



# DEPARTMENT OF TRANSPORTATION

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REMARKS PREPARED FOR DELIVERY BY SECRETARY OF TRANSPORTATION  
WILLIAM T. COLEMAN, JR., TO THE INTERNATIONAL AVIATION CLUB,  
WASHINGTON, D.C., MAY 18, 1976

I appreciate the invitation to address the International Aviation Club during National Transportation Week. I have expressed my views and policies on domestic aviation before a great many groups this spring. (To mixed reviews in some cases, I should add.) But I can think of no forum more appropriate than this, to set forth my views on international aviation.

This is a particularly opportune time for these remarks because of the turbulent period we have been through in international aviation. In the aftermath of turbulence, there is often the danger of over-correcting -- in one direction or another -- and I want to avoid this danger. I believe that we should take the time now to evaluate where we are, very carefully; to assess the extent of our problems; and to move -- also very carefully -- toward solutions. This is a time to be open-minded...to be flexible...to experiment with new ways. But we must also be cautious. Before we discard our old principles and practices, let's be sure we have something better to put in their place.

As Secretary of Transportation, I am the principal adviser to the President on international aviation policy. I am talking today about U.S. policy, of course. But I would hope that what I have to say is of interest to other governments. I am keenly aware that international air transportation is, above all else, a "system." It is a complex and delicately constructed system. No one nation can

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afford to pursue its own interests at the expense of the system. We have all become too dependent on the world markets and world resources and the cultural interchanges that international air passenger and freight transport make possible.

I am optimistic overall about the future of international aviation. But I don't underestimate the difficulty of the problems we face; or the severity of the forces that have contributed to them. In the past six years the world has had two major recessions with only a moderate upturn between them. The business cycle has been a major force. But even more significant, in my view, have been the structural changes taking place in the industry.

To begin with, we have had a sharp decline in traffic growth rates. Capacity decisions of the 1960's were based on long-term growth rates expected to be on the order of 10 to 15 percent. But from 1970 to 1975, in the largest air transport markets, traffic increased at an average annual rate of only one percent, compared to the 15 to 25 percent rate of the 1960's. In fact, 1974 and 1975 traffic levels actually declined three percent and six-and-a-half percent. These are figures for U.S. carriers in the North Atlantic, but they are representative of the industry as a whole in that market.

A second structural change has been the shift in the balance between price and service that the public appears to want. In the last 10 years, vacation travelers have outnumbered the international business traveler. This shift has sharply increased the demand for low-cost air travel, both charter and scheduled services, relative to the higher priced seats on scheduled flights. A simple statistic tells the story. In 1963, full-fare passengers on scheduled services accounted for 66 percent of traffic. But in 1973, full-fare passengers totaled only 23 percent of the traffic.

Another influencing factor was the inflationary spiral of the 1970's. Since 1970, unit operating costs for U.S. international carriers have increased by 45 percent while unit revenues have risen only 35 percent. The tripling of uncontrolled world fuel prices sent fuel costs up to a startling \$4 billion even though the level of consumption has dropped since 1973.

The cyclical and structural forces have caused, or contributed to, many of the problems in international aviation today. But governments and carriers must assume some of the responsibility too -- for the way they have responded to these forces. We could debate the precise cause-and-effect relationship. But I believe the sequence has gone something like this:

First, as the growth curve flattened, the excess capacity already in the system grew to serious proportions. This created a severe downward pressure on fares, and then on profits. Carriers either weren't able to cut back capacity, or they chose not to do so. In fact, many actually added routes and capacity, while cutting fares. What did they get out of it? -- An irrational route structure, pricing often not related to costs, and the illegal rebating and illegal discounting that plague the industry today.

Now we come to part two: as demand shifted from the scheduled to the charter market, the excess capacity problem grew even worse. Some scheduled carriers were unable, or again did not choose, to respond to the growing demand for low cost, mass travel with charter services. But at the same time, all the IATA carriers -- including those who also offered charter services -- increased their offerings of scheduled service at charter rates. The results were predictable. A complicated, patch-work fare system not based upon costs that (1) led to more and more red ink for the carriers and (2) so discriminated against the full-fare passengers that more and more of them left the scheduled market -- to the point where, today, continuation of scheduled service at affordable fares may be jeopardized.

I'd like to talk briefly now about where DOT stands on these issues. Where have we set our priorities? But before I do that, let me clarify two points.

One, our ultimate goal in international aviation is very similar to our domestic goal. We want to see an economically efficient industry evolve -- one that provides safe, reliable, low-cost transportation for the traveler and shipper. But one that also permits a well-managed carrier to operate profitably. Moreover, to the extent possible, we would like to see market forces -- those related to a competitive system -- rather than government intervention driving the international industry.

At the same time -- and this is my second point -- I recognize that international aviation differs in some fundamental respects from the domestic industry. I consider it unrealistic to discuss international aviation -- not to mention set policy for it -- without taking these differences into account. What this means is that while I share a common goal with others, I may differ on the best path for getting there.

Now, having said this, let me describe where DOT is placing its priorities.

To begin with, the excess capacity that has been flying in the international air system must be reduced to manageable levels. Once we achieve that, I would like to see carriers and governments work together in a framework that gears present and future capacity to market demands. At all costs, we must avoid the excesses and abuses we have seen in the past five years.

To resolve the current problem, I obviously favor reductions made by carriers themselves, and the governments they represent. U.S. carriers have made many unilateral cuts over the past 18 months. I commend them for the actions they have taken, knowing how painful they have been for both the carriers and their employees. But at some point U.S. carriers may stop unilateral cuts if carriers of other nations increase their capacity and their market share at our expense.

The basic health of the world economy is clearly reviving. As it improves, the conditions in which air travel demand grows will be restored and excessive capacity will be absorbed. In this case, we could see a return to international airline profitability in the next few years. Nevertheless, I urge the flag carriers of all nations to use restraint in adding new capacity that is not justified by market demands.

This is a problem of the utmost concern to me, and one that the department will be watching closely. In my view, excess capacity can undermine all our other efforts to develop an efficient and viable air transportation system. But at the same time I urge caution against overreaction to the problem. I am hopeful that a healthy world economy will restore balance to the system before we conclude that the principles we have followed in the past are no longer sound. I would like to see the United States remain flexible in this area, and avoid rigid government regulation of airline schedules and capacity.

As my second goal I want to see further progress in rationalizing our carriers' route systems. The route swaps and suspensions carried out last year have helped to produce a more efficient route structure and to reduce carrier losses. But greater improvements in existing routes is possible. Some further adjustments are desirable.

I am also concerned about award of new routes. As DOT has made clear in recent filings, we believe that the economic viability of a new route is a necessary consideration. Service development and competition will always be important issues in assessing the public convenience and necessity (PC&N). But the public interest is also served by a viable, privately owned air transportation industry which must have profits to survive and expand. In any case, in PC&N

determinations, I would like to see proper weight given to the impact of liberalized charter rules, wide-bodied equipment, and the amount of service the foreign partners to our agreements may feel compelled to add. All of these factors add to the real capacity in a market.

Another goal DOT will pursue is a thorough review of fare structures. We want to see international air fares that are as low as possible, especially for the price-sensitive traveler. But we also want to see fares that are simplified, realistically related to costs, and permit an efficient carrier to earn a fair return on investment.

I was very pleased when the CAB told the IATA carriers last October that this government wanted a package that produced a profit for our carriers. It seemed only commonsense to me. But it was the first time the board has been so explicit, and it pushed the IATA carriers in precisely the right direction. Our analysis of this year's fare package for the North Atlantic suggests that the target of profitability may be achieved. I commend the CAB for resisting the increase in normal economy fares, but allowing an increase in discount fares and first class fares. This reduces the cross subsidization we and the board always found objectionable. It also moves the IATA carriers toward a less discriminatory structure.

We also give very high priority at DOT to resolving the conflict between scheduled and charter services -- while preserving the special qualities of both.

The board is already experimenting with liberalized charter rules, and is reviewing further moves in this direction. DOT has asked for, and supported, these initiatives, and I welcome them. The availability of low-cost air transportation to the public should be increased. But I am also concerned about the impact of more liberal charter rules on scheduled services. I consider scheduled service to be the backbone of any air transport system, and steps must be taken to prevent its impairment. Scheduled carriers should be allowed to respond to the competitive spur of charter services in ways that enhance their profitability.

I therefore favor permitting scheduled carriers to offer some of their unused capacity at charter-competitive fare levels. Properly managed, I believe, "part charters" can improve load factors and efficiency. They can also lower the level of fares for all classes of scheduled travelers. I don't want to see the part-charter concept abused, however. What we need is a balanced part charter program, and responsible implementation by our scheduled airlines.

In the charter area, as you know, the United States has traditionally favored the concept of "country-of-origin" rules. We allow flights from another nation to enter the U.S. under the originating country's rules. That country reciprocates by doing the same for our flights. I support this concept, and would like to gain wider acceptance for it. Thus, I urge our partners in international agreements to consider carefully the need to permit charter services to provide low-cost air transportation across national borders. We are beginning important negotiations on this issue tomorrow. I am hopeful that they will mark the end of discrimination against our supplemental carriers in the markets in question.

I should underscore here that I consider it an important part of my responsibility to make certain that both scheduled and supplemental U.S. carriers have an equal opportunity to compete in world aviation markets. I understand that every nation has its own interests to protect and foster. But I'm growing more and more impatient with certain practices being directed against U.S. carriers. I consider them needlessly restrictive and discriminatory. I also want to see an end to illegal rebating and illegal discounting activities, which currently siphon off some \$500 million annually on the North Atlantic routes alone.

The Congress and the President have given me authority and responsibility -- under the International Air Transportation Fair Competitive Practices Act -- to take action to eliminate unfair discrimination and competition. I have already exercised both, and I intend to continue doing so.

U.S. policy has always been directed toward greater liberalization of the international operating environment. But this can't be a one-way street. Our carriers must have the same opportunity we grant to the carriers of foreign nations to participate fully in the international air transportation system.

To conclude, let me say a word now on the progress of our international aviation policy.

As most of you are aware, DOT has co-chaired with the State Department development of a new international aviation policy statement. A great deal of consensus already has been reached within the government on the nature of a new policy. But I cannot tell you here today that accord is complete. Some areas of disagreement remain -- on both sides of the position I have taken. I am hopeful that these disagreements will be resolved soon, and that I can issue a draft for your reactions.

I feel strongly that we need new policy and -- at this time -- that we need flexible policy. I want to see policy that supports the public interest in a plentiful supply of low-cost transportation -- but that also recognizes the need to insure the economical viability of U.S. flag international air carriers. I want to see policy that provides practical guidance for the near term -- but one that recognizes that we are in a period of uncertainty and revisions may be needed a few years from now. Frankly, I want to see a policy that deals with the realities of international aviation today, but which also looks ahead to a time when market forces may play a greater role in carrier decisions.

I want this policy because I believe that the international aviation market will expand enormously in the years ahead. Traditional markets will grow as more low-cost air travel becomes available. New markets will open up between the United States and the Near East, the Far East, and Africa. I believe that carriers should and will compete for these markets, and I want a fair opportunity for U.S. carriers to compete. As Secretary of Transportation, I see my task to be one of clearing away the major obstacles that lie in the path of that opportunity. I want to help create an environment in which economically efficient air service can be provided to the U.S. public and to the world.

In closing, let me say that I hope that you in this room will respond to what I have said today. Tell me where you agree and where you differ. And tell me how we can work together to achieve my objectives and yours.

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