DEPARTMENT OF TRANSPORTATION | NEWS

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REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, BEFORE THE INTERNATIONAL NORTHWEST AVIATION COUNCIL, WINNIPEG, MANITOBA, CANADA, SEPTEMBER 8, 1973

I am pleased to be able to address the International Northwest Aviation Council at this particular point in the development of U.S. Canadian aviation relations. Your invitation described certain subjects in which you have an interest: improved North-South air service between Canada and U.S. points; and the question of improving domestic U.S. air services on the East-West routes between the twin cities and the West Coast. These are areas in which my Department also has an interest, and I'd like to deal with both of them this afternoon.

Let me address, first, the question of changes -- hopefully improvements -- in North-South, U.S.-Canadian international air services. As you are all aware, the U.S. and Canada are currently conducting bilateral negotiations. Hopefully, we will shortly have a new U.S.-Canadian International Aviation Agreement mutually beneficial to all concerned. It would not be proper for me to discuss the details of specific routes while the negotiations are still in process, but there is one issue I would like to discuss: the matter of customs preclearance for international passengers between U.S. and Canadian cities.

Facilitating traffic, providing better service to customers, increasing aircraft utilization, enabling the airlines to provide more convenience and improved service -- these are all of primary concern to us at the Department of Transportation. Preclearance helps attain these objectives by applying the customs and immigration formalities to the airline passenger before he or she boards the plane. The procedure permits prompt departure from the airport upon arrival in the U.S., avoids off-loading examinations and reloading in the case of trips continuing beyond the port of arrival, and reduces the risks of passenger delays and missed connections. Unlike the congestion of port clearance, preclearance allows passengers to clear government formalities in an orderly fashion.

We have found that travellers strongly support preclearance. A recent survey of 3,000 passengers arriving from Bermuda, Nassau, Montreal, Toronto, and Vancouver, found that 85% expressed a preference for preclearance.

Nearly three million passengers annually benefit from this program, the majority of them travellers from Canada to the U.S. This is approximately one-fifth of all international passenger arrivals in the U.S. on commercial airlines.

Annex 9 to the Convention on International Civil Aviation contains a recommended practice to the effect that contracting States should make arrangements whereby one State will permit another State to station representatives of the public authorities concerned in its territory to examine aircraft, passengers, crew, baggage, cargo and documentation for customs, immigration, public health and animal and plant quarantine purposes, prior to departure for the other State concerned, when such action will facilitate clearance upon arrival in that State.

The preclearance program has been in existence since 1952. It has expanded from one Canadian city (Toronto) to six cities in three countries and presently includes Vancouver, Winnipeg, Toronto, and Montreal in Canada; also Bermuda; and Nassau in the Bahamas.

Since its inception, my Department has supported the utilization of preclearance inspections, and we strongly and successfully supported an endorsement of preclearance in the Statement of International Air Transportation Policy of the U.S., approved by President Nixon in

June of 1970. In our judgment, the anticipated growth in arrival traffic aboard wide-body jets, including charter passengers from Canada, may well justify an expansion of preclearance. Possibly preclearance of northbound traffic from the U.S. to Canada should be instituted.

Now, why have I dwelt on this subject? Because the practice of preclearance is threatened. It has become caught up in the civil air route talks between the U.S. and Canada. We believe that preclearance should not be used as a bargaining tool in air route negotiations. Because of the benefits that preclearance affords to the traveling public, attempts to trade preclearance off against specific routes is bad business. We are opposed to any such procedure.

There is one other matter in regard to bilateral negotiations in general which I would like to take up, and I feel it bears somewhat on your concern for improved North-South service across the border in the northwest. While communities or regions may have a very natural interest in one or two particular routes, governments must take into consideration the total route package being discussed, in the context of existing and potential markets and various needs for service. Thus, while a particular route might seem highly desirable on a local context, its value may vary when it is placed in the context of a total reciprocal international air service package. The negotiating process involves a set of priorities in which the public needs of a specific route must be weighed against other routes also being considered. Moreover, in negotiating routes with foreign governments the U.S. attempts to achieve a balance of route opportunities for each side. A decision on whether any particular route is included depends in part on the balancing of the value of all the routes each country desires.

In regard to the manner in which bilateral negotiations are conducted, we in the Department of Transportation feel that, contrary to current procedures, public hearings to certificate carriers for the routes in question should be held prior to the process of diplomatic negotiation.

The best economic data will result from a formal proceeding rather than from ex parte exchanges of information. The latter does not have the immeasurable benefit of searching examination of expert witnesses and the full consideration of the many issues which go into working out a position in a route case.

Additionally, we feel that it is preferable to hold a public certification proceeding before diplomatic talks are held because it provides an opportunity for community parties representing the public to participate and make their views known as to the necessity for or desirability of various services. This is considered appropriate and the normal established procedure for the awarding of domestic U.S. routes. But, the current procedure that is followed in the awarding of international routes essentially involves only government and industry with no participation by public parties. I think the current procedure should be changed.

Let me turn now to a discussion of another of your specific concerns, namely, the East-West service currently being provided between Minneapolis and Seattle, Washington by Northwest Airlines, particularly the service to intermediate cities.

Of the ten Montana and North Dakota cities served by Northwest Airlines, only one, Jamestown, is not served by another air carrier. Three are served by two local service carriers. Moreover, Northwest is serving these intermediate points with 727's and 707's, without subsidy, at fare levels approximately 15% below the fare levels permitted regional carriers, and at a level of annual enplanements often below those realized by local service carriers utilizing smaller equipment. In the light of these facts and recent CAB statements, it is far from clear that the CAB would or could contemplate introducing an additional trunk carrier into this market (assuming that an interested carrier could be found.)

In fact, the CAB has recently expressed the view that introduction of competitive services is not warranted if a city-pair cannot generate a sustained load factor of 52.5% to 55%.

Further, the CAB says, any new route authority must be preceded by a complete cost benefit analysis of the existing and potential market, the costs associated with providing the services contemplated, and the benefits if any to the community and to the carrier to be derived from such services.

In fact, under the existing ground rule of the Board's current moratorium on route hearings, parties must make a prima facie showing that the service desired is needed and that the market will sustain the service before the Board will even consider an application.

The implication of the Board's current position is quite clear, namely, that in the future more emphasis will be placed on the establishment of individual viable services and that, to a greater degree than in the past, the test of the market place will be applied in determining requirements for certificated air service.

Let me reiterate that this is the current position of the Civil Aeronautics Board and I have elaborated on this because to the extent that you are concerned with certificated air service the policies of the CAB are the most germane.

The Department of Transportation does not have the regulatory responsibility in this area, but we are concerned with the rationality of the pattern of air service. We do not always agree with the Board's policies, but I will say that we are encouraged by the increased emphasis the Board is placing on the potential for economic self sufficiency in determining the "need" for services.

The question of economic self sufficiency is also central to the Department of Transportation's position on service to small communities and has implications for the issues you are discussing at this meeting of your Council.

At present, the Department of Transportation tends to approach the question of providing transportation services to small communities from a somewhat different vantage point than in the past. The creation of the Department of Transportation signified a major change in the manner in which the Federal Government perceived its role. In effect, it signalled a change from separate and essentially unrelated activities, focused on a particular mode of transportation, to a consideration of transportation as an essential service which should be developed in response to the needs of the population or populations being served with each mode playing its appropriate role depending upon the operating environment. Therefore, in addressing ourselves to the question of low density shorthaul air transportation, our first concern is not the provision of any particular type of service, but rather ensuring the availability of transportation services to communities based upon the needs of the community for transportation service and the resources available locally to support such services.

The Department's overriding concern is that transportation in its broadest context remain as efficient as possible and that the provision of Federal resources does not distort the natural effect of demand in the marketplace for any particular mode of transportation. However, it must be kept in mind that it is in the public interest to ensure that national, as well as local, considerations are taken into account and that all modes are able to make their appropriate contribution to the overall National Transportation System. The key, therefore, is to concentrate on a clear definition of the transportation need, an understanding of the operating environment, so that we can properly evaluate the ability of different forms of transportation to respond to the need defined.

Federal involvement in the development of the low density shorthaul aviation system has been principally through the Civil Aeronautics Board. By regulation and certification of local service carriers, and subsidizing their deficit, low density services, the Board has attempted to make the local service carriers self-sufficient. The CAB has successfully pursued with the trunk carriers the policy of providing a carrier with a profitable route to offset losses incurred on marginal or clearly unprofitable routes. However, this form of cross-subsidization has been clearly insufficient to ensure an economically viable operation by local service carriers. Therefore, the program involving direct Federal payments was initiated. This is based on a series of formulas designed to indicate the carrier's requirement for subsidy as a result of providing service to low density points. The hope was that eventually through balancing of routes and with appropriate equipment, the low density shorthaul carriers would be able to support themselves. Unfortunately, as the record shows, this hope has not been realized.

The brief recently submitted to the Civil Aeronautics Board by the Department of Transportation in the course of the ongoing New England Service Investigation summarizes the Department's current thinking in the area of low-density shorthaul transportation. In essence, the Department's position is that in reaching the determination that service is required on either existing or proposed routes, the Federal Government should consider the nature and relative size and significance of the market served within the region. It is also important to consider whether the service is now or is potentially self-sustaining; and the availability of alternate modes of public and private transportation to the traveler's destination and in connection with the National Transportation System.

Our purpose is to focus more attention on the market being served in determining what air service is required, particularly on marginal or deficit routes. There has been a tendency to view a community's interest in air service (measured by the level of enplanements) from the standpoint of the operational characteristics of the service being offered (i.e., aircraft capacity, required seat mile revenues, etc.). We think other factors deserve greater attention, such as what percentage of people in the community are using the service and why they are using it; what element of the community they represent, and how the community benefits from access to air transportation. Also to be considered is the availability of alternative forms of transportation, perhaps less convenient but nonetheless adequate, linking the particular community being considered with other communities and with larger transportation hubs.

All this is not meant to imply that the Federal Government does not feel a continuing responsibility to ensure the availability of the best possible air service in low density markets, consistent with economic efficiency and the willingness of State and local governments to provide financial support. The National Transportation Safety Board, for example, recently completed a study of the safety records of the commuter air carriers because of the increasing importance of their role as feeders. NASA has programs focused on powered lift and quiet engine technology both of which have application to shorthaul aviation. Our FAA has established a Quiet Short Haul Air Transportation System Office to directly address all aspects of shorthaul aviation, and my own Office is exchanging information with the Civil Aeronautics Board staff in this area of mutual interest.

In closing, let me reiterate that while the Department of Transportation's basic orientation is toward a proper assessment of the need for transportation services, we have a continuing interest in ensuring that all modes of transportation are making their appropriate contribution to the National Transportation System. Thank you for giving me the opportunity of being with you today to discuss these important issues.

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REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION DESIGNATE FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, BEFORE THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS, SEATTLE, WASHINGTON, SEPTEMBER 17, 1973

NATIONAL IMPLICATIONS OF THE NORTHEAST RAIL CRISIS

Thank you for the opportunity to contribute to your discussion of a grave, national transportation problem. This panel is most timely--it meets in the midst of Congressional debate about the resolution of this crisis. And you are right when you suggest, by the title of this panel, that the Northeast Rail Crisis raises issues of momentous national implication.

The seriousness of the situation today permits neither equivocation nor double talk. Six railroads in the Northeast section of our country are in bankruptcy. Their services are not only essential to the prosperity and well being of the people and industry in the Northeast area, they are essential to the prosperity of the Nation as a whole. There is no doubt that these services must be salvaged.

Many of you, particularly those of you born after the heyday of the railroads, may be unaware of the significance of our rail system. The truth is that if the railroads stopped today, the economy would stop tomorrow. Railroads carry 58 percent of all agricultural produce, 79 percent of coal, 60 percent of food and drugs, 72 percent of lumber, and 50 percent of iron and steel. Railroads are an integral part of the transportation system that provides us, where we live, with the basic ingredients needed to feed and house our families. They are essential to our well being.

The Northeast area served by the six bankrupts comprises 10 percent of our total land mass, yet this region is home to 42 percent of our people. Located within the boundaries of this 14-state area are major centers of our all important automobile, steel, and machinery industries. The geographic zones served by these six bankrupt carriers account for almost half the total of our Gross National Product, and account for more than 50 percent of the Nation's total industrial production.

The loss of the services provided by these railroads could result, in two months time, in the loss of 2,700,000 jobs in the Northeast area. A shutdown of the Penn Central alone would result in a cumulative loss of regional income of about $2 billion. A 13 percent decline in wholesale and retail trade, a 31 percent decrease in the production of chemicals and chemical products, and a 10 percent decrease in iron and steel production would also occur by the end of a two month period.

The shutdown of these railroads does not represent a feasible alternative. But as unacceptable as the shutdown would be--so also would be a solution that saddled the American taxpayers with an outrageous bill and granted to the financial community and the labor community far more than either can rightfully claim or have reason to expect.

The deterioration of these Northeast railroads has been long and gradual. They were built--most of them--more than a hundred years ago to accommodate a society and an economy which were almost completely dependent on rail service.

Inevitably came change. Changes in the economy of the area changed transportation demand. Heavy industry moved out and more and more service industries moved in. Bulk shipping decreased and packaged freight grew.

At the same time, competition from autos, trucks and airlines made heavy inroads in railroad freight and passenger business and the railroads found

themselves with an excess of capacity. The loss of the coal business to oil carried in pipelines was also a tremendous blow to these Northeast railroads.

In any other industry, the order of the day would be to trim off the excess and cut away the nonprofitable lines. Had the Northeast railroads been able to do this, their problems would be far less today. Unfortunately, however, an outmoded economic regulatory climate hindered needed adjustments to changing demand. This regulatory climate was established in the last century when the railroads were all powerful and dominated many phases of our economy and society. The basic aim was to protect the shipper and the consuming public from the threat of railroad power. But that's no longer the problem it may once have been.

We believe that it is imperative that the railroad system in the Northeast be restructured, and we also believe that it is time to revise outdated regulatory machinery to allow all railroads--including the new railroad or railroads in the Northeast, to flourish in a liberalized regulatory climate.

I

Confronted with the railroad bankruptcies in the Northeast area, Secretary Brinegar has determined that the only meaningful answer to the problem must have three basic characteristics:

1. That the restructured system should make the most efficient use of all resources;

2. That the Core Rail System chosen to serve the Northeast should be made up of economically viable services which are the most economic form of transportation; and

3. That service be supplied to the largest part of the dependent population with the least amount of Federal funding, and within the broad framework of the private sector.

Based upon these criteria, we have done some design testing in this area which leads us to believe that the restructured rail system can provide well over 90 percent of the service now supplied--and result in one or more highly profitable railroads.

Preliminary investigation also has convinced us that the labor question is soluble without granting displaced employees job protection that far exceeds

the type of protection any other class of employees has secured. A large percentage of the present work force will be essential for the operation of the newly designed railroad(s). In addition, legislation for age 60 retirement has been signed by the President; the normal attrition rate is about seven percent and a large number of very young employees with little seniority are now employed on the bankrupt lines. New employment by the current railroad industry far exceeds the number of people who might be displaced in the Northeast within anybody's estimate. This makes managing the people problem possible in a very humane and equitable way.

Repair work, long overdue in that part of the country, also will require a large work force for the early years and further reduce the possibility of hardship where labor is concerned.

Legislation to accomplish the needed restructuring is now before the Congress. It provides for an appropriation of $40 million to accomplish the restructure planning, and to establish the new corporation or corporations.

In addition, we want to ensure that the bankrupt railroads have sufficient operating cash so that there will be no cessation of service during the transition period--that period from the time of the enactment of the enabling legislation until the acquisition of their assets by the Northeast railroad, which we expect will not exceed 18 months. Therefore, we would authorize the appropriation of $85 million for payment to these railroads for cash needs during this period.

I want to emphasize that these two amounts--$40 million to do the restructure planning and establish the new corporation, and $85 million to make up the cash needs of the bankrupt railroads during the interim period--are the only two dollar amounts that we feel we can define with any accuracy at this time.

It is quite obvious that the new railroad corporations in the restructured system will require working capital and that sufficient payment will have to be made to the bankrupt estates in order to constitutionally set up these operations. These amounts have been estimated with widely differing results by various people, but it now seems clear to us that nobody knows how much will be needed nor from what sources these funds may be available. Speculation on my part would do no more than add to the chorus of public bargaining we are hearing from many quarters these days.

When we have succeeded in restructuring the physical plant, modernizing the regulations and slimming down the work force, this new railroad

company or companies promises to be among the most profitable in the world. But while we are optimistic that a healthy private sector rail system can be extracted from the bankrupts without huge Federal financial involvement, I can assure you that the Administration is prepared to reexamine the need for government assistance after the new Corporation has shown us their plans and has investigated all of the possibilities for obtaining private funding.

If it is found then that a restructured system is not possible without government financial aid, the Department will propose to the Congress appropriate measures to provide that aid. There are a number of alternative approaches that might be considered to meet such a need, but we believe it would be inappropriate to make any selection from these possibilities at this point in time.

Such is our plan. We believe it is the best and most equitable course of action. We believe, moreover, it will succeed. Some others, however, recommend different solutions.

Some say do nothing ... This is unacceptable. The Penn Central is on the verge of a court ordered liquidation. To permit such a liquidation would be to invite chaos. The truth is that we have in the Northeast a very deep rooted and very complex problem of such magnitude that it can only be resolved by legislation. There is no other way.

Some suggest nationalization. It is unacceptable. Nationalization would simply shift the losses to be borne by the general taxpayers--and the need for surgery on the system would remain, but perhaps be more difficult to achieve. The largely state-owned rail systems of Europe and Japan, for example, now report losses in excess of $2 billion a year.

Others urge that we postpone any action and study the problem. The government has already studied the matter, the stockholders have studied it and, finally, the courts have studied it--and the courts are prepared to act. We do not believe further lengthy study is warranted--and it could not fail to be very costly.

I am also vitally concerned that other major issues associated with the restructuring of the Northeast rail system not be dictated by political expediency. Some of these issues involve labor adjustment assistance, and the timing and method of the transfer of rail properties from the bankrupt estates to the new company or companies.

Without major adjustments in rail labor, the objective of a financially self-sustaining regional rail system is simply not obtainable. Yet many of these employees are presently working under contracts which guarantee them lifetime jobs. Consequently, any restructuring plan must recognize the need to these employees who are displaced with some form of compensation. While the burden of compensating these employees rightly belongs with the estates of the bankrupt owners who originally signed the contracts, some now advocate Federal participation in this cost. But, however legitimate the claims of displaced rail employees may be, we must be leery of legislating job protection benefits for them which are both counter productive in terms of encouraging a rational reallocation of rail labor and unfair to other workers in our society who do not enjoy such benefits but who will be asked to pay for them through their taxes. The railroad worker, like every American worker, is fully deserving of his government's concern when it comes to such important matters as conditions of work, collective bargaining rights and job security. Yet to legislate rigid labor protection provisions or a rigid amount as reimbursement for the costs of labor protection as part of the Northeast rail solution would be to accord the railroad worker special and preferential treatment of an unprecedented nature. Not only would such a solution make it extremely difficult for future bankrupt railroads, and possibly solvent roads, to prune excessive labor forces, but it would interject the possibility that Federal "aid" would be available to other industries which experience a severe shift in their demand for labor. Had labor protection provisions comparable to some of the current proposals for dealing with the bankrupt railroad employees been available to the aerospace employees in the 1968-71 period, for example, the cost could have been $7.5 billion/year. In my opinion, therefore, we simply cannot afford either the cost or the disruption in the efficient flow of our resources which would accompany such a legislative solution to the rail labor problem.

Another major issue which raises the specter of dangerous precedents has to do with the transfer of rail properties from the bankrupt estates to the new corporation. In the interests of "getting the new corporation off and running," some feel it would be best to mandate the conveyance of bankrupt rail properties to the new Corporation. Mandatory conveyance, it is argued, would avoid the potential delay of transfer due to litigation on the part of the current creditors of the bankrupt estates concerning the transfer price of the assets. Unfortunately, while a provision for mandatory conveyances might indeed speed up the delivery of assets to the new Corporation, it will also give the creditors the basis upon which to build a legal argument that compensation for their involuntary taking should be an amount which is far in excess of what they could command in the open market. They could, for instance, insist upon receiving

replacement value for the assets--a figure which would amount to $13 billion for Penn Central alone. That is far greater than the asset base that can be justified by the earning power of those assets likely to be needed by the new Corporation. Is the Federal Government to end up paying the excess? Thus, we are faced with the very real possibility of an unjustified "windfall" for the creditors at a huge ultimate cost to the public. And equally troubling, if not worse, would be the setting of a precedent upon which creditors of financially ailing public service companies would rely in the future to bail them out.

Notwithstanding the problems not yet resolved, I remain optimistic. I am impressed by the spirit of the Congress. And here I want to express my appreciation for the positive way the members are meeting this challenge head on, assuming the burden and working hard. It is evident we are going to have a new law. I trust and expect it will be a good one.

II

The DOT Plan, while aimed directly at the solution of the problems of the railroads in the Northeast, also takes into account the entire U. S. rail system. That is a highly interdependent system, as you may know, and we do not want to strengthen one segment at the expense of the rest of the industry. Therefore, we propose modernization of railroad regulations designed to improve the total industry, to allow railroad management the freedom to manage--to allow railroads to serve their markets at a profit, and to provide servicewhere it is used--where it is needed.

We believe that a major cause of the railroad industry's problems and unsatisfactory improvement is an outmoded and excessively restrictive Federal regulatory policy. Existing regulatory policy has seriously hampered railroads' ability to adapt to changing economic and competitive conditions in the transportation industry. It has discouraged abandonment of uneconomic rail lines and hindered the industry in innovating new services, in responding to competitive conditions in transportation and in attracting traffic on which railroads have a comparative advantage.

An efficient rail system is a great national asset. Removal of outmoded regulatory restraints is an essential condition for restoring the economic health of the rail system and enabling it to provide the efficient low cost service of which it is capable. For the past year or so, we have been preparing a legislative proposal to amend the Interstate Commerce Act to achieve needed reform of regulatory restraints on our railroads. We hope to send that bill to the Congress very soon. It will address a number of issues, including:

1. Abandonment procedures would be speeded up and standards should provide that in order to require operation, the cost of that operation would have to be covered by the revenues earned.

2. Railroads would be permitted to increase or decrease their rates and to improve the range of services offered without undue regulatory delay. Rates below variable cost would be eliminated and railroads will be given greater freedom to raise or lower rates without fear of suspension.

3. Governments would be required to pay the same rates as other shippers.

4. Antitrust immunity would be eliminated on agreements relating to single line rates, or on rates in which the carrier agreeing does not participate. Prompt action by carrier rate bureaus would be required.

5. When railroads abandon lines, motor or water carriers would be allowed to provide needed service.

6. Discriminatory state and local taxation of rail assets would be eliminated.

7. Delays would be reduced in the process of state approval of intrastate rates that correspond to changes in interstate rates.

8. The Courts would be given full authority to act promptly on questions of restructuring and in most of the other acts which they now perform in a bankruptcy situation. Today the routine is something like a ping pong game - back and forth between the Court and the ICC.

Among our deliberations about the type of regulatory reform to propose to the Congress, we were well aware that the three regulated surface modes have collaborated on the preparation of the proposed Surface Transportation Act which received the endorsement of a House Committee in the last Congress. There are reforms in that bill which are positive, and we intend to endorse them in our proposed legislation. But it is clear that "controversial" reforms were left out of the Surface Transportation Act--

by common consent--so that the residue of reform left in the industry bill is quite modest. We think the railroad industry needs more than that now--particularly if financial assistance is to accompany the regulatory reforms as the industry has proposed.

As I indicated earlier, considerable parts of the rail plant in the United States are in a deteriorating state and the risk exists that the general deterioration of plant and service now prevalent in the East could expand to other portions of the country. Because of the industry's low rate of return, railroads are generally unable to generate adequate internal capital to make needed improvements. The investment community has been reluctant to provide capital because of the limited security afforded by loans on track and plant. Thus, the Department is seriously considering a proposal to provide Federal loan guarantee authority to finance needed improvements in rolling stocks, rights-of-way, terminals and other operational facilities and systems. However, these loan guarantees would be provided only where assurance exists that the capital improvements will make a genuine improvement to the overall efficiency of the rail system. In other words, the aid would help encourage needed long-term restructuring of the existing rail system.

The Department's forthcoming regulatory proposals are focused primarily on the railroad industry because the railroad industry presents the most immediate and pressing problems. Because of the competitive relationships among the various modes, improving comparative conditions in the railroad industry should lead to improvements in the competitive climate for the transportation industry as a whole. Also, the Department has underway a major research program designed to identify the need for regulatory change in the trucking and water carrier industries. These studies address important issues, including the examination of the effect of regulation on the performance of the trucking industry, and examination of rate bureau activities, and studies of the effect of certificate restraints on carrier operating efficiency and the quality of service and a number of related issues.

We hope to conduct our studies in cooperation with the ICC, the carriers, and the shippers. This process should contribute much to our understanding of the need for and the consequences of additional regulatory reform to achieve greater efficiency and better quality service.

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Fare and Route Structures: Time for Change

When I was last privileged to speak before this distinguished group in February 1972, I discussed some aspects of the actions taken up to that time to implement the President's Statement of International Air Transportation Policy. Today I want to describe some of our current thoughts on how to achieve viable North Atlantic fare and route structures for both scheduled and charter services, as well as our views on ITC's and the problem of escalating international user charges.

North Atlantic Fare Structure

The core of the present problem with fares is that for competitive reasons charter pricing has been the key factor influencing the level of scheduled fares. As charter fares declined to uneconomic levels,

competitive scheduled fares also became uneconomic. This is why last January, in our North Atlantic fare filing, DOT asked the Civil Aeronautics Board to promptly establish a minimum compensatory charter price, and to begin a broad investigation to identify a reasonable fare structure for both scheduled and charter service. I am pleased to commend the Board for the constructive initial step it took on the 7th of this month, when it proposed a rule that would lead to suspension of any charter fares that fall below 2.2 cents per seat mile for mid-week charters and 2.4 cents for weekend charters. We have not yet fully explored all the ramifications of the Board's proposal, and we intend to submit comments by October 12. But I can say now that the Department supports the Board's efforts to use its new rate powers to achieve compensatory charter prices.

With respect to the level and structure of scheduled fares, the Court of Appeals decision in Pillai v. CAB provides a welcome goad to the carriers to make real progress in their development of a completely revamped fare structure--one that is consistent with sound economic principles.

With respect to the IATA agreement which the Court directed the CAB to disapprove, we do not believe it should be reapproved, either retroactively for the period since last April, or prospectively for the period through December. Rates incorporated in the agreement are uneconomic according to the Board, and we do not believe in this case that the public interest would be served by reapproving an IATA agreement containing uneconomic rates. Whatever foreign policy reasons may have existed in April to approve the IATA agreement then, we do not understand that those reasons justify a retroactive approval now, and we are not aware that there are foreign policy reasons now to justify approving the old IATA agreement for the remainder of the year.

Failure to approve the agreement would result in an open rate situation. DOT does not believe that an open rate situation during the short remaining period of effectiveness of the IATA agreement would result in any cessation of air service, passenger inconvenience, or rate instability. If rate changes do get out of hand, the Board has adequate authority to deal with them.

With respect to the future, we think that, despite the present problems, IATA machinery will continue to be used to establish international passenger fares and cargo rates, although discussions between governments may also become increasingly important.

However, if IATA is to continue to be the vehicle for pricing international air transportation services, it is essential that IATA agreements be based on sound economic principles. Our citizens and the citizens of foreign countries have a right to expect that fares they pay for North Atlantic air service are "at the lowest cost consistent with the furnishing of such service." Federal Aviation Act Section 1002(j)(5)(B).

We endorse the recent effort of the Board to advise IATA carriers and the public of the economic principles it will apply in evaluating IATA agreements. In particular, we agree with the Board's advice concerning increases in economy fares and increases in the level of certain deep-discounted excursion fares, and we think the Board should (as its Policy Statement put it):

> "withhold approval of any IATA agreement which further raises normal economy fares; fails to relate the 22-45 day excursion fare more closely to costs; and fails to eliminate unjustly discriminatory fares."

DOT believes that equipped with constructive guidance from this Government in the form of an acceptable set of principles, carriers can achieve sound, economic IATA agreements and avoid submitting for last-minute approval clearly uneconomic agreements which can be justified only on noneconomic grounds. It should be possible to reduce the likelihood that the Board will again be confronted with the type of agreement and justifications which were the subject of the order vacated in Pillai v. CAB.

Frankly, I was disturbed at the best information we had (prior to the recent decision of the Court of Appeals) that rather than reaching a consensus on a completely revamped fare structure, the IATA carriers were likely to come up once again with a continuation of the status quo plus an across-the-board price increase. To us this was not good enough before the Court's decision, and it's clearly not good enough now. Over the past years, our filings with the Board have listed a number of principles for the IATA carriers to take into account in order to bring about a cost-related fare structure. The Board's recent policy statement reflects our views. We urge that the IATA carriers devise a fare structure more closely geared to the costs of service.

North/Central Pacific Fare Structure

In the Pacific, DOT and the Board have consistently urged that the carriers move toward a fare structure which will be effective in promoting the as yet underdeveloped tourist potential of the Pacific market. A truly promotional pattern of fares would not only serve the needs of the traveling public, it would also be equally beneficial to the industry. The President's

Policy Statement is highly critical of the level and structure of the Pacific fares stating that normal fares are well above justifiable levels and there is a need for certain promotional fares comparable to some fares in effect across the North Atlantic. While some progress has been made, the pattern of fares in effect is clearly not developmental enough. Furthermore, a cost-related fare structure should reflect actual operating distances and provide for charges for passengers stopping over enroute. Accordingly, we agree with the Board's recent action in turning down most of the recently filed IATA proposals which were non-promotional. We urge the Board to follow its North Atlantic policy statement with a policy statement on a Pacific fare structure, and to use its new rate powers if necessary to produce a cost-related structure.

Transatlantic Route Structure

Like the fare structure, the route structure across the Atlantic is also ripe for review. We believe that the CAB should promptly institute a Transatlantic Route Renewal Case to address the future of scheduled services across the Atlantic.

The present scheduled route pattern was set in 1950 when the Pan American-American Overseas merger was approved and Pan Am and TWA were made competitive at the four key European gateways of London, Frankfurt, Paris and Rome. Only minor route modifications have been made since that time (except for the introduction of National in the Miami-London market) even though foreign carriers are now fully competitive (there was no Lufthansa or Alitalia in 1950, for example), we have entered the jet age, the wide-bodies are in use, and strong charter competition has developed. It is true that route changes were considered in 1962 by Pan Am and TWA when they sought approval of a merger, but it was subsequently withdrawn. Again, during the Transatlantic Route Case which began in 1963 and was decided in 1966, TWA favored area competition to Europe, as did the Board's staff. But Pan Am opposed that concept then (compare a recent article which suggests that Pan Am apparently now favors the area concept with U.S. carriers competing against foreign carriers rather than each other.) As we know, the Board rejected the principle of area competition principally because of the financial improvement which took place beginning in 1964 as a result of the new discount economy excursion fares. We think it significant, however, that the Board only granted temporary authorization to points east of the carriers' major European gateways. As a result, Pan Am holds permanent authority only at London, Lisbon, the Azores, Shannon and Dublin; and TWA at Paris, Rome and Ireland. Seaboard has permanent rights to the U.K., France and Western Germany.

Are there reasons to think the route structure needs a change? Well, in markets where Pan Am and TWA are competing head-to-head, our two carriers combined are being outcarried by Air France, Alitalia and Lufthansa. Our excellent U.S.-London performance was helped by BOAC's withdrawal from U.S. cities other than New York during most of the 60's and early 70's. Now with wide-bodied jets, BOAC has been able to more fully implement its valuable route opportunities to the U.S. In addition, implementing the British policy favoring a "second force" airline, British Caledonia began scheduled service to New York and Los Angeles in April 1973. And, Laker Airways is now seeking to operate a "Sky Train" service to New York.

In markets where only one U.S. carrier is competing, our performance has generally been poor despite a huge percentage of U.S. citizens traveling in these markets; e.g., to The Netherlands, Switzerland and Scandinavia. The reasons for U.S. carriers' lack of preeminence in both primary and secondary markets should be fully explored in the route renewal proceeding we propose.

The President's Policy Statement calls for a cautious certification policy in the 70's. It endorses a movement away from point-to-point competition, and urges that we improve our competitive standing against foreign carriers.

The temporary certificates of Pan Am and TWA (as well as Seaboard) expired on April 12, 1973, and the carriers have filed timely applications with the Board for permanent transatlantic certificates. Other carriers have filed applications for new transatlantic authority; e.g., Atlanta-London. Accordingly, the Board is in a procedural position to improve the service pattern and the economic posture of air carriers, as well as to develop criteria to identify what essential scheduled services are required across the North Atlantic in the public interest.

Other issues that should be explored in the Transatlantic Route Renewal Case include (1) whether point-to-point competition should be continued in whole, or part, or not at all; (2) whether the incumbent carriers should be suspended on certain routes and/or replaced by other applicants; and (3) whether new services are required to certain key European cities from major traffic generating cities not now certificated.

It is also important to note that, under the Board's current all-cargo policy, to the extent that the ultimate conclusion in a future North Atlantic passenger case reduces Pan Am/TWA competition in specific city-pair markets, Seaboard would be the beneficiary. I mention this, not because

I would necessarily favor reducing the competition Seaboard faces, but simply to underscore what happens when cargo capacity is a handmaiden to passenger route awards.

After the Transatlantic Route Renewal Case is conducted, we will urge the Board to take a new look at the future route pattern for the North Atlantic charter services of both supplemental and scheduled carriers. In this way, the Board will be able to deal with charter rights in the context of its earlier determinations concerning the level of essential scheduled services.

Before I pass to a discussion of ITC's, let me comment briefly on the state of charter development across the Pacific, particularly with Japan. In 1953, when we signed the first air service agreement with Japan and before the supplementals were certificated, we exchanged notes which permit the scheduled carriers to perform an unlimited number of on-route charters between the two countries. Consequently, Pan Am, Northwest and JAL operate under a liberal charter policy, while World and TIA operate under a grudgingly granted quota system on a year-to-year basis. This situation is completely at odds with our 1970 Policy Statement because it distinguishes between the type of carrier that is serving the market. In the interests of the growth of tourism, and the values of increased people-to-people contact, I am hopeful that my conversations with Vice Minister Sato in Tokyo last August will bear fruit, so that all charter services are freed as far as possible from restriction.

Inclusive Tour Charter Experiment

With respect to ITC's, in my testimony on May 15 before the Aviation Subcommittee of the Committee on Commerce on S. 455 and S. 1739 (bills which would remove restrictions on ITC's), the Department proposed an affirmative action program of liberalizing ITC travel without impairing essential scheduled services.

Liberalizing ITC travel in a controlled way, with immediate experimental application, should provide the necessary factual basis and experience upon which the further development of U.S. domestic charter travel can be undertaken at minimum risk of impairing essential scheduled services.

S. 1739 amends the definition section of the Federal Aviation Act of 1958 to include a new definition of an inclusive tour charter (ITC) trip and a new definition of supplemental air transportation. This bill was reported by the Senate Commerce Committee to the Senate floor on

September 11, and it reflects a good deal of our proposals. As reported, S. 1739 also contains a number of amendments to the bill as originally introduced. We can accept all of the amendments.

In addition to providing definitions of an ITC trip and supplemental air transportation, one of these amendments would provide that such charter trips do not impair essential scheduled services. We can accept this amendment since it is consistent with the maintenance of an "essential scheduled transportation system." In my testimony before the Senate, I stated that:

> "The Congress should endorse the concept of inclusive tour charter travel as free from regulatory restrictions as is consistent with the maintenance of an essential scheduled transportation system."

Another Committee amendment to S. 1739 provides that the Board may limit by regulation the geographical areas or markets in which such trips may be operated. This amendment is consistent with another guideline I suggested in my testimony, namely, that the CAB should have regulatory authority to impose restrictions on ITC travel, including the limitations of ITC authority to certain immediate experiments to see if the scheduled carriers' fears are justified. The Board has such regulatory authority now and this amendment would not change it. Consequently, we support this amendment.

A further amendment would provide that the Board shall not permit any foreign air carrier to operate ITC trips into the United States unless it finds that the nation of origin grants reciprocal rights to U.S. air carriers to operate such charters. We do not oppose this amendment, but I believe that the Board now has sufficient power to take necessary action, and has not been hesitant to exercise it. The Board has amended Parts 212 and 213 of its Economic Regulations in order to place itself in a position to retaliate by limiting foreign carriers' scheduled and charter services.

Finally, the fourth Committee amendment provides that common control arrangements between supplemental air carriers and tour salesmen must be approved by the Board under Sections 408 and 409. This amendment removes the problems we had with the common control proviso, since Board approval under Sections 408 and 409 is now required.

We consider it highly desirable and important that the Board move swiftly to select specific domestic and international markets for a limited experimental relaxation of rules. The markets selected should be such

as to minimize the risk of significant impact on essential scheduled services, and enable the Board to measure the market impact and the public benefits accruing in these particular markets.

Strong consideration should be given to highlighting this experiment in the domestic markets where charter services have been minimal. There is strong evidence that large numbers of potential domestic travelers have been attracted to lower cost Caribbean and European vacations on scheduled and charter services. There seems to be no question that a more competitive domestic tour package experiment could accrue favorably to the United States' balance of trade. Among the domestic markets to be considered could be flights to key vacation spots from other than principal U.S. cities, to ski resorts in Colorado and the Northeast from so-called secondary cities, and services to various National Parks.

International User Charges and Discriminatory Practices Used by Foreign Countries to Favor Their National Air Carriers

Finally, let me stress our deep concern about the economic health of U.S. carriers, and the relationship between that health and their ability to compete with foreign carriers on a fair and nondiscriminatory basis.

We are currently giving priority consideration to the study and application of new procedures to deal with the problems caused by international user charges and landing fees. Estimates are that these user charges will rise from $124 million in 1972 to $188 in 1975 and $397 million in 1980. We are disturbed about the increasing burden of these charges on U.S. carriers and about the effect of such charges on the U.S. economy and balance of payments. From our analysis of the user charge problems cited by the industry and the possible solutions proposed by the carriers, we have developed initial recommendations which suggest measures and procedures to implement the President's policy of vigorous opposition to inequitable charging of U.S. carriers abroad. We are presently coordinating this effort within the Government, and we plan soon to broaden the review to include industry and other affected parties. We intend to come up with an effective way to deal with the problem.

On the related subject of discriminatory practices against our carriers, the CAB has just completed an extensive review of the discriminatory practices that now exist. DOT fully supports effective efforts to insure fair competitive opportunities for U.S. carriers abroad. The U.S. has already taken some steps to respond to foreign restrictions (e.g., international rate legislation; the adoption of new Parts 212 and 213 of

the CAB's regulations to deal with charter and scheduled services restrictions; and the steps taken to bring the bilateral agreement with Ireland into balance.) Further action is required in other areas, however, in order to implement the President's policy of vigorous opposition to attempts to restrict U.S. carrier operations abroad and we plan to work closely with the Board and the Departments of State and Justice to develop an effective action plan.

International aviation is not at a crossroads--it is at the convergence of many. The signs suggest it is time for a change of direction. The Department of Transportation hopes to help lead the way.

DEPARTMENT OF TRANSPORTATION | NEWS

OFFICE OF THE SECRETARY

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KEYNOTE ADDRESS BY ROBERT H. BINDER, ASSISTANT SECRETARY FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS-DESIGNATE, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE THE ASSOCIATION OF LOCAL TRANSPORT AIRLINES FALL QUARTERLY REGIONAL MEETING, ST. LOUIS, MISSOURI, OCTOBER 4, 1973

I am particularly pleased to have been asked to deliver the keynote address at this, the first joint meeting of the leadership of your two associations. You represent a large and important part of the Nation's air carrier industry. The sense of common purpose which I perceive here augurs well both for the future well being and prosperity of your members and for the quality of air service afforded by you to those Americans who fly.

I am impressed by the improving financial performance of both the local service and the commuter carriers. Of all the certificated airlines, the local service carriers have shown the most financial improvement for the year ending last June with a record net income of over $30 million and a rate of return on investment of over ten and one-half percent. Considering the overall economic climate in which that record was compiled, it is plain that there was a lot of hard-nosed management

pressure exerted on the cost side of the ledger. Many in this room can take justifiable pride in this accomplishment, and I commend you for it.

Although aggregate financial figures for commuter carriers are not available, at least not to me, the latest traffic data reflect your growing volume, with the number of passengers rising by 14% over last year to close to 5 million total. And over the same period you have managed very sizable increases in your cargo and mail business. The spirit of enterprise and innovation which underlies this performance can only be applauded.

I appreciate that neither of your industries has reached this juncture without having had to bear certain growing pains. But I consider such pains to be a welcome sign of vitality, for without a sensitivity to the need to adjust to changing conditions, adjustments which are seldom without some pain, your industries would never have prospered as they have.

My Department, as you know, holds certain views regarding other changes we believe should be made. For example, we are very much of the view that the vitality and, indeed, the viability of all regulated transportation industries is directly and critically related to the character and the wisdom of the regulation itself. Most recently, the problem of restructuring the rail system in the Northeast has preoccupied much of DOT's management. In some important ways, I believe that this unfolding drama can be read as a cautionary tale for other modes of transportation. While the root causes of the current railroad crises are, indeed, many and varied, the wrong kind of regulation at the wrong time was unquestionably a major contributor to this debacle. By comparison, the air carrier industry is still soaring in calm air in this respect, but both the industry and the public policy makers need to exercise close vigilance to ensure that regulation guides and encourages healthy and timely change instead of stifling it.

In the area of air service, the DOT has, in fact, been quite aggressive in promoting legislative and regulatory changes that, we believe, would lead to better service and a healthier industry. Most of you know that we are usually involved in one or more CAB cases and proceedings. Two in particular deserve special mention here--the Air Carrier Diversification Case, and the Domestic Passenger Fare Investigation.

In the Air Carrier Diversification Case, the Department conducted a number of studies which led us to conclude that an airline's freedom to

acquire subsidiaries or become a subsidiary of another corporation had a number of significant potential advantages. We advanced this position before the Civil Aeronautics Board and recommended a form of regulation of diversified carriers that would enable the Board to carry out its statutory regulatory responsibilities with minimum interference with the management flexibility necessary to obtain the benefits of diversification. The administrative law judge agreed with our general conclusion that carriers should be allowed to diversify but disagreed with certain aspects of our position, particularly in his finding that the carrier must be dominant in any diversified company. The Board will review this decision and we are now in the process of preparing a brief to the Board to explain our conclusions. If some of you would like to let us know what your views are, I would welcome them.

In the Domestic Passenger Fare Investigation, a very complex and lengthy effort still not complete, the Department supported a number of changes in rate-making practices that, we believe, would be beneficial to both the airline and their users. Probably the two most significant were the use of load factor standards in setting fares, which was adopted by the Board, and zone pricing, which has yet to be acted on. In this last connection, it seemed to us that the certificated carriers would find it extremely advantageous to be able to make timely adjustments to their fares--free from regulatory interference--in keeping with changes in costs and competitive conditions, much as commuter carriers do now, while at the same time having reasonable assurances that other carriers could not price lower than the zone limit and unfairly undercut them.

In the international arena, there has been a long history of operating problems faced by U.S. carriers. Here, too, the Department has tried to support steps which would enable both the scheduled and the supplemental carriers to earn reasonable rates of return while providing all the different kinds of services demanded by the public. Specifically, we have urged the Board to suspend and investigate charter rates which appear to be non-compensatory, and to eliminate deep discount rates for scheduled services. These steps are intended to help bring stability and financial health to scheduled services and charter services and allow each to prosper according to the positive advantages they offer to the air traveler.

I am pleased to see that the Civil Aeronautics Board is currently engaged in a number of endeavors that promise to lead to changes favorable to your industries. For example, its study of the domestic route system should not only produce the information and insights necessary to modify

the current route system with confidence, but also should help tell us, in making future route awards, what the likely effects will be on the air transportation system as a whole and on the carriers themselves. Chairman Timm has also said that he will act on carrier applications to delete or suspend service at uneconomic points. Finally, the Board is conducting a study to determine precisely which points still require subsidy.

I lend my full support to these and any other measures which promise to provide more and better air services to smaller communities at less cost. While current trends point to lower subsidies for local service carriers in the future, I'm sure that this outcome is not viewed as a totally unmitigated disaster by all of you. In the long run, local service carriers will surely be better off with proven weak points eliminated from their system, points which they are under the present subsidy system obliged to serve, and which are just that much more difficult to drop precisely because they are subsidized. The eventual phase out of subsidized services should be accompanied by greater managerial freedom to pursue growth stragegies which, themselves, should in the long run redound to the interests of the carriers, their stockholders and their customers. Commuters, of course, would have just that many more opportunities to expand the scope of their services.

The aircraft's role in any modern transportation system, while always important, is almost always a changing and evolving one. In developing countries where modern transportation systems are just being created, the aircraft is often a good choice under certain conditions, even though its operating costs are fairly high, as it requires less capital investment than a highway or railroad. In mature economies such as ours, the aircraft provides extremely convenient time-saving transportation to all parts of the country and abroad. In the long haul, its speed enables it to capture a great portion of the passenger market. Over medium and short-haul distances, which are typical of our operations, travelers and shippers can choose between the faster air and slower surface modes of transportation. The latter, of course, in the passenger field is dominated by the auto and the bus which are supported in our country by a system of highways unequaled anywhere in this world. Indeed, I expect that you local service and commuter carriers recognize that in many cases your principal competitors are automobiles and buses, especially with the highway development and rising ownership level of the last decade. I think this growth in a convenient short-haul surface transportation mode justifies a thorough going reexamination of criteria for subsidized air

services. We expect the Board's study relating to requirements for subsidy will address this question, and we hope to work with the Board in considering it.

Moreover, I believe it would be salutary if we again examine not only what objective conditions determine a community's "need" for air transportation, but under what conditions the Federal Government has a direct interest in ensuring that the need be met, and then how any subsidy required might best be provided in order to obtain the desired services. Like Chairman Timm, I believe that state and local authorities should have more say in the matter, both in deciding what services are to be provided and in selecting an operator and providing any needed monetary support. I also believe that alternative methods of managing the subsidy process could and should be devised as long as subsidy is required.

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As you are all aware, the trend in modern day Administrations, and particularly in the present Administration, is to try to identify the beneficiaries of Federal services and then charge them directly for the value of the services received through a tax or a user charge. I am gratified that the Association of Local Transport Airlines appears to share this objective. You state on your stationery that you are pledged to "improve passenger and cargo transportation, reduce subsidy and strengthen member airline finances." Do I take it that we agree that subsidy, in all of its guises, is to be reduced? But as we all know it is one thing to agree on a common goal and quite another thing to agree on how and how fast it is to be accomplished.

The Department has been engaged for more than two years in an effort to identify the beneficiaries of Federally-provided air system and related services. We also had to determine what charges are now being made for these services and what charges should be made in the future. Of course, I am referring to the Airport and Airway Cost Allocation Study and, specifically, the Report which Secretary Brinegar sent to the Congress last Tuesday that was Part I of the Study, entitled "Determination, Allocation and Recovery of System Costs." I would like to comment briefly about where this policy study will go from here so that you may better understand how the Department has elected to pursue the goal of reducing subsidy.

First, we should remember the Study's origins. It was called for by the Congress, which in and of itself reflects a broad interest in reducing the

cost of Federally-provided services. Part II of the Study, to be transmitted to the Congress next February, will provide specific recommendations for changes in the existing tax structure, along with any needed legislative proposals to effect them. This two-step approach to the Final Report was chosen so that the specific policy recommendations could fully take into account the comments of all interested parties on our factual analysis of the problem.

The second comment on the Cost Allocation Study I want to make concerns one of the recommendations contained in Part I of the Report--that is, that any substantial future changes be made gradually and that the existing interests of all parties be properly heeded. The exact language used was (and I'll quote):

> "We do not propose to make changes that are unnecessarily disruptive to the relationships that have built up on the basis of the existing situation. To reduce potential hardships, future changes in user charges should be phased in gradually and with adequate advanced notice. During this transition period, public tax support will be necessary while the airport and airway system adjusts to meeting changing future demands."

There was a feature of the Cost Allocation Study which bears repetition, and I'd like to use it as a basis for asking for your cooperation and active participation in meeting the important policy objective of reducing subsidy. The statute establishing the Cost Allocation Study directed the Department to "consult with the users" during its conduct. I'd like to have the same close consultation with you about ways to reduce the Federal local service airline subsidy. To start this process off, I put to you the following questions: How do you think Federal subsidy should be reduced? What kind of regulatory changes do you want and need to accomplish this objective? What do you want Government, and particularly the Department of Transportation, to do to facilitate this effort? And, finally, how do you see your industry operating without subsidy? What are its characteristics and what kind of service will it provide in which localities?

Answers must be found to these basic questions, for it is only upon such foundations that our mutual goal of reducing subsidy has any chance of success. I want to extend to you my Department's sincere offer to work together, cooperatively and positively, to realize this common goal.

Before I close, let me stress our interest in the ways in which transportation service can be improved at small communities. Developing regional airports is just one such measure. Although it is easy to understand why most any community would want its own airport, it is often difficult to justify the payment of Federal subsidy for service to a point very near to another airport which offers superior air service at no cost or a lower cost to the Government. In this connection, I believe that commuter airlines have brought good service to many communities, with inter-line ticketing and baggage handling agreements, and joint and through fares. I hope you will be successful in instituting more such beneficial service innovations. Our interest in service to small communities led us to co-sponsor with NASA this summer a month long workshop at Aspen on short-haul, low-density air transportation. I know that many of you here participated in those sessions as did I and many of my colleagues from the Department. The final report of this workshop has not been completed, but I'm sure that it will have many interesting things to tell us.

In conclusion, let me say that I wish for both your industries a continued healthy growth and expansion. I equate this with better service to all the small communities of this nation who feel so keen a need for it. I am sure the Department of Transportation will do our best to foster this development through responsive and responsible Federal transportation programs and policies and through the encouragement of regulatory policies which accord fully with the needs and realities of the times. I hope your meeting here is an unmatched success, and that your deliberations lead in the direction of an ever closer meshing of our respective responsibilities.

Thank you.