

LES AUCOIN
1ST DISTRICT, OREGON



CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

URGENT

April 23, 1981

Dear Colleague:

Recently, the employees of Continental Airlines launched a major drive to buy control of the company by creating an Employee Stock Ownership Plan (ESOP). The Continental plan is a significant milestone in the renewal of American business. On behalf of the House Task Force on Industrial Innovation and Productivity, I am writing to ask you to sign a letter to the CAB, urging that it give the Continental employees and their plan a chance.

The Continental employees have voted, 8,982 to 359, for the ESOP, which is also endorsed by management. This plan solves two of the most acute problems facing American business and industry today: declining productivity and capital formation. It is a model of what we can achieve in our drive for industrial renewal -- free of federal bail outs and free to compete. It is an important experiment in capitalism that should be given a chance to succeed.

Earlier this year, when Texas International Airlines sought CAB permission to buy a large block of Continental stock, it asked that the stock be held in a voting trust. Now, Texas International is, in effect, asking the CAB to release its stock from the trust so it can kill the Continental Employee Stock Ownership Plan. The letter I'm asking you to sign simply asks the CAB to allow the Continental Employee Plan to go forward by holding TI to its original agreement. The Board will hear the case Wednesday, April 29.

Clearly, this is an opportunity for dedicated people to show the country that by themselves they can solve their company's problems of productivity and capital formation, producing in the end a healthy, vital firm that can continue to contribute 10,000 jobs and a high standard of air service to our economy, if only given the chance. We are not taking sides in a fight between the managements of Continental Airlines and Texas International Airlines. Rather we are asking that the free enterprise system be given a chance to work.

We urge you to lend your support for this important cause. If you wish to sign this letter, please contact Michael Call at X50855 by close of business Monday, April 27.

Sincerely,

A handwritten signature in black ink, appearing to read "Les Aucoin", written over a horizontal line.

LES AUCOIN
Member of Congress

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DRAFT LETTER FROM MEMBERS OF THE HOUSE TASK FORCE ON INDUSTRIAL INNOVATION AND PRODUCTIVITY TO THE CIVIL AERONAUTICS BOARD

The employees of Continental Airlines have just voted by an overwhelming margin -- 8,982 to 359 -- to establish an Employee Stock Ownership Plan which would buy a controlling interest in the airline. We believe that the plan of Continental's employees is a significant milestone in the renewal of American business through increased productivity and capital formation.

Earlier this year, Texas International Airlines sought permission from the Civil Aeronautics Board to purchase 48.5% of the common stock of Continental Airlines contingent on placing the stock in a voting trust. The CAB granted permission on the terms requested, and Texas International purchased the stock. Now Texas International has filed a petition to modify the CAB's order, entered at its own request, for no apparent reason other than to kill the Continental Employee Stock Ownership Plan.

We are writing as members of the House Task Force on Industrial Innovation and Productivity to urge that the Board deny Texas International's petition and allow the employees to buy control of Continental.

During the 1970's Americans reduced the amount of savings which they devoted to business capital formation. The Congressional Budget Office has pointed this out as a major factor in declining productivity.

The Continental Employee Stock Ownership Plan would counter this trend with a practical demonstration of supply-side economics: Continental's workers propose to allocate \$185 million -- roughly 15% of their pay over the next four or five years -- to doubling the airline's capital stock. The employees' investment would leave the company in an excellent position to buy more efficient, innovative equipment at the appropriate time. (To date, Texas International has not proposed to add anything to Continental's capital stock. Rather, it proposes adding \$93 million in debt to finance the cost of its takeover.)

Efficient workers are as important to productivity as capital formation. The American airline industry can take one of two courses in order to make more efficient use of labor. Texas International has effectively pursued one course -- spinning off the assets of its parent corporation to start New York Air, a new carrier with less restrictive work rules and lower wages.

If the airline industry as a whole pursues this course, the nation will have to bear substantial costs -- in the short run, unemployment compensation and other payments (potentially

billions of dollars under Section 43 of the Airline Deregulation Act) to the employees of existing carriers; in the long run, a costly series of futile strikes by unions alarmed at their shrinking share of the industry base (see the example of the United Mine Workers).

Employee ownership of Continental would offer the airline industry a second course toward a more efficient work force, at less cost to the nation than Texas International's course. The President's Commission for a National Agenda for the 1980's has singled out Employee Stock Ownership Plans as an important incentive to worker cooperation with management and greater productivity.

Everyone involved in the debate on airline deregulation -- proponents and opponents alike -- agreed that deregulation must be effected by a period of transition. Everyone agreed that the carriers and their employees, nurtured in a hothouse of government regulation for forty years, could not be expected to adjust overnight. For example, the Senate Commerce Committee reported that:

A crucial element of the present bill is the gradual phasing in of its key provisions. The Committee accepted without controversy the principle that a transition period should be provided to airline companies in order to allow them time for adjustment before the full force of the new regulatory system is felt.... The Committee believes that Congress, having acted to prevent the normal free market evolution of the industry, now has a duty to the industry and its employees which would not exist if such action had not been taken. In order for Congress responsibly to change its policy now and require the industry to move forward to much more competitive market oriented environment, Congress should attempt to minimize the dislocations caused by the change. The change in policy and the temporary dislocations it may cause would not be necessary if Congress had not left in place so long a regulatory framework designed for the conditions that existed in the 1930's. (Amending the Federal Aviation Act of 1958, Senate Report 96-631, 95th Congress, 2nd Session, February 6, 1978.)

The employees of Continental have developed a plan pursuant to which they are willing to sacrifice 15% of their earnings and will commit to working harder and smarter to increase their productivity to insure their airline's successful transition. Fairness demands that they be given the chance to try.

We ask that the Civil Aeronautics Board give Continental's employees a chance ^{to succeed} ~~by~~ refusing to dissolve a standard voting trust which it has required in other merger cases -- denying special treatment to Texas International.

Sincerely,