

STATEMENT OF PATRICK V. MURPHY
ACTING ASSISTANT SECRETARY OF TRANSPORTATION
FOR POLICY AND INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON AVIATION OF THE HOUSE
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
CONCERNING THE FINANCIAL CONDITION OF THE AIRLINE INDUSTRY
FEBRUARY 17, 1993

Mr. Chairman and Members of the Subcommittee, the Department of Transportation is pleased to have this opportunity to have a representative appear before you to comment on the financial condition of the U.S. airline industry.

This important issue has led Secretary Peña, in one of his first efforts as Secretary of Transportation, to take a lead in the proposed establishment of the National Commission to Ensure a Strong Competitive Airline Industry. This legislation on the Commission was announced yesterday. The Airline Commission has full bipartisan support, and its creation is encouraged by many industry officials. There are so many varied opinions, even among the airlines, on why the industry is suffering and what, if any, corrective actions are needed, that a broad-based commission will be an ideal forum for building a consensus on how to go forward. We in the Department will anxiously await the recommendations.

With one notable exception, Southwest Airlines, every major airline continues to experience large losses. The industry's

losses were over \$2 billion again this past year (more if we include one-time charges for retiree health benefits), and more than \$8 billion over the past three years. The debt load of many airlines has increased greatly in recent years, while equity has been depleted. In short, the airline industry is in trouble.

What is at stake goes beyond the effect on the airlines, their employees, and the traveling public. The airline industry affects the aerospace industry and travel related businesses such as car rental agencies, hotels, restaurants, retail businesses and resorts. Each of these in turn buys goods and services from still other businesses. Ultimately, a significant part of the economy, the balance of payments, and tens of thousands of jobs are at issue.

As yet, the ongoing financial crisis of the airlines has not affected competitiveness, and most air travelers continue to enjoy good service and low air fares. But looking to the future, we are concerned. America cannot be assured of good, reasonably priced service unless the airline industry is both financially healthy and structurally competitive.

Understanding the reasons for the airlines' poor performance is essential, if the government is to develop good policy.

The ultimate question government must answer is whether this wave of losses is an aberration or a precursor of future performance that mandates fundamental change. Are the losses driven by self-correcting phenomena such as cyclical events, or bad decisions by airlines, or inappropriate government policies, or a fundamental flaw in the industry's structure?

Regardless of the causes, the industry's lack of profits may be approaching a point of critical importance to future competitiveness. Some of our airlines are now so weakened they will have difficulty sustaining even modest future losses. Additional consolidation is clearly possible. Too much consolidation could produce an inadequate level of competition. So even if we were confident that the problems causing the losses were self-correcting, we would have to be concerned about the prospect of further consolidation. It would be tragic if airlines were lost due to government failure to address the issues.

We believe that the most effective way for the government to begin to address this situation is through the newly proposed Airline Commission.

Because time is short, the Commission is charged with completing its mission in 90 days after its creation. This

kind of a short-term, high priority, high intensity process is absolutely necessary given the airline industry's continuing losses, and the declines in new orders for our aircraft manufacturing industry. Among the issues the Commission will investigate are:

- * The financial condition of the airline industry, including the impact of industry pricing policies, the impact of deregulation, the impact of bankruptcy laws, the impact of international aviation policy, the ability of the United States to achieve long-term competitiveness in international aviation, the ramifications of foreign investment and the cost impact of the phaseout of noisy aircraft.
- * The state of the U.S. aircraft manufacturing industry, its financial prospects and its ability to compete in the global marketplace.
- * The future competitiveness of the domestic airline industry, including legal or other impediments to competition.

In each of these areas, the Commission will be charged with developing recommendations to the President and the Congress on actions that could be taken by industry and government to promote financial strength and competitiveness.

This is an ambitious undertaking, particularly in the time allowed, but it can be done. It will give us the best opportunity to get the airline industry back on its feet.

In the weeks before the Commission's report, the Department will do everything in its power to protect and promote the current competition in the airline industry. We will also vigorously protect our international aviation rights abroad. This approach will keep us in a good position to receive recommendations of the Commission.

With this in mind, we will move aggressively whenever foreign governments restrict U.S. airline rights abroad. Secretary Peña already made that clear with two rulings against Australia and Japan in his first two weeks in office.

The Department will also be very active in providing support for the Commission.

Thank you, Mr. Chairman.