Transportation by Leif Johnson

'Old' and 'new' airlines

The story of Francisco Lorenzo exemplifies the strategy of the industry's banking overseers.

Pan American, a unionized airline, halted its three flights out of New Orleans to the West Coast on Oct. 31. The flights weren't money-losers—on the contrary, they were heavily booked and had been so for years. Pan Am is ceding profitable flights to Emerald Air, a "new" non-union carrier with which Pan Am has numerous flight agreements.

The pattern of ceding profitable routes to the "upstart" carrriers is part of a wage-destruction mechanism dictated by the industry's purse-string holders. The major funders of the "new" airlines are the "old" banks who have traditionally provided funds for the industry. The most interesting case is that of Francisco Lorenzo, head of Republic Air, the corporate entity that bought up Continental in 1981 with the help of the law firm headed by Democratic National Committee Chairman Charles Manatt.

Lorenzo's success story has none of the romance of entrepreneurial lore. His anti-union mini-empire was solely a creation of hundreds of millions of dollars funneled in from major international and regional banks, insurance companies, and brokerage houses, seasoned with the spice of black-economy networks. Lorenzo is a front man.

Said to have formerly worked in the controller's office at TWA, he formed Jet Capital Corporation in 1969 together with Carl Pohlad, Robert Carney and Douglas Tansill. Pohlad and Carney were executives of Minnesota Enterprises Industries, which owned the Minneapolis bus system and held numerous real estate interests, including, reportedly, gambling casino and related properties. Tansill was an official at Kidder Peabody, the brokerage firm founded by the Boston Peabody family.

Jet Capital, still only a shell organization, bought Texas Air from Minnesota Enterprises with $31,528,000 from a consortium consisting of Chase Manhattan ($13.8 million), Bank of the Southwest ($6.8 million), Aetna Life Insurance ($6.2 million) and McDonnell Douglas Finance Co ($4.7 million).

On the Bank of the Southwest board was Jean de Menil, of the Schlumberger banking family of Switzerland. De Menil was a director of Permindex, an organization later identified by intelligence agency sources as the apparatus that carried out the assassination of President John F. Kennedy in 1963. De Menil's wife, Dominique, is a sponsor of Islamic fundamentalist terrorist organizations through the Houston-based Rothko Chapel.

With Texas Air came the Tropicana in Las Vegas, which Carney and Lorenzo sold in 1975. Subsequent federal investigations indicated that the Tropicana after 1975 was owned by the Kansas City mob.

Later Lorenzo joined the board of the directors of Elsinore Corporation, a susbsidiary of Hyatt International which owned the Four Queens in Vegas and the Hyatt Lake Tahoe. Elsinore, which was also involved in joint ventures to develop electronic slot machines, was founded in 1972 and "taken private" in 1979.

With the initial 1972 infusion of capital, Lorenzo proceeded to build a pyramid of corporations with Jet Capital Corporation being the ultimate parent of Texas Air, the holding company for Texas International Airlines, and New York Air. In 1975 Chase Manhattan made another loan of unknown size and the following year became a minor lender for more than $11 million in loans by Aetna and the Philadelphia Savings Fund Society.

In 1977 another $11 million worth of equipment was purchased with loans from a Chase led consortia of banks, this time with Department of Transportation loan guarantees.

By 1978, the Lorenzo corporate empire was sufficiently established to allow it to sell $24.3 million worth of bonds, through a shell, Texas International Airlines Finance, N.V. (probably based in Curaçao, the Dutch money-laundering center in the Caribbean). Lorenzo's bid for National Airlines failed, but he was now in the big time, reaping another bond package the next year put together by Smith Barney, Crédit Suisse, First Boston, and Kidder Peabody International.

In 1979, the first year of airline deregulation, Lorenzo's total borrowings on the public record were $126.4 million, rising to $134.5 million in 1980 and taking off in 1981 to $197.3 million, the latter year with $158 million from Manufacturer's Hanover Bank in New York, to finance the takeover of Continental Airlines. The other lenders are, once again, top names in banking, brokerage, and insurance: Home Life, Nationwide Life, Aetna, Smith Barney, Wells Fargo Bank, Bank of Montreal, First National Bank of St. Louis, Houston National Bank, and Wells Fargo.

The investors apparently believe that the paper mountain behind the ailing airline carriers (old or new) can be supported by wage givebacks. As one New York banker declared, "These airlines are really good at scraping up cash in a pinch." The pinch is on the employees.