

May 16, 1989

JL:
MAY ONLY Q. AT THIS
POINT IS WILL THE
AIRLINES BEGIN TO
IF WE DAY FOR THE
ALTERNATIVELY, WILL THEY
BE UNDER PRESSURE TO
IGNORE IT? DO WE
IF THEY DO WE HAVE
A 3rd PARTY?
MG
5/16

MEMORANDUM

TO: Marty Gleason
FROM: John Lyons *[Signature]*
RE: Economics of the Airline Smoking Ban

In the past, The Tobacco Institute worked well with the airline industry in opposing efforts to ban in-flight smoking. Now the Air Transport Association has developed a consensus position in support of legislation to make permanent the current two-hour ban. Also, ATA will not oppose legislation for a total ban.

As far as we can tell, the airlines' government affairs representatives were primarily responsible for the development of the consensus. The marketing departments did not push for the consensus.

About six weeks ago, TI consultant David Burnes of Aviation Research & Analysis proposed an econometric study of the smoking ban's impact on airline passenger traffic, at a cost of \$30,000. Burnes had taken a cursory look at DOT's origin and destination (O&D) data for the top 100 city-pair markets and found that traffic had increased approximately 5 percent in those where smoking was permitted and had decreased slightly in those subject to the ban. I rejected the proposal on the basis that the airlines had already developed a position and that a study would be a waste of resources.

In working recently with marketing officials at American Airlines, Burnes raised the subject of the ban's impact on traffic, American's position on airline smoking legislation, and his idea for an econometric study. American's marketing people expressed an interest in Burnes' proposed study. They said if the analysis showed the ban produced even a small (one percent) negative impact on traffic, they would work to change American's position on smoking ban legislation.

Burnes then ran the proposal by the marketing departments of the other major carriers. TWA, Texas Air, Pan Am and USAir all expressed an interest in reviewing such a study. Like American, the marketing folks at TWA and Pan Am said they would seek reconsideration of their companies' legislative positions if the numbers are there. United and Delta are generally interested, but each would like to see a written description of the proposed study before commenting on the likelihood of reconsideration.

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I believe such a study could be useful and recommend that we commission Burnes to produce it. An airline industry divided on smoking ban legislation would be much better for us than one with a consensus position in opposition to us. The marketing departments are more influential in airline management circles than the government affairs departments and may therefore be our only hope for a successful "divide and conquer" strategy. An econometric study is our best bet for executing this strategy.

There is \$50,000 in the airline budget for a public opinion survey in 1989. I do not anticipate conducting this survey. (Crafting useful questions would be extremely difficult, and other surveys in the last 12 months suggest we would not like the results.) I would like to reprogram \$30,000 of this money to fund Burnes' econometric study. He can begin work on it immediately; he should complete it by mid-June.

With your approval, we will begin at once.