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# DEPARTMENT OF TRANSPORTATION | NEWS

## OFFICE OF THE SECRETARY

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REMARKS BY SECRETARY OF TRANSPORTATION CLAUDE S. BRINEGAR
AT MEETING OF INTERNATIONAL AVIATION CLUB, WASHINGTON, D.C.
OCTOBER 23, 1974.

It's been properly noted in recent weeks that the Department of Transportation is increasingly looking upward. A year ago our big problem was a bankrupt railroad; this year it's a near-bankrupt airline. Who knows what higher events will occupy us a year from now? None, I hope, for I can tell you quite honestly that the problems of international aviation have us well occupied.

It's not that we're without facts and figures.

We know, of course, that international aviation is an absolutely essential part of world trade and commerce--moving some 100 million international passengers and over 6 billion ton miles of cargo yearly.

We know that the U.S. market, still the cornerstone of international air service, can be served to and from over 100 destinations by 10 scheduled U.S. flag carriers and 57 scheduled foreign carriers; that it can be also served by 9 U.S. flag and 43 foreign carriers authorized to provide charter-only flights; and that it can be served by three U.S. flag all-cargo carriers.

We also know that, overall, most of these operations are today being carried on at a financial loss to the carriers. The IATA members, for example, estimate their total 1974 losses on the North Atlantic at some $300 million, or about $30 per passenger. And, of course, we know that for the two largest U.S. flag international carriers, today's losses are for one (TWA), extremely serious, and for the other (Pan Am), potentially disastrous.

While the immediate cause of the losses is the three-fold rise in fuel prices since last October, this fuel crisis only accelerated the day when the United States must face up to some fundamental long-term issues in our international aviation policy.

Let me first lay out some of these issues. After that I will discuss our Department's current efforts to help our international carriers.

In the United States, the main aviation policy directives guiding the Secretary of Transportation are found in the Federal Aviation Act of 1958 and the Department of Transportation Act of 1966. These Acts directed the Secretary:

-- to promote all forms of transportation, including international aviation, that are "fast, safe, efficient and convenient... at the lowest costs consistent therewith and with other national objectives, including the efficient utilization and conservation of the nation's resources."

-- to encourage and develop an air transportation system "properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the postal service, and of the national defense."

-- and to see that these objectives are met "by private enterprise to the maximum extent feasible."

These objectives were further amplified in the President's 1970 Policy Statement on International Aviation.

I interpret these directives to mean:

1. 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.

<u>Issue</u>:

Please note that 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. It does call for the service that they do operate to be economically viable. With most major routes now struggling with excessive capacity and with fuel and other costs still rising, I believe that serious questions can be raised about the extent of existing U.S. flag service and about prior ideas of future market growth. Are we now prepared to adjust the levels and extent of U.S. flag service to these realities of the 1970's?

2. 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 should 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. Subsidies of any kind should be avoided.

Issue:

This whole area of international fares and competitive relationships, especially as between the differing cost structures of the various types of carriers (scheduled or charter; private or government-owned), is a most troubling one. Also troubling is the conflict between the travelers' desires for low-cost service on heavily traveled routes, as opposed to the historic practice of cross-subsidizing lightly traveled scheduled routes at the expense of heavily traveled ones. Do we now have the needed cost data, the international mechanisms, and the will to implement the above described concepts of service categories and fare levels?

3. It is National policy to increase aircraft load factors in order to conserve scarce liquid fuels.

Issue:

Raising load factors to save fuel may require even further unilateral schedule changes and temporary capacity limitation agreements. With load factors of scheduled carriers on the North Atlantic now averaging about 54 percent for the latest reported year, clearly a significant improvement is possible. Since break-even load factors are reported to be in the mid-60's, such a change would also be consistent with the objective of a compensatory fare structure. Can we make these changes without unfairly discriminating against U.S. carriers and in a way that is consistent with our objective of adequate levels of service?

4. It is 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 fairly and effectively.

Issue:

The CAB and others have documented a variety of discriminatory practices that work to the disadvantage of our carriers. But change in the international arena takes time and compromises. Do we have the mechanism and the will to bring about the needed changes promptly and without creating offsetting new problems?

Before moving from these broad issues to a discussion of our specific efforts to help our international carriers, I would observe that in carrying out these various policy objectives our Department well recognizes the important regulatory role of the CAB and the foreign-policy leadership role of the Department of State. We respect their statutory roles, just as I hope they respect ours. We neither want nor are able to move ahead alone. Cooperation at all levels clearly should be the spirit of the day. The problems our international carriers face are too complex and too serious to be approached in any other way.

As you know, last month we announced a 7-point program designed to help our U.S. carriers through a variety of non-subsidy governmental actions. This plan was developed over several months by an Administration Task Force, drawing on several years experience dealing with pricing and capacity problems, and with suggestions from all sides, including other Executive Branch agencies and the carriers themselves.

Using Pan American as a specific example to illustrate the potential profit improvement, I can report the following progress:

1. <u>Rationalized Route Structure</u>.

On a scale of 100 in terms of relative importance, a profit-oriented rationalization of Pan Am's route structure, either by service suspensions, by route exchanges, or combinations of the two, would score 100. Lask week's agreement between Pan Am and TWA on a massive route realignment appears to be the type of positive action that the situation calls for. Although we have not yet completed our analysis of all aspects of the agreement--which we will do quite promptly, I can assure you--I do want to commend both carriers for this aggressive approach to their joint problems.

Based on Chairman Timm's recent statements, it's gratifying to know that the CAB will also act expeditiously in this high-priority matter.

2. Compensatory Fare Structure.

The opportunities for profit improvement through a compensatory fare structure rank second in importance to a rationalized route structure--scoring about a 90 on a scale of 100.

Much is being done in an effort to catch up with recent sharp cost increases:

(a) The CAB has this week published policy guidelines that should lead, in time, to the use of compensatory rates by charter carriers operating out of the U.S. Assuming the rates are properly and fairly related to the actual costs of the efficient carriers, we support this action as providing a necessary reference point for determining compensatory rates of the scheduled carriers.

(b) IATA's higher scheduled fares for the North Atlantic for the 17 months starting November 1 have been approved by the CAB. This is the fourth increase in North Atlantic rates this year.

(c) IATA has reached agreement on fare increases of 3% to 10% for Pacific and related routes, effective next April.

3. Tariff Enforcement.

Third in importance is tariff enforcement, which rates about a 50 on the scale of 100. A New York Grand Jury is investigating illegal ticket discounting and rebating, and we have started 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.

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 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 started working with the travel agents and shippers to impress upon them the importance to the Nation of using U.S. flag carriers. Also, our Department is planning to meet with various U.S. domestic airlines to explore ways to increase traffic feed to our international carriers.

5. Reduction of Excess Capacity.

Various kinds of agreements or actions to reduce excess capacity rank only slightly below the "fly U.S. flag" program in relative importance. I expect discussions now underway to lead to carrier agreements for capacity reductions next summer between the U.S. and the U.K., Germany, France, and Italy. (I would note that just within the past few days Alitalia has announced a cutback and British Calendonia a suspension of scheduled North Atlantic service.) In addition, the State Department has started discussions directed to 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% of all scheduled traffic to and from their countries and the U.S.--traffic that is made up of 65-70% of U.S. citizens. Obviously, something is out of whack.

In addition, we have asked the CAB to again permit carriers to consolidate military charter passengers on scheduled flights, as was done during last winter's fuel crisis.

6. Compensatory Mail Rates.

Higher international mail rates are clearly warranted, although the profit impact is less than the five prior items--about a 25 on a scale of 100.

Late in September the CAB approved an interim increase (about 14%) 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 them would be to force the users of the postal system to pay an unwarranted and indirect subsidy.

Our Postal Service 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. In the latest fiscal year the Postal Service's total payments to foreign carriers at UPU rates was less than \$2 million--compared with some \$35 million to U.S. carriers for hauling civilian mail at CAB approved, cost-related rates. Looking at the other side of the coin, foreign countries paid U.S. carriers \$7.5 million at UPU rates to fly foreign mail to the U.S., thus enabling our carriers to gain on the exchange. But this modest use of UPU rates--\$2 million to foreign airlines and \$7½ million to U.S. airlines--is in no sense discriminatory or unfair. The bulk of our overseas civilian mail does and should move at cost-related CAB established rates. We were pleased that both the Senate and House Commerce Committees recognized this fact and amended the pending International Transportation Fair Competitive Practices Act accordingly.

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, appear 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 some 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 the high costs experienced 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. We find, for example, in our early discussions with the Australians about the high fee at Sydney, that they are not only willing to document their costs but to show why, in fact, they must now raise this fee. The Sydney fee, we learn, is a bundle of charges--covering landing, en route, and other fees that American airports collect in a variety of direct and indirect ways.

Although I may be voted the villain of the year, I must suggest that one outcome of our study of discriminatory overseas fees may be the conclusion that many of our own fees are too low.

Let me close with an overview comment.

The Administration's Action Plan, taken as a whole, is moving ahead. Certainly, Pan Am, its employees, and the financial community should realize by now that we are serious in our commitment to help it through this near-term crisis and to clearing the way for a healthier environment for all our flag carriers in the years ahead.

Each has a role: The Administration is helping in the areas that we have identified; the CAB is helping by prompt regulatory actions; Pan Am is helping by making sure its service is efficient, low-cost, and geared to realistic market demands; and, now, the financial community must help by providing the needed financial resources.

Thank you for the opportunity to discuss these critical issues with you today.

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