reduced prices of the on-line discounters. Instead, the majors have had to compete by differentiating their service, such as providing first-class seating and seating choices in coach.

GOVERNMENT REGULATIONS THAT AFFECT AIRLINES

Historically, the airline industry had been highly regulated and subject to a high degree of political involvement. The industry was subject to regulations promulgated by the Department of Labor, Occupational Safety and Health Administration, the Environmental Protection Agency, the Department of Defense, the Federal Aviation Administration (FAA), and The Department of Transportation (DOT). The FAA, for example, could issue regulations affecting flight safety, such as the requirement that airlines had to install a system to reduce the chance of fuel-tank explosions in Boeing and Airbus aircraft. The airlines were given a deadline to meet these requirements, generally with a phase-in-period. The Aviation Transportation Security Act required the airlines to screen every piece of luggage for explosive devices by 2003. These unfunded mandates cost the airlines millions of dollars. Failure to comply with the regulations meant that DOT could revoke an airline's certificate of public convenience, resulting in a revocation of its permission to fly. Although the possibility of a government revocation exists, it remains more of a negotiation factor for the government in regulating the airlines.

Traditionally, the majors had controlled most of the landing slots at a half-dozen international airports by entering into long-term leases with the airports. This greatly reduced competition from the discount airlines at major hubs, but the discounters leased less expensive gates at older national airports, such as Houston's Hobby and Chicago's Midway.

After the terrorist attacks of 9/11, national and international transportation interruptions seemed imminent due to possible terrorism and other global instability variables. To help the airlines, the federal government passed the Emergency Wartime Supplemental Appropriations insurance programs under the Air Transportation Safety and System Stabilization Act. This act provided the airlines with cash payments for 9/11 interruption in airline travel, and with the opportunity to secure a government-guaranteed loan to offset the increased costs for security. These federal government injections of liquidity helped airlines survive in the short run. The supplemental appropriations extended only until March 2008, at which time the airline industry had to self-insure. The additional cost to the airlines of terrorism insurance could not be passed on to passengers due to the extreme price competition in the industry. Private insurers did not want to assume liability for unforeseeable catastrophic events. As a result, the airlines' choice of insurers was limited, which resulted in higher premiums for coverage.

Some airlines, such as America West, were able to secure a government-guaranteed loan, but the loan agreement contained strict limitations on management prerogatives. America West borrowed $429 million plus a term loan for $73.2 million, but in return it was required to maintain $100 million in cash reserves and to prepay the government loan with the net proceeds of all issuances of debt or equity by its holding company. Any money derived from asset sales in excess of $20 million in any fiscal year and insurance proceeds in excess of $2 million (to the extent such proceeds were not used to restore or replace the assets from which such proceeds were derived) had to be paid to the government. A further restriction on airlines that received the governmental loan was the requirement that the airline had to control labor costs.

In addition to the legislation intended to preserve the airlines, there were unfunded governmental mandates levied on the airlines. Airlines were subjected to the Aviation and Transportation Security Act (ATSA). This established a new Transportation Security Administration within the Department of Homeland Security. ATSA mandated that by December 2003, all checked baggage at U.S. airports had to be screened using explosive detection systems. There were also new requirements for strengthening