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COMMENTS BY SECRETARY OF TRANSPORTATION CLAUDE S. BRINEGAR
TO THE PAN AMERICAN PILOTS SEMINAR, WASHINGTON, D.C.
DECEMBER 2, 1974.

I'm delighted to be here today and to see this spirited group joining the battle--one I've been in for months--to save Pan Am.

"Project Turnaround" may be just the boost that Pan Am needs, and I cannot commend you too strongly for your efforts. But neither can I mislead you by saying that rallies, speeches, and the goodwill of a Secretary of Transportation is all that it takes to do the job.

Pan Am faces a tough, uncertain future. The skies--especially those over the North Atlantic--are crowded with less-than-friendly competitors; potential vacationers are staying home because of their own economic uncertainty and seemingly endless fare increases; the bankers have long lines of well-secured borrowers scrambling for their limited funds; and Washington is caught in the squeeze of simultaneously attempting to control inflation and to stop a business recession.

But we can help. And, I can assure you, within the limits of the balance of interests that we represent, we have been for months working hard to help. But before describing that help--what it can and cannot do--it might be worthwhile to pause for a quick review of the statutory limits within which I operate.

The main aviation policy directives guiding the Secretary of Transportation are contained in the Federal Aviation Act of 1958, and the Department of Transportation Act of 1966. Without going into the specific statutory words, I interpret the various directives to mean:

First: It is National policy to see that efficient private-sector U.S. flag carriers have the opportunity to operate economically viable service between the U.S. and foreign nations. The extent of the U.S. flag service will depend upon the size of the market, its growth potential and the amount of legitimate foreign competition. This policy does not call for U.S. flag carriers to go everywhere in the world, nor necessarily to compete head-to-head in foreign markets. With so many overseas routes now overburdened with capacity and with fuel and other costs still increasing, I believe we must carefully re-examine the practical extent of U.S. flag service and re-think our past concepts of future growth.

Second: It is National policy to see that international travelers and shippers have ready access to various kinds of service--including the services of both scheduled and charter carriers. Fares must be as low as possible, consistent with the requirement that an efficient private-sector carrier can earn adequate profits to sustain the "fast, safe, and convenient" operations it is expected to provide. The fare structure should be simple, with all fares closely related to the efficient carrier's costs of providing the specific service. And, as I read the intent of the law I am appointed to administer, subsidies of any kind should be avoided.

Third: It is National policy to increase aircraft load factors as a means of conserving scarce liquid fuels. Raising load factors to save fuel may require further unilateral schedule changes and temporary capacity limitation agreements.

With load factors of scheduled carriers on the North Atlantic now averaging about 54 percent, and with break-even load factors now somewhere in the mid-60's, further changes may be advisable both to save fuel and to achieve a compensatory fare structure.

<u>Fourth</u>: It <u>is</u> National policy to resist unfair or discriminatory practices of foreign air carriers or governments that make it difficult for U.S. flag carriers to compete. The CAB and others have documented a variety of discriminatory practices that work to the disadvantage of our carriers. We are examining these in detail, and advocating corrective actions where we believe they are justified. At the same time, we must recognize that some care is needed, for misinterpreted unilateral actions can trigger new self-defense tactics by other governments.

Last September, after several months' work, an Administration Task Force announced a seven-point program to help Pan Am and other U.S. flag carriers get a fair shake in world markets. I will report briefly today on what we perceive to be the relative significance of each of the points in our action plan, as well as progress either in hand or in view. I recognize that there are differing points of view on some of these items--I'm sure other speakers will bring them out--but it's our judgment that the items rank as follows:

1. Rationalized Route Structure.

On a scale of 100 in terms of relative importance, a profit-oriented rationalization of Pan Am's route structure, by service suspensions, by route exchanges, or combinations of the two, would score 100. The agreement arrived at by Pan Am and TWA last month on a massive route realignment is, by and large, the type of positive action the situation calls for. It now remains for the applicants to submit their proposals in ways that will enable the CAB to act expeditiously.

2. Compensatory Fare Structure.

The opportunities for profit improvement through a compensatory fare structure--that is, a fare structure that covers costs--rank second in importance to a rationalized route structure--scoring about a 90 on a scale of 100. There is encouraging evidence that much is being done to catch up with the sharp cost increases of recent months.

The Civil Aeronautics Board has published policy guidelines that, in time, should lead to the use of compensatory rates by charter carriers operating out of the United States in the North Atlantic. Although we have some problems with these particular guidelines, we believe that headway is being made in reconciling the differing points of view.

The approval by CAB of the IATA passenger fare structure for North and mid-Atlantic traffic, which went into effect November 1, will add millions of dollars in increased revenue for Pan Am during the three-month "winter" periods. IATA members also reached agreement on fare increase of 3 to 10 percent for Pacific and related routes, effective next April. And CAB has approved an interim increase of 8 percent in passenger fares between the United States and cities in Puerto Rico and the Virgin Islands--a route where Pan Am, American and Eastern reported a collective loss of nearly $30 million last year.

3. Tariff Enforcement.

Third in importance is tariff enforcement, which I would rate about 50 on the scale of 100. I understand that the appropriate legal agencies are investigating illegal ticket discounting and rebating, and we are undertaking an independent analysis of operating practices of travel and tour agents. We are also cooperating with IATA, ATA, IACA, and the CAB to see if better enforcement methods can be developed. We may need a stronger law--a law with really sharp teeth in it.

4. Fly U.S. Flag.

Rating almost a 50 on the scale of 100, an aggressive "fly U.S. flag" program clearly offers a sizeable profit potential. Effective last October 21, a GSA order required all foreign travel of U.S. contractors to be on U.S. flag airlines if at all possible. In addition, Secretary Dent and I have begun working with travel agents and shippers to impress upon them the importance to the Nation of using U.S. flag carriers. Also, our department is meeting with various U.S. domestic airlines to explore ways to increase traffic feed to our international carriers.

A Commerce Department report published last month clearly identifies the many National benefits of U.S. flag service. That report also notes that of the total international travelers to and from the United States in 1973, 61 percent were Americans but U.S. flag airlines carried only 55 percent of the traffic. Each one percent switch in American passenger traffic from foreign to U.S. carriers would increase U.S. carrier revenues by more than $20 million a year.

5. <u>Reduction of Excess Capacity</u>.

Various kinds of agreements or actions to reduce excess capacity rank only slightly below the "fly U.S. flag" program in relative importance. Capacity reduction agreements already have been reached with the flag carriers of the United Kingdom. British Airways is cutting capacity 25 percent this winter, and British Caledonia's suspension of New York service is not being filled by another carrier. Alitalia has announced that it will suspend service to Philadelphia and Chicago January 1, and has come to agreement with Pan Am and TWA on next summer's schedules.

In addition, the State Department has been holding discussions aimed at bringing the scheduled airline capacity of The Netherlands, the Scandanavian countries, Switzerland, and Belgium into better balance with the provisions of the bilateral agreements. Airlines of these small countries handle 80-90 percent of all scheduled traffic to and from their countries and the U.S.--traffic that is made up of

65-70 percent of U.S. Citizens. Obviously something is out of whack.

I might note, in this connection, that when our discussions with The Netherlands produced no specific agreement, the CAB moved immediately in directing KLM to file its schedules for Board approval. "By operating frequencies in excess of the needs of the U.S.-Netherlands market," the Board said, "KLM has denied Pan Am and Seaboard World fair and equal opportunity to compete for traffic."

6. Compensatory Mail Rates.

Higher international mail rates are clearly warranted, although here I consider the profit impact to be somewhat less important than in the five prior items--about a 25 on the scale of 100.

Late in September the CAB approved an interim increase (about 14 percent) in recognition of fuel cost increases since 1968, retroactive to last April. We have urged the CAB to authorize an additional interim increase to reflect other cost increases since 1968.

While on this subject of mail rates, I would like to take a moment to comment on a misconception about international mail rates. Because our Postal Service does not pay U.S.

international carriers at the rates set by an international group called the Universal Postal Union, it is widely believed that we are somehow discriminating against our carriers while favoring foreign ones.

This argument is simply not true.

Relative to the costs of our efficient carriers, the UPU rates are excessively high--at least twice too high. To require the Postal Service to use UPU rates would be to force the users of the postal system to pay an unwarranted and indirect subsidy.

Our Postal Service properly uses UPU rates only as a rate of last resort--only when no U.S. carrier is able to handle the mail to some unusual overseas location. This year the U.S. Postal Service will pay our U.S. carriers about $40 million for transporting civilian U.S. mail. At the same time, it will pay foreign carriers, using UPU rates, only $2 million. Looking at the other side of the coin, foreign countries will pay U.S. carriers about $7.5 million at UPU rates to fly foreign mail to the U.S. Thus, by being a member of UPU our carriers gain a little on the exchange. But this modest use of UPU rates--$2 million to foreign airlines and $7.5 million to U.S. airlines--is, in no sense, discriminatory or unfair. Nor is it a valid argument for using these rates for all mail. The bulk of our overseas civilian mail does and should move at cost-related CAB established rates. The UPU mail rate idea is an appealing one--indirect subsidies often are--but it just doesn't stand up under close scrutiny as being "fair and square."

7. Elimination of Discriminatory Practices.

A great variety of foreign discriminatory practices are known to exist--such as excessive landing and en route fees, difficulties in currency conversions, and restrictions on interline feed. However, on the basis of information from the CAB and U.S. flag carriers, the profit opportunities, in total, are modest by comparison with the other items on the list--rating about a 10 on the scale of 100.

This does not mean, of course, that we should not do all we can to eliminate overseas discriminatory practices. We have a Task Force working to identify flagrant cases, and the State Department has assured us that appropriate actions will be taken. Also, the pending International Transportation Fair Competitive Practices Act will, if passed, give us additional authority in this area.

However, I must caution that much of what appear to us to be excessive overseas charges may, in fact, turn out to be the result of different conceptual approaches to charging user fees and to the high costs actually being incurred by lightly used, expensive new air traffic systems and airports.

America's airports only charge the users for varying amounts of direct local costs, depending upon local discretion. The FAA's air traffic system costs and the ADAP grant funds are covered partly by indirect ticket and fuel taxes and partly by general tax funds. An increasing number of foreign countries, on the other hand, are endeavoring to recover all, or at least a major part, of their full system costs directly from the carriers--a principle that we cannot object to. We find, for example, in our early discussions with the Australians about the high fees at Sydney, that they are not only willing to document their costs but to show why, in fact, they must now raise their fees. The Sydney fees, we learn, are a bundle of charges--covering landing, en route, and other fees that we collect in a variety of direct and indirect ways. While we may succeed in proving that some of the cost allocations used by the Australians, and by others that we are looking into, are unfair to international users, I must caution that the resulting cost reductions are likely to be modest.

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Let's now pull back from these various details and ask ourselves the big question: Will all this work? Will it save Pan Am?

My honest answer: I very much hope so, but I'm not sure. Much is beyond our control.

I ask you to recognize that the Federal role is, by necessity, a broad one, for the balance of interests we represent is necessarily broad. Our major role, I believe, is to see that the necessary transportation <u>services</u> are available to those that want to use them--and available at the lowest possible costs. The efficiencies of competition are, as always, the best way to this objective.

We also have an important role in seeing that the U.S. companies that want to provide this service are fairly and equitably given the opportunity to do so. Correcting past problems in this area is the objective of our 7-point Action Plan.

And, of course, we have a role in protecting the Nation's taxpayers--that overworked and under-represented group--from having to shoulder additional unwanted tax burdens.

Finally, I would stress that much depends on Pan Am--on its management, and its employees. Its management has the job, and it's a most difficult one, of positioning Pan Am in the marketplace with the equipment, the schedules, and the cost and fare structure that will enable it to survive.

You, the employees, have the job, an equally difficult one, of making it <u>work</u> efficiently and, in time, profitably. Only you can bring that extra something to it--that something that adds those crucial extra passengers to each trip--that something that says: "We're <u>better</u>. Come fly with <u>us</u>."

I can assure you I'll keep working on my part of Project Turnaround. From what I see here today I'm confident that you will do likewise.

Thank you and good luck!

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