

U.S. DEPARTMENT OF COMMERCE

Statement of Alan S. Boyd
Under Secretary of Commerce for Transportation
before the Aviation Subcommittee of the
Committee on Commerce, United States Senate

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My name is Alan S. Boyd. I am Under Secretary for Transportation in the Department of Commerce.

Mr. Chairman and members of the Committee, I appreciate this opportunity afforded me to discuss with you the local service airlines-- past, present and future.

The history of the local service carriers is well known to this Committee and I am sure others who will testify later will touch on this area. However, I would like to review briefly some of the past operations of the local service carriers so that my remarks will be in proper perspective.

Local air service operations of 1966 compared with those of 1946 are the same in name only. In 1946 there were six air carriers offering air service to the small communities of the United States. These six carriers held temporary operating certificates from the Civil Aeronautics Board. Today, there are 13 local service carriers, all holding permanent certificates.

In 1946 these six carriers owned a total of 28 aircraft. About half of these planes were DC-3's. Today, there are about 380 aircraft owned by the local service carriers. Only one-fourth of these are DC-3's and turboprops and turbojets are steadily replacing the piston type

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aircraft. This increase in the number of aircraft is great in itself, but its impact is even greater than numbers indicate when the productivity of the 1966 fleet is compared with the DC-3 of the earlier years. There has been a seat-mile cost reduction resulting from the large plane capacities and inherent economies of these aircraft.

The temporary certificates held in 1946 were replaced in 1955 with permanent certificates. This action by Congress enabled the carriers to plan for the long term and enabled the local service carriers to obtain equity capital for the financing of their re-equipment program.

The local service carriers have not only increased the number of cities served but there has been an improvement in the service pattern. The local service carriers, because of the nature of their operating authority, have made a conscious effort to develop the markets served by increasing their frequency of service. We have seen a liberalization of operating authority that enabled the carriers to offer service that would best meet the needs of the traveling public. By allowing the carriers, after providing a minimum volume of service, to provide nonstop service between noncompetitive terminals, the Board assured a necessary minimum pattern of service to intermediate points while permitting the carriers to schedule additional service at larger traffic generating points.

In 1946 the local service carriers served 25,000 passengers. In 1965 it is estimated that they carried 12 million passengers. Revenue passenger miles increased from 6.8 million to 2.6 billion in the 1946-1966

period. Passenger revenue increased from \$314,000 to in excess of \$170 million in the same period. These figures show that there has been public acceptance of the service offered by the local service carriers.

Although the growth of passengers has been the more dramatic as compared to cargo traffic this should not permit us to ignore the tremendous potential of cargo traffic. Undoubtedly we will see the local service carriers place greater emphasis on this segment of their traffic in the future.

I would like to review some of the factors that brought about this development which we can point to with some satisfaction. Foremost perhaps was the imagination of those in private industry and government who saw the potential for air service to smaller cities. In 1946, the U.S. economy was returning to peacetime production. Industries in search of new markets, a new labor force and new plants began to move into smaller cities. In turn, this movement, coupled with a population which had become accustomed to travel, created a demand for travel and the airplane offered a safe, fast and comfortable means of travel.

In the postwar period, the railroads found it increasingly difficult to maintain their passenger service in competition with the automobile and bus and they terminated passenger service to many of the smaller communities. To some extent this reduction in service has benefitted the local service carriers.

Another factor in the growth of the local service air carriers is the newer, more efficient aircraft available to these carriers. The new equipment operates at a lower seat-mile cost which, of course,

benefits the carriers. It also provides a higher quality service to the traveling public and helps generate increased traffic.

Perhaps the chief factor in the local service success story is the support that these carriers have received from the Federal Government. Congress has consistently supported these carriers with Federal assistance and in 1955 passed legislation that gave these carriers permanent certificates. In 1954 the service mail pay and subsidy were separated and in the period 1954-1963 subsidy increased from \$24 million to \$67.6 million. Subsidy for the fiscal year 1966 was \$64.5 million.

The granting of permanent authority enabled these carriers to obtain financing for their re-equipment programs in addition to providing them with "grandfather" rights. The Civil Aeronautics Board through its area cases and other route proceedings has developed these carriers' existing route systems allowing liberalized operating authority that has enabled them to develop a coordinated route pattern.

A significant fact should be underscored in regard to the service offered by the local service carriers. The original objective of this class of carrier for a local, feeder type operation has not changed. As early as 1951 in a determination of policy, the Board announced that it would add a provision to certificates of local service carriers to make it clear that their operations are definitely local air transportation as distinguished from the service rendered by the scheduled trunkline air carriers. This provision was later included in every local air service carrier's certificate and reads:

"The services authorized by this certificate were originally established pursuant to a determination of policy by the Civil

Aeronautics Board that in the discharge of its obligation to encourage and develop air transportation under the Civil Aeronautics Act, as amended, it is in the public interest to establish certain air carriers who will be primarily engaged in short-haul transportation as distinguished from the service rendered by trunkline air carriers. In accepting this certificate, the holder acknowledges and agrees that the primary purpose of this certificate is to authorize and require it to offer short-haul, local, or feeder, air transportation service of the character described above."

In the past, the local service industry has been very dynamic--it will undoubtedly continue to be so. Existing conditions in this, as in all segments of transportation, will simply not permit a static situation. The completion of the Interstate Highway system is scheduled for 1972. When completed there will be 41,000 miles of interstate highway serving approximately 82 percent of the population of the United States. Private automobiles, buses and trucks will have an improved system for their use that will not only stimulate commerce but will sharpen the competition with other modes of transportation.

Research and development work is being done in the field of high-speed transportation that will provide better information concerning the size of the market for intercity travel by rail. There is little doubt that in the high density population areas the present ground transportation service and airways will have to be augmented to insure that we have an adequate, well balanced transportation system.

The trunk carriers are reviewing their policies in regard to terminating their services to small and intermediate size cities. The carriage of a passenger from a small city to a larger traffic terminal for connecting purposes enables the carrier in many instances to control the ticket sale of the whole trip and the selection of the carrier for

that trip. In addition, the acquisition of smaller jets by the trunk carriers makes formerly marginal markets profitable. This has resulted in the trunklines remaining in markets that otherwise would have been logical markets for local service carriers.

As the United States develops its transportation system to meet the growing demands of the users, there are bound to be conflicting demands for Federal assistance. The demands for the most efficient transportation system possible will be great. It has been estimated that intercity common carrier passenger-miles will triple by the year 2000. Even this may be too conservative. Intercity freight ton-miles will also increase tremendously in this period. The demands that this traffic will place upon the transportation system of the U.S. can only be met by a coordinated approach.

The railroad and trucking industry with their piggyback program pioneered in coordinating their service to the shipping public. All modes are showing increased interest in developing interchangeable containerization systems that will have increased benefits to shippers and carriers alike. But we have only begun to study in depth the problem of moving people and things in a more efficient manner. Government and industry will continue to consider the joint rate question, technical matters such as common level loading devices and facilitation improvements that will make the travel of passengers and the flow of goods easier and more rapid.

The Office of the Under Secretary for Transportation is responsible for advising the President on policy affecting all modes of transportation--land, sea and air. Each of these modes can be further broken down into

many categories, to name a few--private automobiles, buses, trucks, railroads, trunk air carriers, local service air carriers. Each of these groups has its own peculiar problems and its own legitimate self-interest that must be recognized and dealt with in such a manner that a well balanced transportation system will be maintained.

I would like now to consider the future. Our concern here is with the local service carriers and although my remarks will deal primarily with them, most of what I will say can be applied equally to other transportation categories.

In determining the future role of the local service carriers, I believe that the Federal Government must consider the local service carriers as a part of the overall transportation system and judge the benefits accruing to the public from the service they provide in relation to the Federal assistance they receive.

Under the Federal Aviation Act of 1958 the Civil Aeronautics Board has the authority to fix and determine fair and reasonable rates of compensation for the transportation of mail. Section 406(b) reads:

"In fixing and determining fair and reasonable rates of compensation under this section, the Board, considering the conditions peculiar to transportation by aircraft and to the particular air carrier or class of air carriers, may fix different rates for different air carriers or classes of air carriers, and different classes of service. In determining the rate in each case, the Board shall take into consideration, among other factors, (1) the condition that such air carriers may hold and operate under certificates authorizing the carriage of mail only by providing necessary and adequate facilities and service for the transportation of mail; (2) such standards respecting the character and quality of service to be rendered by air carriers as may be prescribed by or pursuant to law; and (3) the need of each such air carrier (other than a supplemental air carrier) for compensation for the

transportation of mail sufficient to insure the performance of such service, and together with all other revenue of the air carrier, to enable such air carrier under honest, economical and efficient management, to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the Postal Service, and the national defense."

I would like to emphasize the fact that one consideration by the Board in fixing rates is the need of the carrier as it relates to the maintenance and continuation of the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the Postal Service, and the national defense. In short, subsidy is to permit the carriers to offer service to the public and should be measured by the public's need and acceptance of the service offered.

In January 1965 the President recommended termination of Federal assistance to the three subsidized helicopter operators. It was felt that continued financial assistance to these carriers was no longer in the public interest. I am certain that with the help from Federal programs in DOD and NASA an aircraft with either VTOL or V/STOL capability will be developed that will operate at an economic level that will permit profitable intercity service to points in congested areas which cannot be served by fixed wing aircraft. However it appears that on the basis of the equipment presently available and the level of demand for the service by the public that an economically self sufficient operation is not possible. Although decisions have not been handed down on all these cases, two of the carriers involved have made arrangement with trunkline operators to enable their operation to continue. This action by the trunklines is an encouraging sign for air transportation. It is also an indication that the airlines were beneficiaries of the helicopter service and that it is in their best interest to underwrite the operation.

In many cases what was originally an award to a local service carrier to determine if a community could generate sufficient traffic to warrant continued service has somehow come to be considered a right of the carrier to give service and a community to receive service. If it were the express policy of the United States, and if we had the resources to enable all communities to receive air service that would be one thing, but since this is not the case I feel that when it has been determined that a given community cannot generate sufficient traffic to meet the basic costs of an operation after a fair trial period, then the reason for subsidizing that service no longer exists.

The Board in the past has adopted various policies to measure the degree of need at various communities; the use-it-or-lose-it policy, the class rate formula, route liberalization authority and fare policies. These policies should be reviewed to determine if the overall subsidy amount cannot be reduced or whether cities now presently receiving service, without any hope in the foreseeable future of achieving a level of traffic that can be a positive aid to the carrier, can have that service transferred to another community that has not been able to participate in this experiment.

The local service carrier operation has been based historically on a feeder-type service furnishing small communities with service to large terminals. This policy has not been altered and as time passes some of the needs of communities change which in turn calls for a continuing review of points served.

The use-it-or-lose-it policy, which is based on the boarding of five passengers per day at a station, was based on the expenses of a

DC-3 operation. This policy should be reviewed in light of the equipment presently used to determine if this standard is still valid.

The local service industry can hardly be considered an "infant industry" and serious consideration should be given to providing Federal assistance on the basis of the community's need for service as reflected in its use of the service offered. The strength of our overall transportation system is not dependent upon the number of points served but rather upon the quality and economic soundness of that service.

In addition to the question of continuing service at submarginal points, consideration should also be given to the question of allowing the local service carriers to serve some trunkline points that are economically marginal for the trunk carriers, but which would strengthen local service carriers. Some of these points are presently served by both trunkline and local service carriers and others exclusively by the trunklines. In the past, the trunklines terminated their service to points that were not contributing to a profitable operation and in some cases service to these points was inaugurated by the local service carriers. This frequently had the effect of shifting the burden from the trunklines to the Federal Government as a result of the subsidy program.

Study should be made to determine which points presently served by the trunks would be logical candidates to receive service by the local carriers exclusively. This should not take the form of an attempt by the local service air carriers to alter their basic purpose of furnishing local or feeder type service. The purpose of the study should be to strengthen the carriers, not alter their character.

Lately there has been a great deal of discussion in regard to fares. There is still too little known about the relationship between fare

levels and traffic levels. What appears to have results for one carrier or in one market will not necessarily hold true for another carrier or market. If one carrier's passengers are primarily traveling on business and another carrier's passengers are predominantly traveling for pleasure, their markets will respond quite differently to fare changes. One carrier in raising its fares would probably lose relatively few passengers while the other might experience a substantial decline in the number of passengers carried. Until we can learn more concerning the elasticity of demand our actions can only be hit or miss in nature.

Lower fares for local service carriers are fine if it is determined that by lowering fares additional traffic and revenue will be generated. In cases where Federal assistance is being given, care should be taken that the need for subsidy will not increase with lower fares. In addition to studying the elasticity of demand question, the local service carriers should be further encouraged to conduct controlled experiments with fares. I would not rule out the possibility of higher fares over subsidized routes where the evidence points to an inelastic demand.

The local service industry is faced with what I consider to be one of the most serious problems in our overall transportation system--the movement of passengers and cargo short distances. This problem is not unique for the local service carriers but is pointed up as a result of the Federal assistance program. The movement of passengers short distances creates scheduling problems for personnel and equipment. The periods of peak demand require that a carrier maintain a higher level of operation

than would be necessary if the traffic were spread over a longer period. Ground travel time on short trips assumes a larger proportion of the total trip time than on long trips.

In my view, the local service operations have reached their long sought "golden age." This segment of air transportation has achieved records unimagined just a few years ago--but the "millenium" is not yet here. There is still a great deal of work to be done by all those responsible for achieving a subsidy free or minimum assistance operation for this class of air carriers. As I have done in the past, I will continue to work with this Committee and the local service air carriers to achieve this goal.

Thank you.