DEPARTMENT OF TRANSPORTATION

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REMARKS PREPARED FOR DELIVERY BY SECRETARY WILLIAM T. COLEMAN, JR. TO THE NATIONAL AVIATION CLUB, WASHINGTON, D.C., SEPTEMBER 11, 1975.

I am pleased to be here today. This forum comes at an opportune time. Next Wednesday I expect to deliver to Congressional leaders in the House and Senate a national transportation policy statement I have been formulating over the past several months. Today I would like to talk briefly about a few of the aviation cornerstones contained in that policy statement.

Let me hasten to say at the outset that a transportation policy statement issued by the head of one Federal department does not become the nation's transportation policy. Nor is it a plan, per se. The delineation of policy helps direct decision-making along rational lines toward national goals. It identifies those objectives construed to be in the public interest, defines the disciplines needed to proceed toward those objectives, and indicates the changes in laws and practices necessary to the attainment of a more perfect transportation system.

When George Washington left Mount Vernon in April of 1789, to travel to New York City for his inauguration, he noted in his diary that he was ready to answer his country's call but that he was "less hopeful of answering its expectations."

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I am not sure that my thesis on transportation policy will satisfy everyone's expectations. I have endeavored to chart what I deem to be the Federal government's proper response to the nation's transportation needs. I have tried to be candid and direct, conscious that transportation today is sorely beset by circumstances that require action. Policy can be effective only when it is translated into law or implemented thru programs. As Lincoln told one of his reluctant generals early in the war between the states, "there are no heroes on the field of inaction."

Look with me today, if you will, at five facets of air transportation where bold and transforming actions are in order.

First: in the critical area of regulatory reform, President Ford will soon recommend to Congress legislation intended to make maximum reliance on competitive market forces a primary objective of Civil Aeronautics Board certification.

In civil aviation, as in other regulated transportation modes, artificially contrived restrictions on services that are wasteful of energy and other resources, and that impose additional costs on the consumer, must ultimately be abolished. This suggests, among other possible actions, the phasing out over a five-year period of the restrictions now contained in airline operating certificates - those pertaining to mandatory stops, prohibitions on carrying local traffic, and the like.

It also suggests that overly-rigid and inefficient price structures should be replaced; that air carriers should not be prevented from competing on the basis of fares. I believe there is a place for price competition in an industry that, next spring, marks its 50th anniversary under private ownership - and has come a long way from the day when the primary purpose of regulation was the protection of an infant enterprise.

Consistent with our advocacy of increased reliance on competitive market forces is a prescribed movement toward greater flexibility in entry and exit, along with some modifications in traditional anti-competitive agreements. The bill we are finalizing for submission to Congress will be explicit in these areas, but let me just assure you today that we are not proposing the free and unfettered right of entry to the air carrier market. Far from it!

We perceive the pitfalls implicit in any overly-liberalized policy with respect to market entry. Similarly, absolute freedom to abandon the market would carry with it the danger that communities could be left without needed commercial air service.

Yet somewhere between the relatively inflexible system of today, with its route and rate structures cast largely in the mold of the 1930's and 40's; and the nether world of uncontrolled market access, lies the opportunity to improve service and profitability by allowing competitive forces to work more freely. We intend to work within the government process, and with the industry, in search of that optimum process.

The reforms we are recommending clearly mark a major departure from the regulatory regime we have relied upon in the past. But I would emphasize that we do not envision any sudden dislocations in the airline industry. We recognize that we must move carefully during the transition to a more competitive system to ensure that all airlines have an equal opportunity to adjust to the requirements of the market place; that they are not penalized because of financial turbulence during the interim; and that the objectives of increased efficiency and safer service are in fact achieved. At the same time we must proceed deliberately and analytically in determining what the appropriate market structure of the air carrier industry should be.

Second: the airline industry is being immediately and seriously affected by increased fuel costs.

In recommending to the C.A.B. that the airlines be permitted to adjust fares promptly and selectively to reflect jet fuel price increases, we are not suggesting that we have evolved a perfect or permanent solution to the problem. The procedure, as we see it, should be limited in duration and self-liquidating. In the long run we favor higher rate-making load factors, and not higher fares, as the preferred means of dealing with increased energy costs. We continue to believe that something approaching 60-65 percent, is more appropriate in this energy-sensitive age as a load factor rate base than today's 55 percent.

Two facts we must recognize and accept: one, higher energy costs are a fact of life in today's society and have to be shouldered, ultimately, by the consumer; and, two, a healthy, financially sound airline industry - making a sufficient net profit to attract new investment and create jobs - is essential to the public interest.

No one wants higher air fares. But neither should the airlines be victimized by costs they can't absorb or by contraints they can't surmount. During periods of normal economic conditions, well-managed airlines should be able to earn a reasonable rate of return on investment. If they cannot, then something is wrong with management, or with the way the government is regulating the industry. In either case, the public interest is harmed.

When airlines make a profit they are able to acquire new and more efficient equipment. That, in turn, sustains the U.S. aircraft manufacturing industry, generating the capital needed to compete in the world market. I cannot agree with those who profess little concern over the airline industry's fading or, in some cases, negative profit picture. I am reminded all too graphically of what the erosion of investment capital did to the railroad industry.

A <u>third</u> matter of due concern to the department and to the aviation industry relates to <u>noise</u>.

To state the obvious, there is no technically easy or financially attractive way to suppress aircraft noise. Despite the earnest efforts of the industry, governments, and airport administrators, people afflicted by jet noise (and I am not unsympathetic in this matter, since I live within earshot of National Airport flight patterns) have been biting this bullet for years, almost to the point of lead-poisoning.

It is my policy now to move as directly as possible toward the goal of confining severe aircraft noise exposure levels around U.S. airports to the areas included in the airport boundary. This policy will be pursued through regulations on aircraft engine noise, aircraft operational procedures, and airport grant requirements.

The most difficult of these approaches is the reduction of noise at its source - the aircraft engine itself. The industry, as you know, is not optimistic about the technical prospects. General Electric said last week that it may be the 1980's before significantly quieter engines can be developed and in use on airline aircraft. In the meantime, we may of necessity have to acquire sound-absorbent material (SAM) retrofitting of existing aircraft engines.

We do have to weigh, however, the financial costs of such a procedure, and we are currently exploring projected costs and reviewing alternative ways of financing the airline fleet conversion. While a decision on this matter is not imminent, I believe action must be taken in the short term to moderate the abrasive effects of aircraft noise.

Fourth: in the year that has passed since the Administration implemented a seven-point Federal action plan in behalf of our financially-distressed international flag carriers, some encouraging progress has been made.

Capacity-control agreements have been approved between U.S. carriers and the flag carriers of Venezuela, Switzerland, the United Kingdom, Greece and Italy. We have also seen progress in the areas of route restructuring, service suspension, mail rates that are more compensatory, and the "fly U.S. flag" program.

Other areas of international negotiation remain difficult -the adoption of compensatory fares, tariff enforcement, and reduction of discriminatory practices. For reasons well known to this audience, these are complex matters involving differing economic, political and social attitudes which require patient and painstaking effort. Nevertheless, we remain committed to the basic purpose of the action plan - to help the U.S. flag carriers through this near-term crisis, and to promote a healthier environment for U.S. international air service in the future.

In the process, we shall be wise to address the broader question in U.S. international aviation policy; namely, the optimal structure for U.S. flag carriers and international routes. Should one or two U.S. airlines carry the stars and stripes worldwide, or should we seek to give the U.S. international carriers some domestic routes and liberalize entry for other airlines into international markets? In other words, should we move toward a regionally-oriented international airline system, with strong domestic feeder support in each region? These matters, and others, touching on the future configuration of our international air transportation, merit your serious reflection and mine.

Fifth, and finally: I would remind you that our proposal for the extension and revision of the Airport and Airway Development program is now before Congress.

This proposal is based on five years of experience under the original 1970 act. We propose to keep the good features while improving the overall execution of the Airport Development Aid program. A companion bill also before Congress modifies the user tax structure, lowering the ticket tax and increasing the general aviation fuel tax - thereby raising general aviation's share of total system costs from four to nearly seven percent.

In conclusion, the components of aviation policy I have alluded to today are not necessarily new, probably not surprising to the aviation community, and by no means final answers to our needs. I hope through the policy statement, and by these remarks, to stimulate discussion of the issues, so that there will be progress and ultimately consensus on policies we can all work to implement.

Of one thing I am firmly persuaded: although there are established habits and ways of thinking, and strong forces at work to preserve precedent and reward inertia, we must not be reluctant to seek out new, more efficient ways of responding to the nation's air transportation needs. Only when we acknowledge that past practices do not necessarily produce the best air transportation systems for today will we have the courage to terminate programs that have fulfilled their original purposes. Only then can we fly the new headings needed to keep pace with tomorrow's needs and opportunities.

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