on that. We have to have the confidence of the financial markets in order to be able to do that going forward.

The \$5 billion for example, it just staunches the bleeding for September, so that the \$12.5 billion program and the liability issues are just crucial to be integrated into a package to give the confidence for a longer-term look. It isn't just from the standpoint of providing the financing. If it were just that, then we could do it the way that you were talking. But that money needs to be available for the financial community to have confidence in our existence.

Senator WYDEN. Would you feel exactly the same way if the General Accounting Office said that is the way we ought to do it? Because that is the point of my having somebody independent review this, I want to do this in a way that is based on the best and most objective kind of data, and if the General Accounting Office comes back and says to this Committee, you know, they do need 5, 6 billion, whatever the sum is immediately now, but you ought to hold

off, are you going to question that on the basis of what you just said?

Mr. MULLIN. No, all of us are prepared—we recognize when we come to the government for help on this that we have to account appropriately for what has happened here, and we regret deeply being here by virtue of this war act. I mean, this is a terrible circumstance to have to come here. You know, on September 10, not in my wildest imagination did I ever conceive that I would be here before a committee like this talking like this. Delta Airlines is just absolutely not in that circumstance.

And as I said earlier, I think we are clearly one of the best in terms of our financial strength as an organization, but I am here representing the industry and Delta is in the same boat, by virtue of this immense tragedy which has struck our country. And when we talk to the government and we ask for government funds, with that comes responsibility.

Now the one caveat that I would make about that, I think it should be clearly associated with the money issues that we are spending it properly, that we have justified it properly and so forth. I have made the point earlier that we have attempted to tailor our recommendations not to get into the other policy issues that are associated with it. Whether we are talking about how we develop in a merger and acquisition way going down the road, or the labor issues that we face, or the kind of passenger issues that you and I have discussed on several occasions, those we have held right to the side. This is a monetary issue to deal with the financial stability of this industry.

Senator WYDEN. My time is up. I want you to know that I will be willing to put more money in that first phase and I recognize that you oppose the idea of a two-tier process, as long as we have an independent way to verify those numbers. You said you supported that and I appreciate that. Thank you, sir.

The CHAIRMAN. Thank you. Senator Allen.

Senator ALLEN. Thank you, Mr. Chairman, and thanks to both these gentlemen for their testimony. Mr. Mullin, for not being a lawyer, I thank you for better explaining the liability aspects. I do want to say to Mr. Skeen of Atlantic Coast Airlines, I have a very special affinity for you all because while I was Governor we were able to convince you to locate in Virginia.

More importantly, Mr. Chairman and Members of the Committee, the way I see these regional airlines is that they probably have the greatest opportunity for prosperity. They do not have the legacy costs that some of the older airlines have, but most importantly, they are the ones who are providing the service and access to the smaller and medium size markets. Atlantic Coast Airlines was doing relatively well in acquiring regional jets prior to this tragedy that befell our country on September 11. Access to regional jets certainly increases the attractiveness of a city to businesses wishing to relocate or expand.

When one is recruiting a business, and I know former Governor Rockefeller knows this, if you can say you have regional or jet service a city becomes much more attractive. It may be one of the Bombardiers which have about 50 seats and so forth, which is so crucial in areas like Roanoke, or Lynchburg, or the Charlottesville area or

Newport News. And so, I look at you as a vital resource to the rest of the country and the rest of the world. I am very glad to hear your views.

Senator Hutchison asked a question about continued service, because one of the worries is that smaller markets will be the first ones that are going to get cut out in the rationalization or the assessment of the business models here under this new world. So I think one of the best things I heard out of this entire day is how the smaller-to-medium size markets will still be served.

And you also clarified how this allocation is going to be made. I would ask you first, Mr. Skeen. As I understand it, both the direct grants, the \$5 billion and \$3 billion for the immediate losses as well as the security upgrades and these loan guarantees which are part of this emergency recovery package, would be given directly to Atlantic Coast Airlines as opposed to a derivative approach via United or Delta Airlines. Is that correct?

Mr. SKEEN. That is correct. The formula is designed to where we get our proportional share of what we make up in terms of the 5 billion, the proportionate share of what we make up in terms of our capacity versus the whole, so obviously much smaller numbers, but that's a fair way to distribute it, because what I said earlier is yeah, we think we deserve a cut, but we're not going anywhere if the carriers like Delta and the other airlines that need the support have the proportionate share that they deserve, because we have no route system without their assistance.

Senator ALLEN. Thank you. Mr. Mullin, you agree with this approach?

Mr. MULLIN. I do.

Senator ALLEN. The way that the shares are derived?

Mr. MULLIN. I do. And the in the case of the Air Transport Association, it was unanimously agreed to.

Senator ALLEN. Good. Mr. Mullin, I am going to ask you another question on a matter as far as your viability. I know that you and U.S. Airways have as one of your this metropolitan Washington, D.C. area.

Mr. MULLIN. Right.

Senator ALLEN. You and U.S. Airways have a large presence at Reagan National Airport. To the extent that we are worrying about the future of your viability as an airline what impact does the current closure of Reagan National Airport have on your projected revenues and ability to get back to normal?

Mr. MULLIN. Washington Reagan National is one of our most important service areas. It is extremely important to Delta not only in terms of the direct service that we provide to Washington from our hubs, but as we are also associated with the Delta shuttle as has been mentioned, and so it is absolutely crucial that it come back.

Senator ALLEN. Have you been sharing that with FAA and others?

Mr. MULLIN. We have. And I think the issues of security are obviously beyond my own ken, and they need to be very critically evaluated. I heard Vice President Cheney's comments on Sunday on the talk shows on that, and I do understand them, but from the standpoint of customer service and from a standpoint of it being an

attractive market for airline service, it is phenomenal, and we really support its opening.

But I do think it has to be weighed relative to the security aspects, but I hope it is decided in favor of restoring it.

Senator ALLEN. Earlier in the day, the chairman and myself, and also Senator Kerry were bringing this up. How would you envision, say a staged reopening of Reagan National Airport? Would it be acceptable to you if you were required in addition to all the security that we are talking about here, including a more secure cockpit to have an air marshal required to be on every flight coming in and every flight going out of Reagan National?

Mr. MULLIN. Yes, it would be. In fact, certainly with respect to all those measures that you just mentioned, they are part of the program that we have agreed with in general with the Federal Government, and would certainly favor the most with respect to Reagan National.

Senator ALLEN. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman. As I understand your testimony, to restore the confidence of the financial markets is one of the most important things for you all to survive as an industry.

Mr. MULLIN. Yes, sir.

Mr. SKEEN. Yes, sir, that's correct.

Senator NELSON. As I have understood the testimony here thus far, two things that would restore the confidence of the financial markets, No. 1, the passengers return and fill up the planes.

Mr. MULLIN. Absolutely.

Senator NELSON. And No. 2, you having affordable and available insurance.

Mr. MULLIN. Yes, sir.

Senator NELSON. All right. Then in order to do that, why do we not have a major campaign by you all trying to get passengers back? I mean, I flew Monday night to Orlando, and my press announcement at the Orlando airport was I personally think it is safe to fly and if you need to fly, now is the time to fly because there are not any lines. And then I went to Tampa and I did all the security stuff there and I said the same thing. Why would that not be a major theme for you right now?

Mr. MULLIN. We are, I think that every airline is marshaling exactly the kind of marketing campaign that you are talking about. I think that you are going to see some price deals in the next period of time that are going to just be mind boggling in terms of attractiveness.

But to go to a point that was made repeatedly, the crucial ingredient goes back to the safety and security aspects, and I think just a little bit of time will work in our favor certainly. The fact that you all, even when they see a hearing like this, you they know you're from Florida, you've flown to get here. That's very reassuring to people to see public officials. When I flew up here myself, I know it was reassuring to the Delta people.

Senator NELSON. Let us talk about insurance.

Mr. MULLIN. Yes, sir.

Senator NELSON. All of the horrors that you have presented here about insurance, the possibility of cancellation, you just gave the cite on your particular company, it is being increased four-fold. Listen, I have babbled for 6 years, rising insurance rates. So let us inject into this another kind of idea of how you go about controlling it.

Back in the 2060's when we had riots in Los Angeles, in order to get insurance into the inner city, there was something like a government kind of backing for that insurance. What do you propose with regard to that?

Mr. MULLIN. I think that's a very good idea. There is the work associated with—the Civil Reserve Air Fleet, CRAF offers a model for that. CRAF offers losses in liabilities to carriers operating on its behalf, and this is an entity that could supply the kind of insurance that we would need in the kind of war and terrorism aspect.

There are two parts of the insurance issue here. There is the basic hull insurance that pertains to what happens to an airplane in an airplane accident, and then there is this war and terrorism insurance, that we have also had to have.

That number is cost, it's usually put on as a rider and has a fairly modest cost associated with it in our entire insurance program. That has gone through the absolute roof with respect to it, and the coverage levels have been just absolutely slashed.

Senator NELSON. Mr. Chairman, in light of the fact of this new kind of tragedy and the new use of an airplane as a projectile loaded with explosives, that might be something, if the objective here is to get the restoration of the confidence of the capital markets, it may be something that we want to look at for this so-called war and terrorism kind of insurance coverage, and what is the role of the government there?

Now, that brings me then to if you got the passengers and you got the available and affordable insurance, then why do we need the bailout of \$5 billion, particularly when some of those airlines that we are going to bail out were sick to begin with?

Mr. MULLIN. This money would have, in my judgment, will not prop those airlines up. I think that we have experience in looking at past tragedies that involve airliners as to what the pattern follows with respect to the recovery of passenger confidence. I mean, in the case of the Gulf War for example, it didn't come back or reach former prior to Gulf War levels until a year after. We're essentially projecting that that confidence, by virtue of going to I think the 85 percent number in the second quarter of next year, that it will be about where we were supposed to be in the third quarter of next year, which is of course less than a year.

I actually think that's rather optimistic and yet, those assumptions generate arithmetically these kinds of losses, and it's very very easy to do just taking the financial statements of the airline, to just project this kind of situation, make some assumptions on variable cost reductions because we are not carrying so many passengers.

Senator NELSON. Is the \$5 billion, and I would like to see the breakdown.

Mr. MULLIN. Sure.

Senator NELSON. And as Senator Wyden said, that there should be an independent verification of this breakdown. Is the \$5 billion solely related to the loss of revenue as a result of the terrorist act, not just loss of revenue in the month of September since September 11?

Mr. MULLIN. The way we did that, all of us have forecasts for September, every company. I mean, we review these routinely with our boards of directors. And the way that we did this was just to take our most recent forecast reviewed with our boards of directors for September, and that information is about as good as it gets, because we are pretty good three or 4 weeks out in advance looking at bookings in terms of estimating what that revenue number is. And then you take the total loss of revenue for really the 4-days after the terrible incident, and then you make just the projection that we will have 40 percent of the revenue for the rest of September. Delta so far, it's 30 percent in the first three or 4 days into this period.

And that's how you come to that number. It might be different from that, but it's around \$5 billion no matter how you cut it. It might be 4.7, might be 5.2.

Senator NELSON. What is the logical conclusion of doing that in a federal bailout if you did not have a federal bailout back at the time of the Gulf War, assuming that the major thing that you need is the restoration of capital markets?

Mr. MULLIN. The key reason is because first of all, our industry was used as the weapon in this particular incident, and nothing like that has ever happened before. The whole idea of commercial airplanes being flown into these buildings is so unprecedented as to be beyond belief.

Senator NELSON. But the importance is getting you back in business, and clearly somebody from Florida understands that with the multiplicity of interests that are conditioned upon you being able to fly people. So what I want to do is to support a financial package to get you back in business, and it seems like No. 1 is to get passengers up, and No. 2 is to make sure you have got affordable and available insurance. And Mr. Chairman, I just want to scrub this \$5 billion, I want to scrub it five times to make sure we have the right figures and then I want to compare it to 8 years ago in the Gulf War, 10 years ago, and see what was the drop there, and how does now compare to then, just in diminution by virtue of an act of the revenues of the airline industry.

The CHAIRMAN. Very good. I want to be scrubbing it with you but I do not know that you and I are going to get a full opportunity because the White House is working directly with the leadership and it might pass before we can get a good scrubbing. Senator Fitzgerald.

Senator FITZGERALD. Thank you very much, Mr. Chairman, and I thought Senator Nelson did a good job in recognizing the Continental situation, and those were difficult times for banks too.

Mr. MULLIN. They were.

Senator FITZGERALD. But Mr. Mullin, thank you for being here. You are a very articulate spokesman for the airline industry. And I have to compliment Delta on what appears to be the among the strongest balance sheets in the industry. And it looks to me from

what I have available, and I am looking at the Morgan Stanley research paper dated September 17, and they said that Delta had \$3 billion in immediate liquidity, and making calculations with your unencumbered aircraft, even discounting them for after the World Trade Center, they thought that you could borrow about 2.7 billion on your unencumbered aircraft which have a book value or original, 100 percent value would be \$7 billion, your unencumbered aircraft.

They estimate that you have total liquidity of \$5.7 billion. It seems to me that it may be that some of the other airlines might not survive if there were no government aid, but Delta almost certainly would survive. Is that not correct?

Mr. MULLIN. Well, we would really have I think a decent chance at it, although I will just say to you that I have now become far more familiar with these projections than I would care to explain and with the kind of margins that this industry has and its heavy fixed costs, particularly associated with equipment financing, our investment in terminals and so forth, even when we make cost reductions in a variable way, fixed costs don't move and so as a result, minor reductions in revenue create major reductions in the bottom line under ordinary times.

That's why we are having the losses in the period prior to September 11. You take something where you're losing 60 percent of your revenue for an extended period of time, which is likely, no airline could survive through that period.

Senator FITZGERALD. How much does Delta figure it lost per day for those 3 days that there was that ground stop order?

Mr. MULLIN. About 70 million a day.

Senator FITZGERALD. 70 million a day, so about \$210 million is what you lost?

Mr. MULLIN. Yes.

Senator FITZGERALD. That is a lot of money that you lost in 3 days.

Mr. MULLIN. Yes, sir?

Senator FITZGERALD. But earlier you said that Delta would get 16 percent of the \$5 billion.

Mr. MULLIN. That's correct.

Senator FITZGERALD. And that would be what, about \$800 million?

Mr. MULLIN. That's correct.

Senator FITZGERALD. So you would get four times what your direct losses were by that immediate cash assistance alone.

Mr. MULLIN. In those 4 days.

Senator FITZGERALD. Yes.

Mr. MULLIN. But you will recall that the \$5 billion estimate had two components to it. One was the estimate for the immediate 4 days, and then the other was the estimate for the remainder of September, in which we determined or figured that revenues would be running at 40 percent of what they would have been had the tragedy not occurred. And that's a good number, because we all had—

Senator FITZGERALD. Let me stop you there, though. If we go beyond compensating the airlines for those 3 days where there was a government edict that shut you down, what then is the limit in

principle for what we will compensate you for, and do we not run into the question of why not compensate hotels or other industries that have been affected?

Mr. MULLIN. I think as I mentioned earlier, the bridge you have to cross in terms of thinking about this has to do with the essentiality of airline service to the recovery of this economy, the reality being that if we're sitting here as believers in free market principles, which we all are, none of us—

Senator FITZGERALD. If we were—this is not—I mean, a pure free market, we would not be talking about a government bailout of a private industry.

Mr. MULLIN. That's why I'm talking about it. And I wouldn't be here arguing it either. It has to do with that sense of essentiality to the economy. And second, the fact that in this particular instance, our industry was used as the weapon of war. Our industry. It wasn't anybody else who—

Senator FITZGERALD. So, would you oppose aid for any other industry?

Mr. MULLIN. No, I don't.

Senator FITZGERALD. Would you support it?

Mr. MULLIN. I would certainly support looking at it. I think these circumstances are extraordinarily unique, wherein we ought to be looking for all kinds of support mechanisms for the employees and families of this country during this terrible time.

And so when I argue here on the part of aviation, it is not to exclude the use of any of those arguments for anybody else. But it is my obligation to come here and talk about aviation, given the essentiality of aviation to our economy and given the fact that we were uniquely used and targeted to be used as the weapon of war.

Senator FITZGERALD. One final question. You were probably at First Chicago Bank when they bailed out Continental Bank.

Mr. MULLIN. I was indeed. I remember it very very well. I was there 15 years.

Senator FITZGERALD. 15 years. Everybody who was in banking certainly remembers that, and the government put several billion dollars, a billion dollars in cash into Continental, and I think assumed 3 or so billion dollars worth of debts of the bank. But in return, they got an equity position.

Mr. MULLIN. I'm glad you brought that up, and I was hoping you would actually ask me that question. I also spent 5 years working at Conrail, which was the residual of the Penn Central and the bankrupt railroads in the northeast, it's where I spent 1976 to 1981 there as senior vice president for strategy.

In both of those instances, both Conrail and in the case of Continental Bank as well as the Chrysler situation and the Lockheed, all of those problems came about because of the economic failings of the company themselves. Arguably, they were the failures of management.

We are not here because of the failures of management. We are here because an act of war that took place on September 11 puts us here. I do not like being here to have to talk to you about these subjects or asking for money, particularly when my company was in such great shape back on September 10.

Senator FITZGERALD. But you are asking for more money than you incurred in losses as a direct result of the government edict shutting the airlines down.

Mr. MULLIN. These results that we have put forward, these projections, it is our belief, and we're willing to talk about them over time, that—and even adjust them over time if something else prevails. Our guess as to the implications that are associated with us through the next year, those are just the consequences of this, Senator.

Senator FITZGERALD. Now I have a question. Even if we do all this, United and American, because of their potential liability, and you as a former banker, do you not think some banks will still be worried unless there is a limitation on their liability?

Mr. MULLIN. Yes.

Senator FITZGERALD. Banks will still be reluctant to lend to United and American, and even if we give all the government aid, if there is not a limitation on liability, United and American still might have to go bankrupt if they are ever held liable.

Mr. MULLIN. We have to take care of that, yes. This is, part of this recommendation is that retroactively, that that situation be included. Else, both of those organizations would never be able to borrow as we move forward, or any other airline that might get drawn in on it.

Senator FITZGERALD. Well, Mr. Mullin, thank you very much, and Mr. Skeen, thank you.

Mr. MULLIN. Thank you, Senator.

Mr. SKEEN. Thank you.

The CHAIRMAN. Mr. Mullin, two of the top airlines, the CEOs get paid six times more than you do.

Mr. MULLIN. My goodness.

The CHAIRMAN. Just to put it in the record, those are not dumb CEOs. They sent up the right witness.

[Laughter.]

The CHAIRMAN. They probably ought to be paid six times more, but they were in trouble. You are not, but they were, without getting into that. But that is what we are going to have to be looking at, Senator Fitzgerald, there is no question about it.

You had no idea of coming up here, but we were looking at those two airlines, because they put us on notice that they were in trouble and when we have bills to try to improve the service, try to bring in competition, try to get another dollar fee or whatever it is, to get more runways, we have Senator Hutchison's bill, we would go broke, we just cannot stand one dollar. So you have to understand the background, and I am convinced you do.

I cannot thank you enough, and Mr. Skeen both, the Committee is indebted to both of you for your appearance here this afternoon. The record will stay open for any further questions.

Now I want to try to move on to the third panel.

Mr. MULLIN. Thank you very much.

The CHAIRMAN. Thank you both very very much.

Mr. Robert Roach, the Vice President of the International Association of Machinists and Aerospace Workers; Dr. Mark Cooper, Director of Research for the Consumer Federation of America; Mr. Harry Pinson, the Manager of Direct Investments, Credit Suisse;

and Ray Neidl, Research Director and Airline Analyst at ABN Incorporated.

Years ago, we used to campaign in South Carolina at stump meetings, and every candidate for every particular position whether it was Governor, lieutenant Governor, attorney general, even the adjutant general ran for office, and we would go right on down the list. At one of the meetings in Saluda, I was what I thought the last speaker, so I made my talk, went over and thanked him. I said you were nice to stay to listen to me, and he said do not thank me, I am the last speaker. So I was going to thank Senator Fitzgerald, you are the last listener.

Now we welcome you all. We apologize for the lateness of the hour, but it goes with the Committee, it has done its best planning, and we wanted to hear from each of you, and we want to enter your statements in full in the record.

And then let me start with Mr. Neidl over here, and you can summarize it or say what you will. The hour is late and we are going to have to move along, but you folks have really favored the Committee and we want to hear what you think is absolutely necessary to be emphasized. Mr. Neidl.

**STATEMENT OF RAY NEIDL, RESEARCH DIRECTOR,
AIRLINE ANALYST, ABN AMRO, INCORPORATED**

Mr. NEIDL. Thank you, Senator Hollings. It's Ray Neidl. I am an airline analyst with ABN Amro and I have been involved with this industry one way or another for about 20 years, ever since school. I used to work for American Airlines. I used to be the airline analyst, credit analyst at Standard and Poor's, and I was involved with high yield bonds for the airline industry for secured bonds for many years.

And I am historically a free market person. I don't believe that the government should be interfering with the business, the failings. At the time I wasn't really in favor of the Chrysler bailout or the Lockheed bailout, or even New York City. The executives got themselves into trouble and if companies mismanage or let their costs get too high for whatever reason, or if the union demands price themselves out of the market with too high or expensive labor agreements, I feel that the company should pay the price and the stockholder should pay the price, and let the market function.

However, in this case, this is an exceptional circumstance. The airlines had nothing to do with the events that happened. They were used as the instrument of terror and destruction, and it's a vital industry to the nation. There will be many other failing if this industry goes into Chapter 11, and I don't think our economy nationally or the worldwide economy can afford to let that happen. Therefore, I think the industry is open to some relief.

Basically, airline executives have done everything they had to do as business people to reform this industry since the early 1990's. They restructured their route system, they cut back where they weren't making money, they modernized their fleet, they got new procedures in place to look for the bottom line instead of going for market share, and they have been basically running a good system.

I know there are a lot of complaints, people don't like their hub and spoke, and some smaller communities lost service, but never-

theless, for a mass transportation system, the system was working very well. And the industry was rewarded with good profitability in the 2090's. These margins, I want to emphasize, are still thin by most other business standards, but historically, airlines were producing consistent profitability, and it was my belief that they would be able to go into the next recession in stronger shape.

Their balance sheets were stronger and their access to the market and the rates they were paying were stronger until last week, and that all went up in a vapor very quickly.

I think it is an industry that is vital to our national interests and deserves special consideration. I don't mean to sound callous, but we can get along without as many restaurants, we can get along without as many hotels, but the airline industry is vital before these other industries can come back and function and prosper.

Basically, as far as security goes, the industry is not going to recover, I have heard that today, the industry is not going to recover until the traveling public has confidence in the system. And some of the questions that were brought up today about how quickly business came back after other tragedies, this is a different tragedy. This happened on our soil, more lives were lost, it was American airlines that were hijacked, and I think it is a much more serious consideration.

In order to get the traveling public more confident in coming back and traveling again, definitely we need to have a new system as far as security goes. And I think as a function, that the airlines have not done as best as they could, they shouldn't have been responsible for those costs, I think it's a police function, and I think that's one of the few things that government really does have a prime responsibility for, insuring the citizens safety so that they can conduct business and carry on their lives in a peaceful manner.

Just to sum it up, the airline industry is labor intensive, it is capital intensive, it has a lot of high fixed costs. And if you shut off their revenues, like what happened last Tuesday, and the revenues are slow in coming back, you have an industry that is going to disappear and become very ineffective very quickly.

I think this is a temporary situation, I think one way or the other we will get over it. I don't know what the timeframe will be, but I think this industry does merit some special consideration during the recovery period.

And I don't want to call this a bailout. It is not a bailout by any means. The airlines followed all safety procedures, they shut down at the request of the FAA as they should have, but the thing is, it was not the airlines that caused this. It was a decision made by the government and it was a decision that was more or less an act of God, an act of war, whatever you want to call it, and it was an extraordinary type of situation.

We have to insure that this vital resource survives so it can prosper when things get back to more normal circumstances. Thank you.

The CHAIRMAN. Thank you. Mr. Roach.

**STATEMENT OF ROBERT ROACH, GENERAL VICE PRESIDENT,
INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS**

Mr. ROACH. Thank you, Mr. Chairman. I will be brief because of the lateness of the day. My name is Robert Roach, Jr. I am the general vice president for the machinists union representing the transportation department. In addition, I am a member of the executive board of the AFL-CIO transportation trades department.

I am here representing the 290,000 IM members who were in transportation, aerospace, as well as the other members of the AFL-CIO transportation trades department. The disastrous events of September 11 will be with us for the rest of our lives. The transportation industry as we know it must and will change dramatically.

Transportation labor believes that we should be a full partner in fixing and remedying the problems that confront all of us. Cash infusion at this particular point is a must, it's necessary and immediate.

There are a lot of other problems that go along with fixing the transportation system and the matters that were discussed here today. First of all, we talked a lot about insurance, there were a lot of people talking about the insurance for American Airlines and United Airlines. I have no doubt that there is a need to fix that insurance problem. I am not familiar with all the details.

However, there are 100,000 people who are scheduled to be laid off that will have no health insurance as a result of this incident. Those 100,000 people will not have any income to pay their mortgages, they will have no income to send their children to proper schools, whatever the circumstances are in the short term. There has been no relief provided to those people who have been adversely affected as a result of the events of September 11, 2001.

We have indicated before the congressional committee yesterday that they should be looking at, in terms of bringing the customers back into air transportation, you have to build confidence in the consumer, in the passenger. The only way you can do that is to secure and stabilize the current employees of the air transportation system. If your employees are afraid, the passengers will not feel secure.

Today, in air transportation, with passenger rage and air rage, and all the things we have been confronted with other the last few years, that we have been arguing about and discussing, our members, the airline employees do not feel comfortable confronting passengers concerning incidents that should raise a flag.

For example, it was reported that somebody bought a ticket for cash, a one-way ticket with no luggage. This normally raises a flag. But because of an incident that happened at the Newark airport where an employee got his back broken by a passenger, that passenger was arrested and went to court and was acquitted, you find very few ticket counter agents who are prepared to confront passengers who come up with these type of events.

Another problem that we have in security, security is a major problem, everybody has been talking about it, is the fact that there are thousands of workers working in catering who have no background checks, who have free access to the airports, free access,

unsupervised access to aircraft. The major company that owns the catering outfits is a foreign company.

Passenger screening. We fully support a federal takeover of security, we believe it's a long time coming. We believe however, because of the nature of people talking about the layoffs that they believe have to come, that those airline people currently subject to layoffs should be the first to be trained for those jobs. If you lay off 100,000 people, there is an effect that associated employees will be laid off; that has an effect on the economy.

30,000 Boeing people to be laid off, G.E., Pratt & Whitney to follow. That will have an effect on the economy. And again, you will not be able to secure, make a passenger secure to come back, I don't care what you charge, you can give the seats away for free, if they are not confronted with an employee at the airport that feels secure about their system.

Today, you have long lines at the airport, so prior to September 11 we had long lines at the airports, with a lot of machines, machines that allow people to get on the aircraft without ever confronting an individual until they get on board the aircraft. We were short staffed, forcing people to take the machines.

I think it clearly needs to be looked at, that instead of laying off 100,000 people, those people should be utilized to fulfill those jobs that have been subcontracted out, that have been given to low paid, low trained individuals, so that we can really secure the system, so we can really make the people feel secure and want to come back to the transportation system.

Again, we believe that we should be, transportation labor should be full partners in restoring the system to what it should be, and what it was prior to September 11 is not what it should be. Again, there are thousands of people who have access to the airports and no security clearance, nobody knows where they came from, they leave that job and go to another similar job in catering, passenger screening or whatever the case may be.

We have proposed to the Department of Transportation, to the House of Representatives, and we propose it here, that there be a joint task force made of up of transportation labor, transportation management, overseen by the Department of Transportation, to insure that the things that have to be done to fix the system, to fix the problems that we are confronted with properly done.

If we allow what has happened to continue to happen, you will not bring security, you will not bring any security back to the system and you will not bring the flying public back to the system.

Again, we have well-trained people in air transportation and our transportation industry. Those people have made sacrifices over the years. I heard one senator say that the stockholders should take a hit. On United Airlines, they are the stockholders, so they are taking a hit as stockholders and they are taking a hit as employees losing their jobs with no health insurance.

Senator Hollings spoke of someone who receives a large package, compensation package. Well, I'm here to report to you that that same individual is laying off employees today without regard to their seniority, no health insurance, and telling them that they will not get any severance because this is an act of war.

The Department of Transportation, Secretary Mineta advised us that this was something that was discussed with all the CEOs and would not happen. This is what is happening to the employee. This is what is happening to the person that you are expecting, we all expect, the American people expect to bring the customer back to fly those airplanes.

So I would urge that this body take some action, certainly to restore the financial strength of the airlines, it is dearly needed. I said yesterday that America is in shock. Thousands of people are missing. Two of our members are lost, a dear personal friend of mine is lost. Business as usual is just not an option anymore. Thank you, Mr. Chairman.

[The prepared statement of Mr. Roach follows:]

PREPARED STATEMENT OF ROBERT ROACH, GENERAL VICE PRESIDENT,
INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

My name is Robert Roach, Jr. I am the General Vice President of Transportation for the International Association of Machinists and Aerospace Workers. International President R. Thomas Buffenbarger has requested that I testify before this Committee on behalf of the 290,000 Transportation and Aerospace workers in the IAM.

The disastrous events of September 11, 2001, will be with us as long as we live. The Transportation industry as we know it will and must be dramatically changed. For airlines, airline workers and the flying public, these changes call for more than a reflex response to this tragic incident. The casualty list from the terrorist hijackings is staggering. We cannot allow the nation, the industry, its workers and the flying public to remain victims of this catastrophic event.

The complete shutdown of the aviation industry was unprecedented. Although the actions taken were necessary, we must work to guarantee such measures are never needed again.

The initial response by airlines was to cut flight schedules, and ask the Federal Government for financial aid. These tactics do not go far enough to remedy the crisis that confronts us. Furloughing airline employees may be considered a short-term fix, but in the long term it will only exacerbate the real problems in the industry. To stabilize our air transportation system we must stabilize and secure the employees.

It must be clearly stated that the solutions to our problems can only be obtained with a coordinated effort from the federal government, Transportation labor, and the management of the air carriers. We recognize that it is in the best interests of America and the American people to have a safe, viable air transportation system. It is in fact a matter of national security. The IAM leadership and their members are committed to working with all parties to that end.

We fully support any assistance the government can provide. But any relief for the industry must also come with relief for the affected workers. We cannot forget this industry is made up of people. The Machinists Union represents 290,000 Transportation and Aerospace workers in North America. We represent workers at United Airlines, Northwest Airlines, US Airways, Continental Airlines, Southwest Airlines, TWA and dozens of smaller airlines and service companies. . . . Our members also work at Boeing, Pratt and Whitney, GE and other aerospace companies. We are, therefore, the largest Transportation Union in North America and the outcome of the decisions that are made will certainly disproportionately affect our members. Our members cannot be expected to endorse a relief package that allows airlines to recover but does not remedy the inherent problems and lack of security that is prevalent within the Air Transportation industry today.

Decisions cannot be made out of panic. We must take an orderly approach to the inevitable changes, and not allow ourselves to become victims of fear.

It is imperative that the American public has confidence in the commercial aviation industry. Equally important, Transportation employees must work in a secure environment. If Transportation workers do not have faith in the system, then the public never will. This is why Transportation labor organizations must be involved in any discussions dealing with changes to our industry. It is the workers who confront the passengers, repair and maintain airplanes, make reservations, and ensure

in-flight aircraft safety that will provide the true solutions. If the workers do not feel safe, there is no hope of restoring the public's confidence.

In order to affect real change in the security of our airports, a complete retooling of how airports operate is needed. Airport security has long been a major concern of this Organization and our members. Prior to this incident, members have been injured because of the lack of security at airports. The amount of training airlines give in-flight crews and gate agents on how to deal with disruptive passengers is currently inadequate. The lack of prosecution of these passengers is frightening. To make this problem even worse, passengers can now receive boarding passes by machines, and may never encounter an employee until they are on board an aircraft.

Federal authorities must be actively involved in the security of our airports. Allowing security contracts to be awarded to the lowest bidder is not an effective way to maximize security. These workers are typically low paid, with minimal or no training. The high turnover rate of these employees underscores the problem. The International Association of Machinists has long argued that the subcontracting of the security of thousands of passengers, and billions of dollars in assets, is a very dangerous way to save money.

Armed Federal Marshals need to be on board flights. Well-trained and well-paid law enforcement officers must man security checkpoints. Well-trained and well-paid airline employees must be provided to assist these law enforcement officials. These airline employees are required to pass the background checks that all potential airline employees are subject to today. Subcontracted employees, however, are not screened by the airlines.

A major security problem results every time carriers subcontract out work previously done by their own employees. An airline cannot ensure the security of an aircraft or its passengers when thousands of workers employed by other companies have unrestricted access to their aircraft.

At many airports, the cleaning of aircraft, baggage handling and maintenance of aircraft is performed by outside contractors. The airlines have no control over whom those companies hire, and they do not perform background checks on potential employees. Yet they have full access to the aircraft parked at the gate. Airlines do not permit passengers to board a plane without airline personnel present, but they allow the aircraft security to be compromised by subcontracted employees. The industry did not, a decade ago, learn its lesson when 120 illegal immigrants, working for a third party company, cleaning airplanes, were arrested at Newark Airport.

The catering of aircraft is another problem. Well-paid airline employees once did these jobs. Those employees thought of working for an airline as a career, not just a job. Now, like airport security screeners, these jobs are performed by outside contractors. In fact, a foreign company owns the largest in-flight catering operation in the United States.

Work being performed by third parties and machines has rendered our airports defenseless.

The industry is in critical need of assistance. We totally agree with the airline management on this point. But airline employees, the real backbone of the industry, must be included in any discussions about industry relief. The transportation employees cannot be forgotten in this process.

We therefore call for a Joint Task Force, comprised of labor, and management, working with the Department of Transportation to define the real problems, and make recommendations to the Congress of the United States.

We have all been affected by this tragic and unnecessary act of violence. America is in a state of shock. The IAM has lost at least two of its members. Thousands are missing. I have lost a dear and personal friend. Our prayers and thoughts are with the victims and their families. With all of this in mind, we have a responsibility to make certain that business as usual is not an option.

I want to thank the Committee for inviting us to participate and listen to our concerns.

I look forward to your questions.

The CHAIRMAN. Thank you very much, Mr. Roach. Mr. Pinson.

**STATEMENT OF HARRY PINSON, MANAGER, CREDIT SUISSE
FIRST BOSTON AND SOUTHWEST REGIONAL INVESTMENT
BANKING GROUP**

Mr. PINSON. Good afternoon. I am responsible for our investment banking practice to the airlines in the United States, which again, is a very large and robust practice under normal circumstances,

and I wanted to speak to you for a second about the future of the financibility of this industry.

Obviously, the air transport system for all its faults here is the envy of the world. It's cheapness and ease of use means that more Americans fly more often than the citizens of any other major country. Whole industries are built around this unquestioned principle of mobility. Hotels, resorts, car rental agencies. It binds us together as a nation and connects us to the world.

The events of last Tuesday and their ramifications are threatening that principle of mobility in a number of ways. First, the cash losses suffered while the industry was grounded and as it rebuilds this week are weakening an industry already made vulnerable by a weakening economy.

Second, the reduction in demand caused by the loss of passenger confidence and the impact on travel times caused by the security guidelines necessary to restore that confidence, coupled with the increasing operating cost and lower fleet utilization that those same safety guidelines are likely to require means that the profit model for the industry is going to change, perhaps permanently.

For the first time ever, an industry conditioned to growth will have to find a way to shrink to profitability. It will take a lot of Yankee ingenuity to find that path and many will not succeed.

Third, the catastrophe last week and our government's response to it have served to raise the perceived potential liabilities of operating an airline, while simultaneously reducing the availability of insurance for that risk. This means that airline shareholders, creditors and potentially even employees and directors of these carriers are being asked to bear the risk of potentially catastrophic losses, an unprecedented and highly disruptive situation.

Finance, the industry I participate in, has always played a big role in this industry because its persistent growth, capital intensity, fierce competition and low profit margins mean lots of external capital needs to be raised, for example, about \$10 billion so far this year. Because the airplanes can be deployed anywhere in the world, have long useful lives and a long history of holding their value, the vast proportion of this capital is in the form of long-term debt secured by these aircraft. This form of financing keeps annual ownership costs low and has generally been available in large amounts in virtually all operating environments, allowing airlines to fulfill purchasing equipments even when business is bad. It also means that the airlines have accumulated enormous debt service and lease payment obligations which will not diminish soon.

We in our industry are eager to get back to the business of financing this one, as we are eager to get back to business generally. It's our livelihood. The rebuilding of this industry will generate terrific investment opportunities which will attract the capital necessary to fund the future of this industry and eventually supplant the aid you are considering.

The fact that these investments will be risky does not necessarily diminish their appeal. The assessment of risk and speculation about an uncertain future are at the very core of the investing process. There are, however, some types of risks that financial markets find hard to deal with, which the current situation contains, and act as barriers to restarting that investment process.

For example, the more stringent security procedures which are essential to attracting passengers back to the airlines will be costly and disruptive, but we don't know how much because we don't understand them yet, nor do we know who will bear the costs. Clarity on the rules of this new game will be essential for the investment community to begin to assess rationally the future of the industry and its various participants. Until the rules are clear, investors will simply put their brains to work elsewhere.

Since this issue also affects the likely size of the fleet you will see in the future, it makes the value of aircraft, the bedrock collateral for much of the industry's financing, also hard to determine.

Second, investors are conditioned to assessing management turnaround plans and placing their bets, but liquidity concerns will again make this analysis difficult. Shrinking to profitability is a new concept in the airline industry. Given the rigidity of airline cost structures in both capital and labor, it will take a long time, years for our turnaround to take place.

No airline has anything like the resources necessary to fund this turnaround and investors in the current poor general investment climate are not likely to bet on a company's ability to raise money in the future to fund its plan. Therefore, another necessary condition to getting private capital moving back into this industry is to give the airlines access to sufficient liquidity to fund a turnaround so that investors can focus on the business risks they do understand.

It's in the nature of these support agreements that if the process goes as intended, much of this support won't be used, because it will act as a catalyst for the private capital flow back to the industry and to take back from the government the role of financing it.

Third, new kinds of liability issues have arisen because of the catastrophe itself and the state of war resulting from it. The industry's insurance arrangements are not adequate to deal with this situation, and the war risk is effectively uninsurable at present. This has the potential to paralyze the industry, as you have heard from others, as investors and creditors are faced with the potential of catastrophic loss. This is an impossible situation for investors to grapple with.

So, clarity as to the future, liquidity and liability management, address those issues and I think we are in business. Thank you.

[The prepared statement of Mr. Pinson follows:]

PREPARED STATEMENT OF HARRY PINSON, MANAGER, CREDIT SUISSE FIRST BOSTON
AND SOUTHWEST REGIONAL INVESTMENT BANKING GROUP

Good afternoon Mr. Chairman. I want to thank you for holding these hearings today and allowing me to appear before the Committee.

My name is Harry Pinson and I am a Managing Director of Credit Suisse First Boston ("CSFB"),¹ and Head of the Southwest Regional Investment Banking Group, based in Houston. I joined CSFB in 1984, and moved to Houston in the summer of 1995 from New York. I am responsible for coordinating the coverage of industrial

¹ CSFB is a leading global investment and commercial banking firm serving institutional, corporate, government and individual clients. CSFB's businesses include securities underwriting, sales and trading, investment and merchant banking, financial advisory services, investment research, venture capital, correspondent brokerage services and online brokerage services. It operates in over 76 locations across more than 37 countries and 6 continents, and has some 28,000 staff worldwide (including over 16,000 in the United States). CSFB is a business unit of the Zurich based Credit Suisse Group ("CSG"), a leading global financial services company.

accounts in the Southwest, including the airline industry. While in New York, I was Head of the Transportation Group in the Investment Banking Department from 1990 through 1995.

I began my business career as an Associate in the public finance department of Merrill Lynch, where I specialized in the transportation industry, prior to joining CSFB. I have managed a variety of financing and strategic advisory assignments for major U.S. industrial companies including the acquisition of McDonnell Douglas by The Boeing Company, the strategic alliance between Continental Airlines and Northwest Airlines, the sale of United Airlines to its employees, advising the creditors of Continental Airlines in the reorganization of the Company the privatization of Qantas Airways and the acquisition of TWA by AMR.

The U.S. air transportation system, for all its faults, is the envy of the world. Its <cheapness> and ease of use means that more Americans fly more often than the citizens of any other major country. Whole industries are built around this unquestioned principal of mobility: hotels, resorts, car rental agencies. It binds us together as a nation, and connects us to the world.

The events of last Tuesday and their ramifications are threatening that principal of mobility in a number of ways.

First, the cash losses suffered while the industry was grounded and as it rebuilds this week are weakening an industry already made vulnerable by a weakening economy.

Second, the reduction in demand caused by the loss of passenger confidence and the impact on travel times caused by the security guidelines necessary to restore that confidence, coupled with the increased operating costs and lower fleet utilization that those same safety guidelines are likely to require means that the profit model for the industry will change, perhaps permanently. For the first time ever, an industry conditioned to growth will have to find a way to shrink to profitability. It will take a lot of Yankee ingenuity to find that path, and many will not succeed.

Third, the catastrophe last week and our government's response to it have served to raise the perceived potential liabilities of operating an airline while simultaneously reducing the availability of insurance for that risk. This means that airline shareholders, creditors, and potentially even the officers and directors of these carriers are being asked to bear the risk of potentially catastrophic losses: an unprecedented and highly disruptive situation.

Finance, the industry I participate in, has always had a big role to play in this industry because its persistent growth, capital intensity, fierce competition and low profit margins mean lots of external capital needs to be raised: about \$10 billion so far this year. Because the airplanes can be deployed anywhere in the world, have long useful lives and a long history of holding their value, the vast proportion of the capital raised is in the form of long-term debt secured by these aircraft. This form of financing keeps annual ownership costs low and has generally been available in large amounts in virtually all operating environments, allowing airlines to fulfill purchase commitments even when business is bad. It also means that the airlines have accumulated enormous debt service and lease payment burdens which will not diminish soon.

We, in our industry, are eager to get back to the business of financing this industry, as we are eager to get back to business generally. It is our livelihood. The rebuilding of this industry will generate terrific investment opportunities which will attract the capital necessary to fund the future of this industry and eventually supplant the aid you are considering.

The fact that these investments will be risky does not necessarily diminish their appeal. The assessment of risk and speculation about an uncertain future are at the core of the investing process. There are, however, some types of risks that financial markets find hard to deal with which the current situation contains, and act as barriers to restarting the investing process.

For example, the more stringent security procedures which are essential to attracting passengers back to the airlines will be costly and disruptive, but we don't know how much because we don't understand them yet nor do we know who will bear the costs. Clarity on the "rules of the game" will be essential for the investment community to begin to assess rationally the future of the industry and its various participants. Until the rules are clear, investors will put their brains to work elsewhere. Since this issue also affects the likely size of the fleet for the foreseeable future, it makes the value of aircraft, the bedrock collateral for much of the industry's financing, also hard to determine.

Second, investors are conditioned to assessing management turnaround plans and placing their bets, but liquidity concerns will make analysis again difficult. "Shrinking to profitability" is a new concept in the airline industry. Given the rigidity of airline cost structures in both capital and labor, it will take a long time, years, for

a turnaround to take place. No airline has anything like the resources necessary to fund this turnaround and investors in the current poor general investment climate are not likely to bet on a company's ability to raise money in the future to fund its plan. Therefore another, necessary condition to getting private capital moving back into this industry is to give the airlines access to sufficient liquidity to fund a turnaround, so that investors can focus on the business risks they understand.

It is in the nature of these support arrangements that, if the process goes as intended, much of this support will not be used because it will act as a catalyst for private capital to flow to the industry and take back from the government the role of financing the industry.

Third, new kinds of liability issues have arisen because of the catastrophe itself and the state of war resulting from it. The industry's insurance arrangements are not adequate to deal with this situation, and the war risk is effectively uninsurable at present. This has the potential to paralyze the industry as investors and creditors are faced with the potential of catastrophic loss. This is an impossible situation for investors to grapple with.

Clarity, liquidity, liability. Address these issues and we're in business.

Thank you for the opportunity to appear here today and I would be happy to answer any questions.

The CHAIRMAN. Thank you very much. Dr. Cooper.

**STATEMENT OF MARK COOPER, DIRECTOR OF RESEARCH,
CONSUMER FEDERATION OF AMERICA, ACCOMPANIED BY
ROBERT HUNTER**

Dr. COOPER. Thank you, Mr. Chairman, Members of the Committee. My name is Dr. Mark Cooper, I am director of research at the Consumer Federation of America. I am joined by Ron Hunter, who is our director of insurance.

At the end of a long time day, let me start by suggesting that the debate we have heard today is a large part of what we are fighting for. Let no one mistake that the open democratic dialog, the give and take we have heard about how best to get the job done, detracts from our unity and sense of purpose. I greatly appreciate the opportunity to present a dissenting point of view, which is the heart of our democratic process.

And in fact, I do represent the average Joes and Janes as Senator Fitzgerald mentioned. My Members are certainly average consumers around the country. And being typical Americans, I think we should seize this as an opportunity. The tragedy has occurred; in the American spirit, what can we accomplish going forward, which is exactly the spirit we have heard today.

First of all, we take the opportunity to recognize that the airways are infrastructure. We had forgotten that, we had turned them into mere commercial operations, and yet you hear about essential services to small cities, about the centrality of the airways to defense and commerce, and we remember it is infrastructure, it is not just another industry.

And because it is infrastructure, it certainly deserves some support by the public, it has a unique function. It was also uniquely impacted by the tragic events of last week. So therefore, there should be financial support.

But while we are infusing cash, we also ought to take the opportunity to inject a good dose of rationality into the industry. Recognizing that airspace is a limited resource, more precious now because of security concerns, we must not waste it. We must not let it be monopolized. Our goal should be to preserve the value and

convenience of air travel as best as possible within the new confines of security concerns.

This is an opportunity to improve competition within the industry. Every step that Congress takes to restore it to health should in fact be made with an eye toward preserving and promoting competition. I appeared before this Committee a while back, in which we heard small airlines begging for space, because they wanted to compete. Well, if there has been a reduction in traffic, let's make sure those new entrants get a shot at that space if it's available.

This is an opportunity to create a better transportation network for the country. Congress should look very hard at high speed rail on high density routes. Our skies are filled with planes making short trips on very high density routes which aren't any faster than a good high speed rail would be, and that would give use a more diverse survivable transportation system.

We should look on this as an opportunity to improve consumer protection. In addition to securing the safety of the traveling public, the rights of consumers need to be protected, and this is an important long-term consideration. If consumers do not believe they are being treated fairly, they will not sustain the commitment to fixing this system, to giving us a good survivable transportation network for the 21st century.

And so, we need to worry about how the consumer will be treated. If the airlines want to pick and choose who is going to serve a route, what price will be charged, and how will that be decided? The airlines were having trouble delivering quality service to the public, which is why we had many hearings here. Now is an opportunity to figure out a way to balance consumer demands, competition and the financial demands of the industry.

Now those are the opportunities. Let me suggest a couple of things we don't want to do. We obviously don't want to write a blank check. And we have heard a lot about the but-for analysis, and it's quite clear when you get a projection out for 6 months, the but-for has gotten very cloudy at the end, it looks more like a make whole analysis to me, this is how much we would have made, let's get it all back.

And so, be very careful about how long the but-for is, but clearly, there were acts of government that impaired this industry and they deserve to be compensated.

Second of all, with respect to the question of finance, in one sense the starting point should be simple, maybe we should commit to not letting airlines go bankrupt during this emergency. Some might have anyway, we don't know. But bankruptcy is a technical question that you can analyze by looking at their books. There are certain financial coverage ratios, minimum lease payments that have to be made in order to stay out of technical bankruptcy. And anything more than that in a tough economy when other people are facing bankruptcy is gravy that maybe they shouldn't be allowed to have.

But perhaps we should commit to finding that number, and I don't think it's anywhere near 18 billion if you look at their finance charges and lease payment charges, but we should look at finding that number and that is a decent level of commitment.

We should also not rapidly, hurriedly during crisis, change our fundamental laws. There will be time to think about antitrust, if we have to restructure the economic relationships in the industry. There will be time to look at insurance, questions of liability and a new threat. Those are legitimate questions, but the advice we always give to consumers, the average Joe and Jane, is don't make big decisions when you're under a lot of pressure or you've just suffered a tragic event.

And that may be good advice to Congress when it comes to our insurance laws and antitrust laws. Yes, it's a legitimate issue, take your time and get it right. Thank you, Mr. Chairman.

[The prepared statement of Dr. Cooper follows:]

PREPARED STATEMENT OF MARK COOPER, DIRECTOR OF RESEARCH,
CONSUMER FEDERATION OF AMERICA, ACCOMPANIED BY ROBERT HUNTER

Mr. Chairman and Members of the Committee,

My name is Mark Cooper and I am Director of Research for the Consumer Federation of America.¹ I am accompanied today by the Consumer Federation's Director of Insurance, J. Robert Hunter, who will be available to answer any questions that may arise regarding the insurance implications of this issue.

Having testified before the Congress and other federal agencies about 150 times, I am well aware of the routine statements of appreciation that witnesses provide when they thank the Committee for the opportunity to testify. This is a very special hearing, in light of the tragic events of last week, so in thanking you for the opportunity to express the views of the Consumer Federation of America today, let me point out that it is proceedings such as this, in which the Committee will hear differing points of view, that are a significant part of the freedom we are fighting for. As a democratic society we are unified in our purpose to combat terrorism. We should be equally committed to allowing open dialogue as to how best to achieve that purpose, especially when it comes to using public funds to support commercial enterprises. This is, indeed, a rare opportunity that I truly appreciate.

Although it is unlikely that Congress will consider propping up the many businesses that may go bankrupt in the months ahead as a result of the slowing economy and the tragic events of the past week, it is appropriate to consider some financial support for the airline industry. We should ensure that the industry does not collapse because of its unique role as a part of the essential infrastructure of the 21st century economy and society and the severe impact that the attack has had on it.

Airlines may need a limited infusion of cash to keep them afloat, but we should also inject rationality into the way this industry does business. In addition to ensuring a more secure air travel network, it is absolutely appropriate for Congress to require fairer competition, better service, and more effective consumer protection in exchange for assistance to commercial operators. The airline industry was falling seriously short in these crucial areas before the attack.

Moreover, it would be a mistake to include hastily drafted industry proposals for legal indemnification and an antitrust exemption as part of this financial assistance package. There will be adequate time in the next few weeks to thoroughly discuss the implications of these longer-term proposals, parts of which may be ill-advised and harmful to consumers, and to prepare a legislative response if necessary.

Recognizing that airspace is a limited resource, more precious now that security measures are likely to make it scarcer, we should not waste it, nor should we allow it to be monopolized by a few large carriers. Our goal should be to preserve the value and convenience of our transportation system as best as possible, within the confines of the new dictates of security. Once procedures to promote security are in place, we must find ways to ensure that competition fairly allocates resources within the industry, such as routes, landing slots and airport gate space. This will be a challenging task because of reduced capacity.

¹The Consumer Federation of America is a non-profit association of more than 280 organizations that, since 1968, has sought to advance the consumer interest through advocacy and education.

Keeping The Air Travel System Running In The Short Term

In the short term, we are not opposed to limited financial assistance to the industry, as long as it is based on a fair and careful accounting of the industry's short-term financial obligations, their losses and the extent of government responsibility for these losses. For example, it is reasonable to consider providing compensation for costs related to the shut-down of airline operations last week, as the FAA mandated this interruption because of national security concerns.

The goal should be to keep airlines out of bankruptcy as long as a national emergency exists, but that does not mean writing them a blank check. Bond covenants have financial coverage ratio requirements and leasing arrangements identify minimum payments that must be met to avoid technical bankruptcy. That is the level of financial commitment that Congress should make. Airline management should not be excused from the obligation to efficiently adjust their operations to a new marketplace.

Much of the cost of this adjustment is being shifted to the public through lay-offs, the brunt of which will be borne first by the affected employees and then by the treasury for unemployment and other benefits. To the extent that there is a permanent downsizing in the industry, funds should be made available to ease the transition for air industry workers as well.

Creating a Survivable Transportation Network in the Longer Term

In the longer term, building a survivable transportation network requires redundancy and diversity of transportation options, as well as air travel decentralization. Here are some ideas that should be considered and debated.

First, we should improve ground transportation, particularly high-speed rail in high-density air corridors. This could relieve a substantial part of the load in the most densely traveled routes without imposing significant indirect costs (increased travel time) on the public. It would also ease runway overcrowding at some airports. It would probably require the airlines to cut back on some of their most densely traveled and profitable routes for the sake of the public interest.

Commercial operations that require plane changes by driving traffic through hub and spoke networks make economic sense for the air carriers, but they are heavy users of very scarce resources - take offs, landings and air traffic control. For consumers, however, the hub and spoke system has led to domination of routes in some regions by a single carrier, resulting in higher ticket prices. These networks also impose a transaction cost on the public that may increase substantially - boarding time. Concentrating traffic is profitable for the airlines and it may even be efficient, but it may not be in the public interest, given the new traveling reality.

It may be necessary to separate different types of air traffic because they pose different security risks. Screening passengers is different from screening freight. General aviation, because it is not public transportation, can be required to have lower priority. We may have to allocate our scarcest resource - daylight hours at airports nearest to population centers - to moving people and relegate other types of traffic to off peak hours and more distant airports.

We may also have to rethink expansions of airport capacity. Rather than adding runways at already overcrowded airports, it may be preferable to add airports handling different types of traffic.

Consumer Protection

In addition to securing the safety of the traveling public, their rights as consumers should also be protected. If consumers are not treated fairly, they will obviously be less likely to fly, especially given the security concerns they may already have. It will also be harder to gain the long-term public support needed to build the transportation network we need.

For many years now, airlines have been unable to deliver decent, on-time service to the public. A variety of causes have been cited - over-scheduling, inadequate airport capacity, antiquated air traffic control. This problem will get much worse since airline capacity will now be reduced by security concerns. We never want a plane to rush or to take off before it is secure and safe to do so, but the public deserves to be given honest and reasonable information about when planes will take off and land.

The public should pay only once for ensuring the physical safety of passengers and the financial viability of the air travel system. Airport and air travel security are national security matters that should be the direct responsibility of government (federal and local) security forces, not private subcontractors of airlines and airports. Increasing governmental outlays for security can be offset by reduced private expenditures. Lay-offs shift costs to the public; airlines do not need to be compensated a second time.

If billions are to be spent to directly support the airlines, then some agreement on ticket pricing must be reached. This is especially necessary in light of the fact that the already inadequate level of competition in the industry is likely to be diminished by the reduction in system capacity.

Providing an antitrust exemption for allocating slots and routes, as has been suggested by some airlines, raises a host of serious concerns that must be considered at length. Larger airlines would likely attempt to use such an exemption to gain access to the most profitable routes and facilities. The survival of individual airlines will be determined by whether they have access to the most valuable air space and to airports near population centers during daylight hours. If we are going to preserve a competitive and convenient air travel industry, these finite public assets must be managed properly and shared among airlines, regardless of size.

Having the government get involved in these issues may be a step back from the philosophy of "let the marketplace decide," but asking the American taxpayer to pay billions to prop up airlines is the first step in that direction. In a general way, for the past several decades, we have neglected our infrastructure. The current crisis may refocus the nation's attention on this important issue. Making long-term decisions in a crisis mode does not always lead to the best choices. Having an open and thoughtful debate about the best policies in pursuit of new national goals, while spending the public's money, is the cornerstone of our democracy and likely to produce a much more effective long-term result.

Thank you for the opportunity to offer these comments.

The CHAIRMAN. Thank you, Dr. Cooper. That is at least a good ending for me, having spent the whole day here. I had a holdup on a bill here from my distinguished colleague from Texas on anti-trust. Now I am glad that Mr. Mullin on behalf of all the airlines says no, they do not want to change the antitrust law.

Second, with respect to competition, you are right. We have had it over the years, begging for gates and everything else like that, could not get any gates. Actually down in Texas, they got some temporarily and then they engaged in predatory pricing and put them out of business.

These are the kinds of things we have to look at when you talk of the responsibility not to give a blank check. We have to look very carefully. It is a severe thing that has hit the airlines, but it has hit us all. My state, the largest industry is tourism, 14 billion. I can tell you, it is already cut in half for the next year. And I am going to be facing all the restaurants, all the hotels, all the rental cars and everything else like that, businesses directly affected. And that is why I say we have got to cover the airlines, get them saved harmless to a point, and then cutoff all the collateral claims, unless the government is going to take care of whatever it is, because the airlines will never, with the insurance companies going after each other on subrogation, never be able to end this series of claims as a result of 9/11.

So, I really appreciate what you have had to say. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman. Mr. Chairman, I would just say that I had a little different view of what Mr. Mullin said about antitrust when we were talking about it. I thought he said that in some circumstances he thought the anti-trust laws should be relaxed, and certainly to try to make sure that each small community has at least one air service. This might be one of the ways that you can waive antitrust for a good purpose.

However, the purpose for which I was trying to originally have some way for antitrust exemptions to be made was to, in allow airlines to talk about over-scheduling during times of congestion. Un-

fortunately, I think probably that problem has subsided for a while so we probably would not need to address it.

I would like to ask a technical question of Mr. Pinson, who is from my home state of Texas, and that is on the issue of what we do in the support package for airlines. If we do a line of credit or if we did a loan guarantee, which of those do you think is more productive but also more fair for taxpayers? Secondly, in a loan guarantee, do you think that there should be only a percentage of a loan guarantee to assure that there is still an effort made for all of the requirements of a good loan by the company that the Federal Government is going to guarantee?

Mr. PINSON. Those are great questions. The first one, frankly I don't know about governmental financial arrangements to tell you that there is a material difference between one where in fact the government is simply extending the cash, being the banker, and the other is somebody else is extending the cash, but the government is providing the credit. I'm not sure there is really a difference from my point of view.

On the second question, which I actually heard this morning in the finance committee, I think the dilemma is that right now, and it depends on the nature of the terms of the loan, but right now the industry is not financible, so the—I mean the premise here is that commercial finance isn't available, so setting commercial finance participation as a condition to an initial loan, as a condition sort of means you're out of luck at the get-go.

Second, frequently, that—I mean, the purpose here I think is to in effect get off the dole as quickly as possible. This is an industry that is typically financible, good times or bad. I think it's perfectly fair somehow or other to in effect force companies to use the private markets when they become available, and create incentives to do so. And how exactly you do that, I don't know, but it's my fond hope that while this credit is extended, it in effect isn't used because the confidence instilled by extending the credit means you don't need it, because other people will step in and provide the necessary financing.

Senator HUTCHISON. Let me just ask Mr. Roach a question on the security issues. Do you believe that there should be a security clearance for every person who has access to an aircraft, whether it is a food handler, baggage handler, or mechanic?

Mr. ROACH. Everyone should be cleared before they go on that aircraft. That would be security.

Initially, the airlines had their own people, airline employees, who catered the planes and did all the work. For cost purposes they started subcontracting the work out to companies and to individuals who really have no loyalty to the airline, they make minimum wage and they have very little training. In addition, they have sent work overseas, foreign repair stations where work is being performed, and rather than work being performed in this country by trained mechanics that are overseen by trained foremen, the work is going overseas.

Now with 100,000 people allegedly or supposedly getting laid off, all that work should be coming in house to people who have the security clearance, who have the qualifications to perform the du-

ties, and that's the only way you are going to secure the airports. Just to do things cheap is rendering our airports defenseless.

Senator HUTCHISON. One of the things that was brought up by an airline employee was piggy backing, which is going through a security door where you are supposed to go one person at a time with your security card, and in fact someone would allow a second person to go through on the same card. Do you think that the employee that allows another person to go through on their security card should have a sanction such as firing or a fine for doing that? Would that make a difference?

Mr. ROACH. I think everybody should follow the rules, especially security rules. If somebody violates the rules, they should be warned about it, and if they progressively continue to violate the rules, then they have to do something else, but I think everyone should follow the rules when it comes to security.

Senator HUTCHISON. So you think a sanction of some kind would be appropriate for people who would violate those rules and put other people in jeopardy?

Mr. ROACH. Who consistently violate the safety rules, something should happen, yes.

Senator HUTCHISON. Thank you, Mr. Chairman, I see that my time is up, and I thank all of you for waiting a long time, but I think it is important that we have the full range of the panels today. You have added something that is different from the earlier panels and we appreciate your patience. Thank you.

The CHAIRMAN. Thank you. Senator Nelson.

Senator NELSON. Dr. Cooper, you represent the Consumer Federation of America. What do you think consumers ought to get out of the fact that we are about to use taxpayer money, other than the reinstatement of an industry that is necessary to our national economy, what do you think the taxpayers, consumers ought to get in return in the way of improvements of airline service?

Dr. COOPER. Well, it depends on the range of things you do beyond just money, but we have heard a great deal of talk about insuring essential service to a variety of communities, and that really does get us to the notion that this is infrastructure, it's not just a market, we are not willing to allow airlines to abandon these markets.

And so if the airlines are going to decide this route needs to be served, by which airline and at what price? I get to ask those questions, because I know that competition is not going to protect me on that route and I know that the marketplace will not serve that route.

At the larger airports, we believe that the ability of new entrants to get into those airports—let me give you an example. I am told that between Washington and New York, there are about 170 flights a day, a tremendous number of airplanes going back and forth, and we were told about the airplane that took off yesterday morning with only four passengers, and most of those 170 flights are not nearly booked. But that's a high visibility route that you want to serve to attract a certain kind of customer.

There were new entrants dying to get some space so that they could fly from New York to Orlando. I sat here with Jet Blue,

which said if I could get a fight from here to there, I could serve a much larger, or a different market that was underserved.

And so, if we are going to put up \$18 billion or some large sum of money, I think we ought to make sure that where we can, we get as many carriers into these airports to compete as possible.

If we have to rebuild the industry, it may not be around the U.S. Air model, it may be around the Southwest Air model, or the Jet Blue model, which is a rather different model than the Southwest. There are competing business models out there. We need to make sure that that competitive aspect gets taken care of.

The third thing is consumer rights. Let's be clear. Before last Tuesday, the airlines had a great deal of difficulty delivering people when they said, without getting them frustrated. They were not meeting their schedules. Consumers deserve honest and fair information about when the plane is going to take off and when it's going to land. They were not getting that.

And if we are going to put up \$18 billion or some number, we have to have some sort of an agreement, and I don't want to get back into managing schedules, and we never want a plane to take off before it's ready and safe.

Senator NELSON. But they can at least tell us.

Dr. COOPER. We also need an honest statement about when it's going to get there.

Senator NELSON. By the way, you know, another reason that plane might have taken off with only four people on it is that all the TV news is saying you have a 3-hour wait. Who wants to go to New York by driving to Dulles, thinking they have to wait for 3 hours, then to fly to LaGuardia. Nobody would want to do that. The fact is, they do not have any wait.

Dr. COOPER. I think a high speed rail might take a big bite out of that trip.

Senator NELSON. Let me ask Mr. Pinson just a quick question. You heard my questioning of Mr. Mullin earlier about building the confidence of the financial markets. Increase the passengers, and affordable and available insurance. You are part of the capital markets. Would you add to that?

Mr. PINSON. Well, I think he was spot on. Insurance is just a cost like any other cost, and you know, fuel, anything else, so to the extent we're trying to reform the industry to profitability and we can mitigate its costs that's a good thing, it is just helping in the restoration.

The passenger recovery is obviously, that's the thing that everyone has agreed on, that we have to get passengers back in the planes. I think the hard notion is going to be, are passengers going to be, even after the safety concerns are allayed, coming in the same numbers? And if the security procedures that are allaying their fears are cumbersome and time consuming, as they are likely to be, that has to have a dampening effect on the desire to, say, take the shuttle, because it just adds to the trip time, compared to other ways of making the same trip or just deciding not to go at all.

Senator NELSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Fitzgerald.

Senator FITZGERALD. Mr. Roach, I wanted to ask you, are the airlines taking advantage now of that clause in the contracts with the unions that said if there is an event beyond their control, they can furlough workers?

Mr. ROACH. Yes, they are. U.S. Air, for example, is the worse offender, furloughing employees out of seniority, not giving them the guaranteed severance that's in those collective bargaining agreements, and telling them they are going to oppose any unemployment insurance that they may receive. And again, we were told by Secretary Mineta that would not be the case, that those provisions in the collective bargaining agreements would be adhered to.

And yesterday, at another hearing, CEO Anderson echoed for the airlines that yes, all these things, all these provisions of the collective bargaining agreement would be adhered to and all the benefits, and that is not happening. They are taking advantage of a situation they said was an act of war.

Senator FITZGERALD. Well, Mr. Roach, if the airlines are given the \$5 billion direct aid that they are calling for, is there anything that you are aware of in their proposal that would prevent them from continuing to furlough the workers?

Mr. ROACH. There is nothing that prevents them from furloughing the workers.

Senator FITZGERALD. So they could take the money and run, and give a kick in the gut to the employees anyway.

Mr. ROACH. Right. That's why I was saying there needs to be a real task force. Nobody gives anybody \$5 billion without any restraint and without some rules and regulations.

Senator FITZGERALD. It looks like they are getting ready to do it around here, as far as I can tell.

Mr. ROACH. Clearly people are being adversely affected, and again, 100,000 people as they have said are going to be laid off, which we don't believe should happen because of all the work that can be done at the airports, and securing the airports, are being laid off, they're not getting any health insurance, they're going to oppose them on getting unemployment insurance.

There is no talk of retraining people for some of these security jobs, there is no talk of retraining people to do other work that they have subcontracted out, or bringing work in house. And it doesn't appear that there is anything that I have seen, and we have been talking about this since we got wind of it, that there has to be some restrictions on what they do to their employees, there has to be a task force made up of labor and management and the DOT, so we can sit down and resolve these issues as they come along, as well as rebuild the system.

Senator FITZGERALD. Are you being included in any of the negotiations on the package?

Mr. ROACH. No.

Senator FITZGERALD. I think you should be.

And just, Mr. Neidl, in your research report that I have, you suggested a cash infusion of an estimated 2 to \$3 billion to make up for the estimated losses the industry has incurred as a result of the shutdown after the terrorist attacks. You recommend 2 to \$3 billion.

Well, this package is going to give \$5 billion. Do you not think it is too much? And please, Mr. Neidl and Mr. Pinson, if you could disclose—I mean, you are—the airlines are your customers. I mean, you are effectively, it is almost like you are in the industry yourself because your business will benefit them by getting the money, your livelihood. And I would imagine, Mr. Neidl, that ABN Amro, you know, does business with a lot of airlines too.

Mr. NEIDL. I wish we did.

Senator FITZGERALD. But you are both supporters of the industry, you want them to get as much money as they can, right, from your personal interest?

Mr. NEIDL. I want the industry to survive, and it's not going to survive without the infusion of funds, and those are preliminary numbers that I did last week. I think there are more updated numbers now which I haven't updated. I went through, as Mr. Mullin went through his calculations, I did not have any disagreement with anything he was calculating, but nobody really knows right now how quickly people are going to start flying again over the next couple of weeks.

But in my analysis, we have not been doing any business with airlines on a banking level and as far as my analysis goes, as an airline analyst, I have been strictly trying to help investors decide whether they should buy or not buy airline stocks, or what stocks to buy if they did want to go into the airlines.

Senator FITZGERALD. Mr. Pinson, why would a bank not lend to Delta, which has \$7 billion in unencumbered aircraft? I was in the banking industry before. If I was secured, I did not really care about what other issues were around because I knew I had the collateral, and we would go out and pick it up.

Mr. PINSON. You're right in principle, and 99.9 months out of the last 100, you are exactly right.

Senator FITZGERALD. Can you say with certainty there is no lender in the world who will lend to any of these airlines, and that they have actually gone out and asked for it, and every single request for lending has been denied?

Mr. PINSON. Obviously I can't answer that question because I can't survey the world. I can tell you that many of the major airlines in the United States are clients of mine and believe me, I am trying to figure out a way to raise any cash for them I can. As I mentioned in my written remarks, and you said the magic word, collateral. The way the airlines have been able to attract so much debt which they have to service, is that the collateral value of aircraft has been so persistent and reliable over a long time, so the incomes of the airlines may fluctuate dramatically from year to year, but the value of the aircraft tends to remain relatively level.

The problem as I am saying is that right now, for example there are more airplanes in surplus for same or lease now than there was at the height of the Gulf War, already, before the airplanes had put any planes on the ground, OK?

Senator FITZGERALD. Whose fault is that? It is not the taxpayers' fault.

Mr. PINSON. No, no, I'm trying to answer your question. It is just a fact, OK? So the reason why people are having trouble lending right now is because the prospective value of that collateral is un-

certain because there are going to be so many more aircraft in surplus that if you have to foreclose on an airplane, who are you going to sell it to.

Senator FITZGERALD. But that was the case before September 11 too. I had heard there was a glut of aircraft because the manufacturers had been agreeing to buy the used, or take the used aircraft off their hands in return for them buying a new one, and now the manufacturers are trying to go all over the world unloading these.

Mr. PINSON. That's the great American system, you bet.

Senator FITZGERALD. So that is a pre-September 11 factor that is making it difficult.

Mr. PINSON. That's right, and we were the week before this disaster as an industry, busily raising money for the airlines on very attractive terms notwithstanding their weak financial condition, secured by this very equipment. People said yeah, you know, there's 800 planes in the desert, that will work off, that's OK with us, the economy will come back, we'll use that equipment. But now we're not there, we are kind of down here, and that 800 is going to double or more as the industry has to shrink to manage this reduction in demand.

So I think with the passage of time as I say, and it's not going to be much time, as the fate of the industry is more clear and how much equipment they can effectively use, people will grow more confident about the value of that collateral, as they will every other attribute of the airline industry, and so the pump will get primed to finance those that are financible. But right now, I think the answer is no.

Senator FITZGERALD. Well, all of you, thank you very much. And to the chairman, thank you for putting up with this Senator from Illinois for keeping us all here.

The CHAIRMAN. Let me ask just one final question of Mr. Pinson, because he says a necessary condition to getting private capital moving back into this industry is to give the airlines access to sufficient liquidity to fund the turnaround, so that investors can focus on the business risks they understand.

How much in dollars and cents are you talking about, Mr. Pinson?

Mr. PINSON. I really can't gainsay the judgment of the industry itself. It seems reasonable, but it's an awfully murky set of circumstances. I don't have any crystal ball that gives me a better judgment. As I say, they are telling you what their losses are, and I think the world needs assurance that somehow those losses will be met. It is my fond hope that some of those losses are actually going to be met by the private sector getting back in gear as they see this industry turning around and financing it, but I think the amount of necessary liquidity support that needs to be assured to the investors and to the industry is probably somewhere in the neighborhood of what they are asking for.

The CHAIRMAN. The 5 billion?

Mr. PINSON. No, I don't think the 5 billion will do it. I think the whole number is what, somehow or another, is the number you need to be focusing on, I think.

The CHAIRMAN. What is the other figure?

Mr. PINSON. The loan guarantees that they have been talking about.

The CHAIRMAN. How long will the 5 billion carry them?

Mr. PINSON. They say until September 30, I believe, or at least those are the losses they will burn.

The CHAIRMAN. So in the 10-day period between now and the 30th, they are going to be compensated a half billion a day, and then we are back to where we are right here this afternoon; is that what you are saying?

Mr. PINSON. That's sort of what I'm saying. I don't think in the next 10 days the markets are going to suddenly revive and see a rosy future for this industry and start providing funds.

The CHAIRMAN. So what have I done as your senator by voting for 5 billion if I am going to find myself in the same predicament 10 days from now as I am right this minute, so what have I done?

Mr. PINSON. You have moved the ball 10 days further toward the goal post.

The CHAIRMAN. Moved the ball?

Mr. PINSON. That's about it.

The CHAIRMAN. Senator Fitzgerald.

Senator FITZGERALD. I think this package is way too much, and the thing I would want to ask Mr. Neidl and Mr. Pinson, the airline executives have said, and I think Mr. Mullin testified that his incentive compensation is going to be pretty much zero this year because their stock options are worthless, they are all under water. But let us face it, is this not a good time for those airline executives to issue options to themselves now while their stocks are pounded down to low levels, and then they get this government assistance, those stock options will produce gargantuan increases over the next couple of years. And is that not the case, that the best time to get your options is when the price of your stock is really low, the exercise price?

Mr. PINSON. Well, I can't argue with the mathematics, unfortunately. I don't believe executives can grant themselves options, I think their boards grant the options.

Senator FITZGERALD. I should say the board.

What do you think about Mr. Wolf getting the right to be paid \$40 million, he and the CEO this year, in return for having negotiated the agreement with United, even though it didn't go through. Do you think U.S. Air, that would be an appropriate payment for their company to make to Mr. Wolf while their company basically is hovering near insolvency?

Mr. PINSON. I really can't comment.

The CHAIRMAN. Oh, come on, you can comment.

[Laughter.]

Senator FITZGERALD. Would Dr. Cooper like to comment on that? Are you aware of that?

Dr. COOPER. Yes, there was one of the stockholders who was at the meeting on TV yesterday, who said that \$45 million destroys the credibility of U.S. Air asking for help.

Senator FITZGERALD. Yes, I agree with you. Now, do you think that there should be conditions in the government bailout package? Mr. Roach said, nobody gives \$5 billion without asking anything in return, and I said, Mr. Roach, I think you are going to see it hap-

pen. I think the railroading has been so persistent here. I mean, the memorial service had not even been over when this package was being put together and I have to say, I am very concerned, because I do not think there are adequate safeguards here to protect the taxpayers' money or to deter the airlines from asking too much.

If they had to give up some common stock in return for the equity infusion, that would prohibit or deter airlines from asking for more money because the existing shareholders would be diluted out.

Dr. COOPER. Senator, I mean obviously, executive compensation is something we consumer advocates love to complain about. But when you are looking at \$18 billion, it is small potatoes, and it would be wonderful if they all said we'll work for a buck a year, but that's not going to save the American taxpayer a lot of money.

So the bigger issues that you have raised about how do we get an equity position so that when the industry comes around, they will pay it back, or in the alternative, this \$5 billion is, and as I understand the numbers that have been described to me, they said this is how much money I would have made in September, and I can guess the short-term pretty closely. This is how much money I would have made by next June, here is what I assume will happen to business, pay me the difference. It assumes no management efforts to control those costs, to shrink this industry. This was their projections and he has told you, it may have to shrink.

Essentially there are no variable costs to be controlled here, there are no slots to be sold to Jet Blue, which might actually be able to startup faster, or Southwest says they were flying again, let's give them more space.

So executive compensation is an important issue as a symbol, but there are big structural questions here and you have focused on them, as many of the other Members of the Committee have. So I didn't mention it. I don't want to seem that I was derelict in my duty.

Senator FITZGERALD. Do you think we are bailing out the airlines as opposed to other industries because of their political clout?

Dr. COOPER. Well, we accept the notion that the air industry is infrastructure, it's different, and you have heard many ways it is different.

The CHAIRMAN. You keep saying infrastructure and the keep saying privatize, deregulate, deregulate, deregulate. I mean, come on.

Dr. COOPER. Senator Rockefeller said he would have voted against deregulation. What I would like him to do is drive a harder bargain for the bailout. Right now that's what we can do, and to the extent we're going to do, let the industry manage which airlines go into which city. We're back to the old system, and I get a right to say which airline. Maybe the new entrants will be the spokes, and bigger carriers who want to do the transcontinental flights can be the fat pipes.

Maybe we have to reorganize the industry that way to make sure we have got a lot of little entrants who at some point could grow. But if we are going to pay \$18 billion, then this Committee ought to have its hand on the throttle to figure out what policymaker sense for the public.

The CHAIRMAN. Very good. The Committee is indebted to each of you four. We thank you very much.
The Committee will be in recess subject to call of the chair.
(Whereupon, the hearing recessed at 6:15 p.m.)

