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U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

REMARKS PREPARED FOR DELIVERY BY PAUL W. CHERINGTON,
ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND
INTERNATIONAL AFFAIRS, BEFORE THE AMERICAN ASSOCIATION
OF AIRPORT EXECUTIVES, DENVER, COLORADO, MAY 26, 1969

I bring you the greetings of Secretary Volpe who is extremely sorry that he is unable to be here with you today. He has a low-grade sinus infection, and the doctors felt that a 4,000 mile air journey today was not quite what should be prescribed. It is nothing serious, but on Saturday his doctor told him that this talk was something that he simply should not undertake.

It is a real pleasure for me to substitute for the Secretary, even though I cannot guarantee to be a complete substitute; and it is a particular pleasure for me to appear at the head table with that well known aviator, Senator Dominick; with Senator Mike Monroney, who is known as "Mr. Aviation;" and with Congressman Don Clausen, who is known sometimes as the "Mike Monroney of the House."

Judging from the questions that I got at the press conference before the luncheon here today, the thing that you would like to hear about most is what progress we have made, if any, on the airports/airways package. And so, I propose to spend some time in discussing that matter. I cannot give you the full details of it because, as you

71-03598 S

know, it has not yet been announced and to have Cherington announce President Nixon's and Secretary Volpe's package in Denver would be very bad for Cherington. But, I will attempt to give you some of the background thinking of this package, but I will restrain myself from giving you any estimate as to when the package may be announced.

You are all aware, I am sure, of the background of the needs and the pressures which make necessary a major program in the airport/airways area. You are all aware of the coming of the 747's this winter. Indeed, as I looked out on the crowd assembling here, I thought that you were practicing for the arrival of two 747's. There are just about that many people here, about 750. You are all aware of the coming of jets to the local service lines, of the phenomenal rise of the air commuter carriers and of the steady and persistent growth in general aviation flying and aircraft. And I am sure you are all aware also of the gradually building community pressures, the need for fast transportation, balanced by the need for noise reduction, and the question of whether an airport really is or is not a good neighbor. So, I am not going to dwell at all on those pressures or give you statistics on the rise of airline passengers. I am also reasonably sure that you are fully familiar with some of the limitations which have applied in the past to meeting those needs. You are familiar with the very erratic and spotty level of funds which have been available to the FAA for facilities and equipment for the airway system. You are aware of the very restricted funds, particularly in the last few years which have been available for airports. The distribution that was recently made by the FAA for airports for this year is almost laughable when compared to the requirements.

You undoubtedly are aware, if you have read the papers, of the very tight budget situation in Washington--a budget situation created by the Viet Nam war and by the very heavy pressure of inflation which must be brought under control. You are also aware, I have no doubt, of the very tight budget situation in virtually every city in the country; and you probably are also aware that the airlines have so loaded themselves up with equipment obligations that they are no longer able in a believable way to go on your bond indentures for revenue bonds. Finally, I am sure you are aware of the general tight money situation and the uncertain profit position of the airlines themselves.

Those briefly are the background facts that we had to take into account in drafting the new airport/airways package; and I hope that we did better, or that it will prove that we did better than that well known

navy aviator during World War II who flew back from an absolutely fantastic mission against the Japanese and landed on the deck of a carrier. And he rapped on the Captain's door and said, "Sir, I want to report a most fantastic mission! I knocked out a whole regiment of Japanese troops! I knocked out ten tanks! And I sank three destroyers!" And from behind the door, the Captain replied, "Ah so, but you make serious mistake in landing." We hope we are not in that position.

We have approached the problem with the idea that the major increases in this program are going to have to be financed out of increased user charges; and user charges in many parts of aviation are dirty words. Particularly is this true in the case of general aviation where the total take from the present 2 cents per gallon tax on aviation gasoline (and nothing on jet fuel) brings in about \$10 million. And that, no matter whose numbers you look at or how you allocate the cost, is so far below the cost allocable to general aviation, that it is pathetic. We are not about to come forward with a package which will seriously damp down or knock in the head the further progress of general aviation. We are proposing a series of user taxes on general aviation that will bring in about \$55 million a year in revenue and even that is far below any allocable share for general aviation.

In the case of the airlines, the program will call for substantially increased ticket charges domestically, for a new tax on international passengers, and for a new tax on air freight way bills. Generally speaking, the airlines under this program will be paying their full share of the airways and airport program or rather their passengers and shippers will be. And there has been considerable complaint from general aviation, "Why don't you let us have a surrogate for a ticket tax?" If we could think of any way to do this that was administratively feasible, we would have been glad to consider it.

There has been a great deal of talk about trust funds. And trust funds, when you bring them up with people in the Bureau of the Budget and the Treasury Department, make them as Winnie the Pooh said, "Come on all funny;" they do not like them. And they do not like them basically for two reasons: (1) this leads to some measure of inflexibility in the budget and (2) it is a misnomer in terms of a strict trust fund such as the Social Security Trust Fund. So, we have been giving consideration not to a trust fund but to a designated account into which these user charges would be placed--somehow this seems to fly much better.

We have also given consideration in the drafting of this program to the fact that the airways/airport system is a complete system which has major safety overtones, to be sure, but must be viewed basically from the standpoint of the shipper, and more particularly the passenger, who wants to go from his door to his destination and who wants to have the aviation facilities, whether they be airways, landing areas or terminals, in place to accommodate him. So, we have tried to make some provision in the terminal area for assistance to those cities and those localities that apparently need it. Whether we have been successful, I do not know; but we have at least made the effort because we regard this entire operation as a complete system, and we did not want to leave any part of it uncovered--not necessarily to be covered by the Federal Government, but by somebody. We have also recognized in the package the need for much better financial and operating information certainly on the air carrier airports but also some of the other major airports. We hope that you will back us in our effort to collect this information. It is very much needed. We really do not have much of anything in the way of hard data at the present.

Finally, we have proposed in the package, and I would hope that this would be a part of the President's program, a detailed study of the allocable cost of the civil share of the airports/airways program to the various users. This study will probably take a year and one-half or two years to complete. We have provided that if we can find that there are residual public benefits beyond the costs allocable to the users, we will recognize these; and if there are not, we will get rid of this very polite term for subsidy.

In short, we hope that we have come up with a realistic but responsive program to the needs of aviation in all its aspects. We need the active support of the aviation community when this program is submitted by the President and when Senate hearings start in the middle of June. We hope that you will see your way clear to giving us your backing, not necessarily in every minute detail, but in the broad outline. We have benefitted from innumerable conversations with your officers and the officers of many other professional and trade groups. Perhaps one thing that distinguishes this Administration from a certain previous Administration is that we have tried to keep an open door policy for all and we intend to continue that. That is one of the Secretary's key tenets. We would hope, however, that those of you who are in the airport business would reexamine your own financial structure, including the structure of landing charges,

so that at the end of a decade, roughly 1980, this system of aviation will be largely self-supporting.

Now, in conclusion, I would simply like to say that I congratulate AAAE on the purposes for which you came into being and the programs which you have pursued. I think that a professional organization dedicated to advancing the standards and quality of airport management is particularly relevant at this time. For I can think of no line of commerce, no line of business, that needs a broader professional background than airport management. You must be technically expert; you must be highly qualified in general management such as control, finance, personnel administration and the like; you must have a grasp of broad community and political relations; and you must certainly have a knowledge of the interfacing modes of transportation. So, I think that a professional organization of the kind that you have here is clearly most valuable. One thing, as I understand it, that is lacking is a fully suitable training ground for airport management and some inability to recruit bright, qualified, younger managers. And, being a refugee from Harvard (and I mean that in every sense of the word), I would call to your attention the major opportunities that might be open to a group such as yours to establish an advanced airport management training program, tailor made to your needs at some educational institution--not Harvard because we are too busy with rioters. I also would urge upon this organization a look at your recruiting possibilities for younger men. I noticed in the airport reports the need for a new assistant airport manager at the starting salary of \$8,100 rising to the munificent salary of \$9,900. Now gentlemen, the average starting salary this year of Harvard Business School people is going to be \$13,100. Don't tell me they are not worth it; they are getting it. So I think in terms of salaries and recruitment, this organization may very well have a job to do.

Let me just say finally that in his campaign, President Nixon said, "I pledge my full support to those measures necessary to permit our nation's air commerce to flourish and prosper." And those of us in the Department of Transportation, Secretary Volpe and all the rest of us, certainly are not going to make a liar out of Richard Nixon.

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REMARKS PREPARED FOR DELIVERY BY PAUL W. CHERINGTON,
ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND
INTERNATIONAL AFFAIRS, BEFORE THE PENNSYLVANIA/NEW
JERSEY/DELAWARE REGIONAL CONFERENCE, SWARTHMORE
COLLEGE, SWARTHMORE, PENNSYLVANIA, JUNE 11, 1969

I am glad to be able to bring to you the greetings of Secretary Volpe and the new Administration. A little history may give you some perspective on my view of regional development. Before the government began trying to make sense out of airport development in 1946, airports grew up pretty much like "topsy." Airport development was a result of immediate pressures arising from the number of flights coming into a point and by the city fathers' desire to more easily accommodate the increasing number of businessmen coming into their city. Development in this early stage was closely tied to the economic growth of the city in which the airport was located and the availability of revenue to pay for the growing airports turned closely on the apparent promise of the city as it appeared to the bond market place. But, some people in other cities on seeing the growing airports and the prosperous economic areas, began to think that the airports were the cause of the prosperity. And airports became more than just terminals to move people quickly and efficiently in and out of a city. Instead they became glamorous symbols of a community's prestige.

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And indeed, in a community without strong commercial potential, often the development of an airport has become a substitute for providing actual industrial inducements.

The city airports grew and we began to try to untangle the relatively helter-skelter growth. Airport planning became essential so that funds could be channeled into those airports which indicated that they had a real growth potential in terms of community development as opposed to those which were merely adding prestige to their local communities.

Over the past few years we have seen congestion of airspace and ground access rapidly overtaking major city airports so that they can no longer perform their major function efficiently. Airport terminals are barely holding their own at the moment; but at peak hours, baggage handling cannot keep up with the sharp increases in passengers, and traffic jams on getting into and out of the major airports cause serious delays. Space is badly needed at existing airports for additional parking; but with the addition of the 747's, even a considerable increase may not be enough. There is no doubt that existing airports will have to investigate new approaches to traffic movement, including people-moving systems and improved transit systems. Studies indicating the effect of transit systems in terms of airport access are being sponsored by my office right now in connection with the Cleveland Rapid Transit System, and we are presently discussing with interested parties the question of access at Oakland International Airport. With the introduction of the 747, we must anticipate that the problems we presently have will only become intensified. Secretary Volpe has recognized these and we are presently seeking answers.

Airspace as well suffers from serious congestion. In fact, the problem is so serious that an economist, at one point, half seriously proposed that we raffle it off to the highest bidder as the economically fairest way to approach the issue. In lieu of this kind of alternative, we have had to instigate congestion rules at five major airports. Presently, as a holding operation, we are working within the Department on making incremental improvements on the existing system, including improving air traffic control to increase capacity over airports and on landing and ground based navigation systems. We are also considering area traffic systems and altering runway configurations-- all in an effort to discipline the structure of the present system so that we can increase its capacity. But, the more steps we take,

the closer we will come to the point at which we will realize very little relief compared to the cost of the improvements. It may be harder to enlarge existing terminal facilities or provide additional runway space than to build entirely new airports, but we are not sure precisely when that point will be. This congestion has prodded us into reviewing alternatives to the existing pattern of close-in city or dual city airports.

A key approach we have considered is the development of a regional airport system. A regional airport serves two roles: first, it can provide an efficient central airport for long haul transportation needs arising from the region in general; and second, it can absorb long haul traffic of existing close-in city airports.

In order to understand the potential of a regional airport for capitalizing on the traffic generation quality of the region, let us examine the current long haul potential. At present we know that 22 percent of New York hub air traffic is international. This contrasts to 4 percent for Boston, 1 percent for Philadelphia and 1 percent for Washington. This amounts to approximately 3 million international aviation passengers and, of course, does not include long haul domestic passengers which we estimate to be about a little under 50 percent of total domestic passengers. This is the potential market for a regional airport in the Northeastern area.

In considering how we could make a regional airport system viable, however, we should not depart from the principles underlying the development of our city airport system. We have already tried to stick a long haul airport out in the middle of a "cow pasture"--Dulles. We had hoped that the airport would show great growth on the strength of the fact that people can be moved in and out easily. But in the absence of any forceful measures, this expected growth has not occurred. This result should have been expected since we have ignored the five basic points necessary for the successful development of an airport. These five points are: first, that within the region served by a major long haul airport, a strong economic base is absolutely necessary for its successful development; second, that compatible development should be performed in the immediate area of the airport and that this development should be performed in such a way as to strengthen the economic base of the airport; third, that a regional airport must provide comparative ease of access in terms of both time and money; fourth, that the facilities of a regional airport must be superior in terms of relieving congestion at the airport; and

fifth, that the schedule pattern of flights must be directly related to different types of potential users. Finally, I would like to make clear the significant differences between close-in city airports, dual city airports and regional airports in terms of their roles and the political implications arising from these differences.

First, an airport will not, of itself, make an area grow. The prestige of having a large air terminal complex cannot be allowed to shroud the need for strong industrial and commercial development. There must be a solid economic base. Up to now, the only relevant economic base we have considered in determining the potential for airport growth has been that of the city or cities to be served and their environs. But, if we look at the Northeastern part of the United States, we can see that urbanized areas form an almost contiguous strip between Boston and Washington. To the extent that this corridor of high density development can be economically meshed with webs of local transportation and if there is a pattern of satellite cities emerging in the area, this strip could, on the basis of its own industrial development, support somewhere within it a regional airport.

But to say that a regional airport principally serving long haul needs is the proper solution for one part of the country is not to imply that this solution can be applied by a rubber stamp elsewhere. Consideration must be given to factors of population density, potential economic growth including the supporting transportation network, environmental impact and, of course, availability of capital financing, before any decision can be made to go for a regional airport.

To the extent that you can encourage a pattern of sound regional economic growth, akin to the earlier city growth that made close-in airports viable, then you can expect that your regional airport will be provided with enough passengers and cargo to be attractive to investors. The marketability of both general obligation bonds and revenue bonds which derive their funds based on the use of the airport, turns on the general economic conditions of the community or region. Furthermore, with trunk airlines heavily indebted for capital expenditures to the tune of \$5 billion over the next three years and probably in the neighborhood of \$15 billion between 1969 and 1975, it is not realistic to assume that they can take on much more in the line of revenue bond guarantees in the relatively near future. Also, the Federal Government will certainly not have the funds to finance a major airport investment expansion

and may not even, if we keep getting our programs narrowed, have the authority to guarantee the obligations supporting private development. Hence, we are going to have to face squarely the fact that it is the underlying strength of the region which will be the prime factor in providing the approximately \$1 billion that a new major long haul airport would cost.

The second point that must be considered in making a decision concerning the development of any regional airport is identical with a fundamental question that has restricted the growth of airports in cities. This is the issue of the compatibility of the airport with surrounding land uses.

To be sure that the environmental effects of noise and pollution (which in the present state of our technology it seems we must accept if we wish to have major jet airports) will not be offensive to the airport's immediate neighbors, enough land must be reserved around a proposed development. The kind of planning that is inherent if the amenities are to be preserved, however, can also help make the airport a going concern. It is desirable to put industry in close proximity to an airport, if the area has intrinsic commercial attractiveness, since this may benefit the airport. But, it must be realized that an airport cannot of itself attract the industry.

A third principle which must be observed in considering development of a regional airport and one which we have observed at Dulles and for that matter at some city airports, is the need for ease of access both in time and money. If the region develops among its satellite communities a strong rapid transit web, then the airport as part of this development will be assured of good local ground access. But, if we are going to assume that an additional rationale for building a regional airport will be to compete for long haul traffic with existing city airports, then good access from existing city centers must also be developed. Possibilities for this include not only high speed ground but also V/STOL. Existing city airports might be persuaded to trade off some of their long haul traffic in exchange for STOL traffic to nearby regional long haul airports. Also, improved STOL capability may substantially take the place of existing short haul traffic and thus permit an increase in the total capacity of close-in airports.

The FAA is presently analyzing the economic feasibility of utilizing V/STOL service more intensively in the short haul market. In 1967, according to their figures, 50.3 percent of air passengers made a trip of less than 500 miles. A central STOL port in 20 top cities could potentially provide STOL service to 95 percent of these short haul passengers or 48 percent of the 70-75 million total air passengers. The significance of STOL can be seen from an additional measurement. If we built a STOL port in New York City, it is estimated that such a port would be handling nearly one-third of the entire total short haul traffic market. STOL advantages include a reduction in airspace utilization since glide space requirements can be cut down and the fact that we can provide STOL runways at existing major airports without interfering with the existing runway system.

If, as our figures indicate, ground access can make up as much as 50 percent of the time required in travel for a short haul trip, then, we clearly should intensify our use of V/STOL at close-in airports. The CAB is investigating V/STOL applications in the Northeast Corridor; and Pan American, American and Eastern are looking into market analyses and the potential of various types of aircraft.

Regional airports must consider the extent to which they can encourage this kind of trade-off at close-in city airports in order to be able to attract long haul traffic.

And this leads me to my fourth point: this means that regional airports must be able to capitalize on superior facilities and a lack of congestion in comparison to the close-in city airports. They must be able, for instance, to cut down, by means of advanced people-moving systems on the one-half hour or 45 minutes that is presently required to change planes at existing airports. If a cooperative scheme could be worked out with center city airports to develop simplified systems for switching people from, say, some STOL mode to, say, a 747 for a long haul flight, it would be a major breakthrough.

Finally, to succeed, a regional airport must develop scheduling patterns and connections in such a way as to benefit three groups of potential users. These are the people from the region, who must be provided convenient flights which are tied in with local ground access, the major metropolitan centers which must be provided easy connections to long haul flights and through passengers who are interested in smoothing out flight transfers.

There are different fundamental approaches to analyzing a close-in city airport, a dual city airport and a regional airport. These are differences not only in terms of geographic but also in terms of economic and political realities. A close-in city airport has usually been built at the outer limit of the inner city and, hence, the city has had to make a deliberate decision to build some form of connecting link to the airport. As a result, it becomes very clear to whom the airport owes primary attention. In the case of a dual city airport, such as Friendship Airport between Baltimore and Washington, the airport was placed at the mid-point of the connecting link between the two cities, thus clearly indicating its primary mission of accepting the traffic from two relatively clearly defined points. An airport such as Dallas-Ft. Worth will also serve two cities, neither of which alone might generate sufficient traffic to justify two separate long haul airports. And, it will serve two distinctly separate political entities which have distinct market needs.

A regional airport by contrast is predicated on two facts: first, that regional development, possibly in the form of satellite cities, cannot justify a whole series of small or long haul airports and, second, that there is within the region sufficiently intensive growth that one large regional airport can serve its aviation needs. Such an airport tends to become a regional hub in that connections must be made from the airport to multiple high density areas. The result of this, in fact, is that the airport tends to become the subject of competition among many areas to obtain direct links with it. This produces a political environment that is unique to regional authorities.

The political complications involved in developing a regional airport arise from the fact that such a program must depend upon a political entity which does not correspond with any previous existing authority and this entity must be empowered to develop the industrial base of the entire region. It must be able to raise money by means of selling bonds and to alter zoning or create easements which will protect prospective uses of land surrounding any proposed airport. Most of all an entity must be created which is strong enough to take on multiple political institutions which cause undesirable cross-currents in planning. Finally, whatever entity you create, you must be prepared to deal with not only local opposition to whatever site is ultimately picked for the airport, but with airline opposition as well. Why airlines oppose moving to a regional airport can be understood if you think about what happens when an umbrella salesman comes on a beach. First, one merchant sets up his stand in the middle of the beach in order to take over as much of the market as he can.

The next merchant does not set up his stand at either end, but rather will set it up next to the first merchant in order to give him the most competition; and they attempt to out-yell each other. This has been the situation at our congested close-in city airports. It is this type of predicament that you who seek to create a body to sponsor regional airport development must be prepared to meet and counter.

It is also necessary to create a decisive political entity so that there will be a competent authority which can deal not only at the multi-State level, but with the Federal Government as well. If we are to do any meaningful planning together, there must be one voice which we know has got the muscle to come and talk and plan with us. There are many potential locations for a regional airport within the Northeast Corridor area, but potential is not enough. It is subject to the ramifications of inability to raise capital, secure land and obtain political cooperation. These limitations mean that the one who gets his foot in the door first with these factors lined up, may steal the show. A regional airport will not be the answer for all areas, but with the growing congestion at our airports and airways, someone is going to have to get moving soon.

President Nixon indicated his concern with orderly regional development when on May 21, 1969, he announced a series of steps to streamline the structure and process of Federal agencies in the field so as to greatly improve their effectiveness. We share his concern and hope to do our part to obtain orderly regional transportation development.

110-4

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REMARKS OF PAUL W. CHERINGTON, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS BEFORE THE CONVENTION OF ASSOCIATED TRAFFIC CLUBS, MILWAUKEE, WISCONSIN, SEPTEMBER 15, 1969

I am pleased to be able to talk with you today about the question of economic regulation of the domestic surface transportation industries. In large part, I am here to solicit your support in long term regulatory reform which Secretary Volpe and his staff feel is absolutely essential to the development of a balanced transportation system. With your active support and that of other grass roots organizations like yourselves, we believe that there is a good chance of making real progress towards a more economic and efficient transportation system in the United States. Without your help our efforts are likely to be as abortive as those proposed in the Eisenhower and Kennedy Administrations in this area.

What I will have to say should not be interpreted as being unduly critical either of our domestic freight transportation system or its regulators. We have, without question, the finest transportation system in the world in terms of efficiency and economy, but it is not in the American tradition to regard the best as being good enough. If it can be improved, it should be and probably will be. And there is ample evidence today that improvements can and should be made both in the regulatory area and in the roles and missions in some of the modes.

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Let me say at the outset that Secretary Volpe and the Administration of President Nixon have a firm commitment to the beneficial long run effects of free and open competition. Such policies have also been strongly advocated by a long list of very bright and capable academicians. Yet we recognize that domestic transportation has been characterized for half a century or more (depending on your point of view) by reasonably close regulation of major segments of the transportation system. Many people have built up a strong vested interest in a perpetuation of that regulatory system--shippers, competing modes and interregulated carriers, public and private. To propose a sudden move toward complete or more or less complete deregulation and an instant return to open competition is not realistic, either politically or in terms of the often delicate balance in which transportation and locational decisions are made. Thus, despite my academic background, I do not intend to propose any instant or drastic move to deregulation. That is a nice theory for the classroom but it is not particularly relevant in real life, or at least to political life.

By the same token, it would be a mistake to assume that in our desire to bring about a better balanced, more efficient and more economical transportation system, this Administration is going to come out for bringing under economic regulation those segments of the transportation system which are now unregulated. That is not the direction which is likely to be chosen. Rather, the course can be better described as a gradual move toward freer competition giving the carriers and shippers ample time to adjust to the winds of change.

There may very well be some of you who are wondering why someone from the Department of Transportation is talking about regulation when everyone knows that regulation is essentially the responsibility of the ICC (or in the case of air, the CAB; and in shipping, the FMC). Our involvement stems from the broad responsibility which we have under the Department of Transportation Act of 1966, "To establish and promote sound national transportation policy." Within that framework, we are interveners in numerous regulatory proceedings; we prepare, comment or testify on most significant transportation legislation, and, at the direction of President Nixon, we are preparing a statement of national transportation policy.

We have not attempted to run over the regulatory agencies or to dominate them, and we will not do so. On the other hand, we have established good working relations with each when pending cases were not involved; and when they were, we have attempted to conduct our relations as any

intervener should. It may be that gradually some changes will be made in the relations between the Department of Transportation and the regulatory agencies or between the agencies. But I would hope that these would come about through an evolutionary, not a blitzkrieg process. The present reorganization plan for the ICC pending on the Hill, which provides for a Presidentially approved nonrotating chairman is evolutionary rather than revolutionary in nature, as are the other administrative changes which it provides.

Similarly, our policy recommendations are not likely to be startling or abrupt whether they are submitted to the regulatory agencies as our position in pending cases or in the form of legislative proposals. For example, our tentative position in Docket 34013, Sub-No. 1 (Cost Standards in Intermodal Rate Proceedings) is, in its draft stages, comparatively mild and essentially urges the Commission to follow (albeit somewhat more vigorously) the trend reflected in its decisions over the past few years but with some significant zigs and zags.

In the legislative field we are currently working on a revision to the rule of ratemaking as contained in Section 15a(3). The thrust of our revision is not inconsistent with our position in Docket 34013 which I just mentioned--namely, to give the railroads greater freedom to price their services on less than fully distributed costs but without running any other mode out of business or discriminating unduly against shipper competitors in a market. At the same time, we much prefer the original mixing rule bill for barge operators to the so-called compromise bill which would bring thousands of presently exempt barge rates under tariff filing rules. We are hopeful that perhaps the railroads and the barge operators will be willing to compose their differences, with the railroads accepting the original mixing rule and the barge operators, in exchange therefor, accepting the modest revision of Section 15a(3). If so, we believe that both would benefit. The barge operators would gain the mixing privilege they seek without the cost and burden of filing numerous tariffs while the railroads would have a clear mandate to price their services on a reasonable basis so long as they were not trying to deliberately sharpshoot water competition. Thus, we will have a greater degree of managerial freedom for the carriers, a greater degree of competition for the shippers, and no increase in regulatory burden.

It is precisely this type of result which we hope to accomplish. I suppose that the questions which you must ask yourselves are: "Is it possible to do this?" and "What will it do to me and my company?" In answer to the first question--"Is it possible?"--I would reply, "Yes, with your help, but only with your help."

Regulation in this country was introduced and developed primarily to protect the shipper or the consignee against the monopoly power of the railroads. In the last 30 years or perhaps 40, it has increasingly been reoriented in the direction of protecting the carriers. In terms of political clout, the several modes may not be able to accomplish very much, but they can usually keep their competitors from accomplishing much either. That perhaps explains why we have had only one really significant piece of domestic surface transportation legislation in the last 30 years--the Act of 1958. Shippers, whether through traffic clubs or the NIT League or otherwise, have not been able or have not chosen to exercise a decisive role in breaking the intermodal stalemate. I would suggest to you that, properly organized, you have the political weight to make yourselves an effective third force in both regulatory and legislative activities.

But first, I would urge that you decide what your basic policies are--not on a week-to-week ad hoc basis involving a particular situation, but what kind of transportation competition and pricing policies and practices do you really want to see.

I am convinced that if we pursue our present course of rigid controls over the railroads, and slack or no controls over much of the highway and water system we are flirting with early nationalization of much of our railroad system. It will not come about because anyone wants it. Not even the bureaucrats are reaching so far. Rather, it will come about because private ownership will no longer be possible due to a lack of capital. It will come about as roadbed and track deteriorate, as accidents increase, and as the carriers are less and less able to meet the demand for cars. In considerable measure the decision of continued private ownership and operation of the domestic transportation system rests with you. With your help the recent trends can, I believe, be turned around. Without it I would be skeptical that they can. If part of the system is nationalized, the task of achieving any reasonable balance between the modes or of maintaining an economical and efficient system will be immensely more complicated, just as it is today in the small package field, as between parcel post, REA, UPS and other package carriers.

In your deliberations here, I am sure that you will consider in depth the kind of transportation system you want and the policies which will achieve that system. I am hopeful that you will conclude that a balanced, economical and efficient system achieved through an evolutionary set of policies looking toward a larger measure of competitive freedom is what you want. If so, we need your help in obtaining that objective.

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110.5

REMARKS OF PAUL W. CHERINGTON, ASSISTANT SECRETARY OF
TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS,
BEFORE THE AERO CLUB OF WASHINGTON, WASHINGTON, D. C.,
SEPTEMBER 23, 1969

It is the current fashion in talking about aviation matters to describe the difficulties which the industry faces and, Cassandra-like, to prophesy a long era of gloom. There is no doubt that air transportation today is beset by numerous difficulties and that the next few years are almost certain to be difficult ones for many individual carriers and for the industry as a whole; however, without intending either to assume a Pollyanna pose or yet take an unduly Calvinistic approach ("all of our difficulties are good for us and will help build good moral fiber"). I think it is surely time that someone lay on the record a few of the things which air transportation has going for it and which almost certainly assure a bright future.

A listing of the good things about air transportation does not mean in any way that President Nixon or Secretary Volpe and the Department of Transportation are unaware or heedless of the many problems which air transport companies face at the present time. The announcement this morning of a go-ahead for the SST program is clear indication of the Administration's long run concern for aviation. In the shorter run, we are fully mindful of the very large investment program which confronts

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the carriers, of the rapidly escalating wage demands and other costs which are being placed upon them, of the almost certain increases in user charges, landing fees and airport rentals, of the increased competition which the CAB has certificated upon many routes and of the softness in traffic growth in at least certain months of the year to date. We are also aware of the problems peculiar to certain segments of the industry and to particular carriers as, for example, the local service carriers who are locked into a relatively rigid subsidy formula, or certain short-haul carriers who are particularly afflicted by airport and ATC congestion problems, or some international carriers who are faced on the one hand by increasing foreign competition and on the other by the sometimes strident voices of the supplementals. We are also aware of the difficult position of the supplementals themselves as they face a gradually declining military demand connected with the Vietnam war and must seek out new markets and obtain new uplift rights around the world

The first and perhaps the most important thing that air transportation has going for it today is simply the fact that the present Administration is aware of its multiple problems and is determined to assist the various segments of the industry in working towards constructive solutions to them. This does not mean, of course, that every carrier's wishes will be fulfilled. It does mean, however, that by maintaining an open door policy at the Department, we are being kept fairly well informed about the tribulations of the industry.

While recognition of problems is perhaps the first step to their solution, no one would be satisfied if that were as far as things went. And that is not where we are stopping. There are a variety of positive steps which have been, and are being, taken to help air transportation through this difficult period, a period which seems to come with almost monotonous regularity at 10 or 11 year intervals.

Perhaps a most significant step is the airport/airways bill. I am sure that you are all familiar with its general provisions and with the positions which the various interest groups in aviation have taken with respect to it. Perhaps, like us, you are pleasantly surprised at how quickly this major program is now moving. The explanation for that rapid progress is partly that it is basically a good piece of legislation which meets a clearly recognized and urgent need, and partly that it has had good support from the Administration and from many influential interest groups. But largely I suspect it is moving fast because the Congress, recognizing the urgency of the situation, is simply fed up with the rather niggling and self-serving objections of parochial groups that killed it last year. The airport/airways bill, when passed, will not solve all the problems of air transportation or aviation, but it will provide an excellent foundation, and I think it is clear that without a bill of this sort the industry will be indeed in serious trouble. Thus, we are indebted to a Congress which recognizes a need and is proceeding forthwith to meet it in a responsible manner.

A second area in which the industry can count its blessings is the field of personnel. There is probably no one in the country who is better suited at the present time to be a member of the CAB than Secor Browne, who was recently nominated for this position by President Nixon. His background in both the economics and technology of aviation in both its domestic and international aspects makes him an unusually fortunate choice. Beyond this, his personality and sense of humor should permit him to survive the ordeals of the Chairmanship better than almost anyone. As most of you are aware, I have known Secor Browne for a good many years and he and I have worked closely together. At the present time, indeed, I have breakfast with Secor more often than I do with my wife and the same can probably be said for him. We expect to continue to have breakfast on a regular basis, and those who have predicted that Secor will throw the marmalade at me or I at him are almost certain to be confounded. Naturally we are very sorry to lose him at DOT, but we could not be happier about his new position. So far as DOT is concerned, there is no desire to "move in" on the Board.

The industry is also fortunate in the selection of Jack Shaffer as Head of the FAA. In the development of the airways/airport program, in the handling of the difficult PATCO situation, and in many other situations it has been my pleasure to work closely with Jack Shaffer and his people. We have, I believe, developed a very strong Departmental approach

to problems which transcend aviation alone and which embrace other forms of transportation on a coordinated and balanced basis; and that, after all, is what the Department is supposed to be all about.

In Secretary Volpe, the industry has an aggressive fighter for its interests. It would be poor taste for me to praise my boss too extensively in public. (Anywhere else it would be alright; but here it would immediately be interpreted as a move on my part to get something) Secretary Volpe has probably spent more time since January on aviation matters than on any other mode. The industry is fortunate that he is there.

There are at least five other activities in the Department that I should like to mention briefly since they are illustrative of the concern which the Department has for the aviation industry and should make some contribution to the solution of its current problems. In the first place, we are attempting to develop a set of guidelines for airline mergers. Whether we will succeed or not remains to be seen, for the task is a formidable one. Nevertheless, since it is generally acknowledged that there are going to be a good many offers of marriage and perhaps actual marriages, we thought it desirable to attempt to develop some guidelines for the prospective suitors. Naturally we will discuss our guidelines with the Department of Justice and their views may be at variance with ours in some respects. The exact form and timing of the guidelines cannot be stated today but this is a project to which a great deal of work

is being devoted. If we are successful we hope that such guidelines will save the carriers both time and money and most important will result ultimately in a better balanced industry.

A parallel but necessarily connected study is a summary statement of the current status of the air transport industry as we see it which highlights the problems which confront the industry. When it is completed we would hope to make this statement public and we will welcome the comments and criticisms of the industry on it. Secretary Volpe is anxious to have a reasonably complete, accurate and up-to-date appraisal of significant industry problems.

For example, is it true that declining load factors are the inexorable and inevitable result of larger equipment and increased competition as Mel Brenner of TWA argues so cogently in his recent paper, or is there something that management can do about them?

Third, you will find at present and in the future a considerably enlarged role for the Department of Transportation in both CAB cases and in international aviation negotiations. We think that we can play a useful role in both types of activity and that we can do so without encroaching on the legitimate responsibility of either State or CAB. The record to date encourages us in that view. It will be further tested in the two part international proceedings announced by the CAB for the East Coast Europe case.

Fourth, I know that you are all aware of the international aviation policy study which is now well underway and which is scheduled for completion the end of January. The Department of State, CAB and DOT are the principal participants in this study but many other agencies, including Defense, Treasury, Justice and, of course, the Bureau of the Budget, are also engaged in it. This study was undertaken not because our international aviation policies are patently bad or inadequate but because every so often it is desirable to stand back and reassess such policies--where have they taken us and where are they likely to lead in the face of new conditions?

Finally, as Secretary Volpe has indicated, we are at work on a broad overall statement of national transportation policy which we anticipate will help to define the role air transportation will play in meeting the nation's transportation needs.

I do not mean to imply by listing these various government activities that we believe that air transportation will be "saved" by them. Rather they are designed to be supportive of industry action. In the last analysis it is airline management that will determine the success or failure of the industry. It would be almost incredible if they were to fail. For the fact is that air transportation is not a buggy-whip business with a small, declining demand. Rather it is an industry of impressive size, of substantial growth and with the promise of rapidly advancing technology.

It is also an industry where there has been a very considerable strengthening of management in the last few years. We believe that these basic strengths of the industry, together with proper management, and with supportive government policies and attitudes virtually assure a successful future. The trip may encounter some turbulence en route but we forecast an on-time arrival at destination.

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U. S. DEPARTMENT OF TRANSPORTATION
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REMARKS BY PAUL W. CHERINGTON, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION, D. C. CHAPTER, WASHINGTON, D. C. , OCTOBER 14, 1969

Some two and one-half years ago when the Department of Transportation came into being, there was an amalgamation of a number of fairly disparate agencies which had functioned for varying lengths of time in different Departments of Government, or as independent agencies. Of the several agencies that were brought together in the Department, the Coast Guard certainly had the longest lineage-- its formulation as the Revenue Cutter Service in the first days of the Republic virtually placed it in the same league as the DAR. And after all those years spent in Treasury, I am sure that some of you were a little nervous about the transfer to DOT. It is my feeling, however, that when you were transferred to the Department, you were presented with some new opportunities and some new challenges which are essentially going to set the course for the Coast Guard in the years ahead.

For now you are members of a team that is faced with some of the toughest problems of the day, as a glance through any newspaper will readily show.

For example, I know you are tired of hearing about the SST, about the airports/airways congestion problem, perhaps not quite so

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tired of hearing the cries for new vitality and capacity in the merchant marine, or the discussion of pipeline safety, and certainly not about icebreaking tankers which will exploit the resources of the Alaskan North Slope. Then there is the clamor for more highways, for more buses, for more mass transit facilities, for something to cure the urban traffic jam. But these and many, many more like them are just symptoms, I think, of the real challenges which underlie our society and our economy. And meeting these challenges requires essentially two things by the agencies of the Department. One is the practical application of advanced technology; and the second is efficient operation.

Concerning the second, efficient operation, there is no doubt that the Coast Guard is superbly qualified. And there is no doubt that it is essentially an operational organization and that it is transportation oriented. Some people might challenge the statement that the Coast Guard is essentially a transportation organization, but if you look at your budget, that orientation is abundantly clear. Your budget includes some thirteen programs, of which nine are oriented exclusively or principally toward transportation safety and efficiency. Of the Coast Guard operating and research funding in 1969, some \$296 million or 74 percent was devoted to transportation programs, \$77 million or 19 percent was devoted to military preparedness and operations and \$29 million or about 7 percent was devoted to oceanographic programs. Without a doubt, then, the Coast Guard, not only by reputation but by the allocation of resources, is principally a maritime safety agency; and it is not only right but essential, therefore, that it be a part of the Department. That is why I, and others in the Office of the Secretary, are deeply concerned about H. R. 13247, the so called NOAA Bill. Should this bill be passed by the Congress and the Coast Guard be moved out of the Department, I think that the Department would either have to establish some parallel organization for the continued internal administration of the maritime safety program or, however reluctantly, we would have to undertake measures to have the maritime safety functions of the Coast Guard split off and returned to the Department--in short, there would be a breakup of the Coast Guard.

Above all, we do not want the Coast Guard dismembered--but we do see this as a potential threat. We see it not only by actions which might be forced upon this Department but also as a natural consequence of any transfer of the Coast Guard, which is an operational organization, into an agency whose concern would be principally scientific research and technological development. We have to ask ourselves: Would or could

such an agency give proper attention--and money--to the essential day-to-day operations of the search and rescue mission, the aids to navigation system, the port safety function, the inspection of vessels and the licensing of merchant mariners? We think that such functions could not, or would not, successfully be carried out in such an agency. And we foresee as a consequence the probability that these functions of the Coast Guard might well be "spun off" and, if not, they would certainly be subordinated. This nation cannot afford to have the Coast Guard, which is a true national asset, dismantled. It is my firm belief that, remaining within the Department of Transportation, the Coast Guard can serve the nation in the future as it has in the past, with devotion and skill; and that from that position it can also, with its tradition of superb cooperation and coordination, support and lead in a new and vigorous national initiative in the development of marine science and resources.

You could not do this, of course, without the wholehearted support of the Office of the Secretary of Transportation. And I am aware that there may be a feeling in the Coast Guard that we have not always given attention to your deep concerns and most pressing problems. But if that was so in the past, and I am not convinced that it was, I think I can promise you that it will not be so from here on. And it will be the responsibility of both of us to see that this is so.

I mentioned before that a principal ingredient of improved transportation is the practical application of new technology to transport systems, and this offers you a major challenge. You must begin to work now establishing the technical expertise which is the base for the regulation, inspection and rescue of the hydrofoils, air cushion vehicles and civil submersibles which may be with us in the future. In the fields of aids to navigation, search and rescue and port safety, and all your other areas of concern, you must apply the newest knowledge--or perhaps even get out in front of technology by finding a need and devising the technology to fill it.

But in my view you must be prepared to go well beyond projects directly related to your existing operational missions. Consider by way of example the following:

Very little is known about the physics of sea ice. The formulation of the ice, its internal forces, and the external forces which develop pressure ridges, and the effects of these forces on structures and ships,

must necessarily be understood before we are able to establish the port facilities which will be essential to the movement of crude oil from the North Slope by a fleet of tankers. In addition there is now, more than ever before, a need for a technology which will enable us to measure the thickness of the ice from aircraft in order to properly and safely route ships through the Northwest Passage on a routine basis. In fact, a whole new family of technologies is necessary to the establishment of a legal and orderly regime along the more than 1,000 miles of Alaska's Arctic coastline.

Or again: Pollution is a national concern, and marine pollution in particular a principal concern of the Coast Guard. You are now working on mechanical devices to contain and clean up chemical spills, and you are working on regulations and devices which will prevent or minimize accidental spills at dockside. But still the question remains: What constitutes pollution? There is a need to establish and monitor the biological and chemical baselines in our coastal waters and estuary systems. Without such a baseline, we will never know how we are doing. The Coast Guard's fleet of vessels which operates daily in our coastal waters, backed up by Coast Guard oceanographers, is an ideal organization to utilize in attacking this problem.

These are two areas in which you may seize the initiative and perform great service to the nation, the Department and yourselves.

The real challenge for the Coast Guard, as I see it, is how to add to your superb operational capability a larger capability in applied research and development. I have no doubt that you can and will do so--for the Coast Guard has a reputation for willingness and work and accomplishment matched by few agencies of the Government. It is this combination of operational capability and applied research and development wherein, it seems to me, lies the key to attracting people such as yourselves in the future, the best qualified officer personnel that you possibly can get. And that, in the last analysis, is the secret of the Coast Guard.

As Secretary Volpe has said on more than one occasion, it is a privilege to have you on our team. The Coast Guard, under the leadership of Admiral Smith, has given what can only be termed outstanding support to the Department. We want to keep you on the team and to receive the benefit of that support. And we think that for both you and for us, and for the maritime industries and activities of the United States, that would undoubtedly be best.

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U. S. DEPARTMENT OF TRANSPORTATION
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REMARKS BY PAUL W. CHERINGTON, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE TRANSPORTATION RESEARCH FORUM, STATLER HILTON HOTEL, WASHINGTON, D. C., OCTOBER 23, 1969

I would like to talk with you today about what I believe is a coming crisis in transportation research and in its ability to meet serious short-run needs for program decisions which are already upon us. What I have to say will undoubtedly sound critical to many of you. In fact my remarks are not meant to be critical as such but are rather an attempt to present you with the point of view of someone in the program decision stream who has been active in looking at and considering various research projects and proposals. I am hopeful that if some of you who are active in research have a better grasp of some of our immediate and pressing problems, the gap--which unfortunately I believe is a growing gap between the research point of view and the program point of view--can be substantially narrowed instead of widened.

There are, of course, various levels of planning and planning research in the transportation field. A few years ago planning consisted of someone sitting down with a map and a set of pencils and drawing out preferred routes for a road or a railroad or an airline on a map. If the pencils were of different colors, that was one level up in the order of

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sophistication. I think we would all be surprised at how many of our roads, rails and airline routes were laid out in approximately this way. The results were not always economic and frequently had unfortunate social and environmental impacts; but planning of this sort did get a lot of transportation facilities built, particularly in the intercity area.

Later we began to improve on the colored pencil approach by the addition of existing traffic flow data--cordon counts, tonnages over the line, various kinds of data used to measure potential public convenience and necessity on the airlines, and so forth. There is no doubt that the addition of this information made the planning process for transportation routes and facilities much more precise. Unfortunately the traffic data and the essentially linear projections made from that traffic data were largely static in nature. They took very little account of the impact of future changes in the transportation system on demand, and even more rarely did they take into account the trade-offs between one and another mode and between costs and benefits and the intermodal effects of improvements. Nevertheless, it is probably accurate to say that 99 percent of our transportation facilities--passengers and freight, intercity and intracity--have been built on the basis of this fairly simplistic planning process.

More recently, and it is hard to date the start of this approach but it is no more than ten or a dozen years old, we have entered the era of transportation planning by models or systems analysis. It is in

this area where, in my view, the moment of truth is at hand. Many of you in the audience have had a major role to play in this development.

The underlying concept of doing transportation planning by means of systems analysis is fairly straightforward and highly appealing. The rationale runs that systems analysis, which is a means of looking at complex problems and trade-offs on an overall basis via various mathematical formulations, is a useful tool in looking at transportation systems. Indeed the proponents of systems analysis claim that it is the only useful approach, given the complexities of the transportation systems problem. The argument continues that through the construction of mathematical models and their exercise we get far better answers on probable demand for transport, the impact of new transport facilities on that demand, the question of modal split, and reliable guidelines to preferred investment paths as between modes. And in terms of overall transportation capacity, I do not quarrel essentially with any of the general claims for a systems analysis approach to transportation problems. On the other hand, consider, if you will, some of the difficulties which the program and policy decision makers face and the help which can realistically be furnished to them via systems analysis at the present time.

We are told, and we are painfully aware that it is a fact that there is a data problem. The old saying in systems analysis, "Garbage in, garbage out," is nowhere more applicable than in the transportation field.

Yet we know or should know that a great deal of the required data of both a physical and economic nature is simply not available. Indeed, one early large effort in this field foundered essentially because it called out a large number of items of data which were not available and which could not be generated in any reasonable period of time or at any reasonable cost. Second, there is the problem of the model itself. It is extraordinarily hard for the nonexpert to follow the arguments between the model makers. Since we are constantly confronted by the argument that the other fellow's model is really quite unsophisticated, inaccurate, or simply no good, the nonmathematician has very few guidelines in picking between the models. Third, and perhaps most important, the design and implementation of a transportation system inevitably involves a large measure of politics--not party politics, but politics all the same. In short there are a good many items of transportation irrationality in the process. I am not sure that these problems can ever be handled within the framework of systems analysis, but I am sure that they rarely are. Yet at times these political questions bulk so large in the decision making process as to far outweigh some of the niceties of intermodal choice. In any event political questions, ranging from the impact of land-taking to plain vanilla lobbying must be taken into account by the decision maker. It is not particularly helpful to him to have the systems analyst say, "Of course the model and design which we have produced leaves all consideration of politics out of account." Rather to be useful, the systems analyst

must be able to come forward with the optimum program and then, given certain political facts of life, a suboptimum program.

Finally the decision maker is confronted with the question of timing. Program decisions are being made all the time. A new highway is being put through, a subway dug, and this process simply cannot and probably should not be stopped while the various models are prettied up, made more sophisticated and fully tested. It does the program decision maker very little good to be told that in two years a systems analyst will have a finished model and will be able to give him an answer. He must have some sort of answer today. If it is not the ideal answer, then hopefully it is an answer that is better than several others that he might receive; for his job is to make a decision and proceed as best he can. Too often the systems analyst before he is willing to give any answers pleads for more time, more testing, more debugging. Thus while he tends to bemoan the fact that decisions are not made on the basis of the best possible analysis, he is all too frequently unwilling to provide any interim help. Essentially, therefore, what he is pleading for is a stop to all decision making and implementation until he can come forward with his analysis. In the real world that approach simply is not acceptable.

Now why is it that I feel we are coming to a point of crisis in systems analysis as applied to transportation problems? It is simply because in several areas we are coming to the watershed of some major

program decisions. As you know the administration has on the Hill two major transportation programs: one is the airport/airways bill; the other is the urban public transit bill. The airport/airways bill is moving very rapidly and I have no doubt that it will be passed some time this fall, in a form very similar to that submitted by Secretary Volpe and President Nixon. The urban public transit bill was submitted somewhat behind airport/airways, and it is perhaps too early to appraise precisely its chances. Nevertheless, they appear to be good and to be brightening. I would venture to forecast that sometime in the early months of 1970, that program too will be passed. And when it is, if it is passed in the form supported by the Administration, there will be almost immediately available for commitment, fairly large sums of money: something over \$3 billion of Federal funds, which means somewhere in the order of \$5 billion of total funds. That money is going to be committed over the next year or so to various urban public transit programs in a variety of cities, ranging all the way from new subway systems down to the support of a variety of bus systems. Secretary Volpe and the UMTA Administrator, Carlos Villarreal, are going to have to make decisions on the commitment of that money. They are going to want to make those decisions on the best possible basis they can. But to say that they must wait for the completion and complete testing of a variety of mathematical models as to how they should do their job is being hopelessly unrealistic. They

would be fired if they took this line; and furthermore, they would be greatly delaying the provision of absolutely essential urban public transit facilities.

It may be that, absent the help of highly sophisticated systems analysis, some wrong decisions will be made, but this is an area where some wrong decisions are probably preferable than no decisions at all.

Looming behind these two programs, which are of significant size, is the probable course which the highway program will take in the post-Interstate period, beginning about 1972. I happen to be one of those who believes that the Interstate program, started in the mid-50's and now nearing completion, is a spectacular and highly beneficial achievement. There are undoubtedly places where the road builders bulldozed through communities, tore up scenic or historic spots and the like; but viewed as a whole, the 42,000 miles of Interstate, when completed, will provide a superb transportation system. There is no doubt that we are going to have to pay more attention to the environmental impact problems in the future and, indeed, under Secretary Volpe's leadership, ways and means have already been found to iron out some of these problems.

But anyone who thinks that road building will come to an end with the completion of the Interstate System is simply not familiar with the facts of life. There is going to be some sort of post-Interstate program and the only question is, what is it going to involve and how big is it

going to be? There are a number of possibilities here and, at least in concept and in terms of preliminary planning, there are already a good many ideas about this. If systems analysis cannot provide some immediate inputs to the decisions and plans which will be made over the next two or three years--starting as of yesterday--it will miss out on probably the most important single set of transportation decisions that will ever have been made in the United States.

It is the immediacy of these program decisions that constitutes the real challenge for systems analysis. The time is now, and models completed and perfected in 1972 will have missed the bus. Their impact will have to be postponed essentially for another generation and another round of fundamental decision making, about 1990.

Having thus far sounded impatient with systems analysis and its approach, let me suggest some positive things that, in my view, could be done to improve the situation.

In the first instance, it strikes me that there is considerable over-reaching in this field, perhaps wider and bigger claims than the state of the art can in fact deliver. I think that as a matter of professionalism this is something that has got to be guarded against. For example, there are a good many late contracts, a good many overrun contracts and a good many contracts which end up with little more than junk. The situation is not yet fatal to the further willingness of the government

including DOT to support efforts in this area, but it easily could get to that point; and to be frank, we are not very sophisticated in selecting between the good guys and the charlatans. Extensive over-reaching by anyone is apt to damage the entire transportation systems analysis community.

Second, I would urge you to give some attention to the utility and use of the models and studies which you are developing and somewhat less to the advanced methodologies and mathematical niceties of the models. I know that this advice sounds anti-intellectual and that many of you are primarily interested in the methodological problems. Nevertheless, if you want your products to be used and if you want to be supported so that you can do a certain amount of methodological research, I think you must pay more attention, than has been true in the past, to the utility of your work in the planning process.

This leads me to three other areas where it seems to me some real improvements are needed. One is the question of data. Every systems analysis team in the transportation field should have at least one person on it who is intimately familiar with the data that are available. As I have already mentioned, there is no point in designing a highly sophisticated transportation model if the data on which it operates are not available or can not be readily obtained. And data on the transportation business takes years to develop and is extremely costly. We have a program in this area which we are proposing to the Congress but it will be some years before much of a start on the implementation of this

program can be undertaken. Thus it is critical that the model be operable on what is available, off-the-shelf data. In some cases this will impose severe constraints upon your studies and to a few, I suppose, it will be absolutely fatal. Nevertheless it is a fact of life that I think you must take into account.

A second area is that as you work forward on a two or three year project, you inevitably are going to be asked for some interim advice. If you cannot furnish such advice, you will be faced with an unhappy client or perhaps worse. I would urge you, therefore, to so schedule and program your study so that at least portions of the problem can be resolved and some answers which are better than the existing answers can be given. We do not, of course, expect a three year study to be completed in a year and one-half. On the other hand, we at the program level are all a little startled when after two years and eleven months of work, there are absolutely no answers. And we are told that until things are debugged, the effort and money put into the study has yielded no results whatsoever.

This leads to my final point that, whereas we are certainly interested in the overall transportation system, whether it be in the nation, a region or in a city, we are also interested in developing some better answers on small pieces of the overall transport problem. And again if some of these can be drawn off during a major study, so much the better. This is especially true given the political constraints which, as I mentioned

above, tend to afflict any overall transportation system proposal. It may very well be that the overall result of a systems study is virtually meaningless in terms of reality. Thus the value of the study, if any, must come in what we learn about various subsegments of the study.

In closing, let me say that if I have sounded like a harsh critic of systems analysis in transportation, it is not because I do not believe in it but rather because I want to be sure that it is in a position to rise to the challenge which will confront it in the very near future (if not right now). There is a real danger that if the profession cannot rise to this challenge, its growth and activity over the next decade will be greatly curtailed. That would be a most unfortunate state of affairs in my opinion and one which I am sure will not occur. The systems analysis approach to transportation planning is not only the best hope we have, it is probably the only one. I am confident that you will see to it that that hope can be realized.

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U.S. DEPARTMENT OF TRANSPORTATION
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110-S-69

REMARKS BY PAUL W. CHERINGTON, ASSISTANT SECRETARY OF
TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS,
BEFORE THE TRAFFIC CLUB OF NEW YORK, NEW YORK,
NOVEMBER 12, 1969

I am pleased to be with you this noon and thus have the opportunity to talk with you on subjects of transportation interest, and to indicate some of the things that the Nixon Administration and Secretary Volpe are thinking about and doing. We have been quite busy down there-- perhaps you have noticed that in the newspapers. We have scored a few gains recently, and we are particularly pleased at the House passage of the Airports/Airways bill last Thursday. We are seeking to make similar progress in other areas such as urban transit, trade simplification and rail passenger and freight service.

Secretary Volpe has talked quite a lot recently about a balanced transportation system, meaning, of course, one which is balanced economically and with regard to efficiency. We are looking toward a transportation system where the several modes perform, in fact, the tasks for which they are best suited and where private companies have a reasonable chance to make a reasonable profit. We are also looking toward a system where transportation efficiency is in balance with the social and economic factors which now occupy such a large and important position in our national thinking.

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There are four factors which must be considered--or four methods which may be utilized--to achieve a balanced transportation system.

The first of these is investment--both public and private. How much money the nation invests in each of the modes has a marked effect on the balance between them. Thus far, our major public investment has been in the highway system. We have made lesser, although substantial, investments in the airports and airways and in waterways. We realize that the field of urban transportation has been badly neglected, but the Public Transportation Assistance Act, now before Congress, should help reduce this imbalance with urban highways. Close attention is now being given to both public and private investment in railroads and to correcting the imbalance between rails and waterways.

In our view it makes considerable difference if government investments in transportation are paid for by the principal users and beneficiaries or by the tax payers generally. This is recognized by this Administration, as it has been recognized by previous Administrations, and our policy is to move toward user charges to provide the money for our investment wherever possible. Unfortunately this did not prove feasible in the urban transit program, and the political likelihood of such a policy for the waterways program is open to serious doubt. Nonetheless we are looking toward the possibility of establishing an overall transportation

trust fund based on user charges to give us greater flexibility in achieving the goal of a balanced transportation system. We expect great resistance by some to this idea.

A second way to achieve a balanced transportation system is by the establishment of standards for technical and other performance. A great deal of progress has, of course, been made in the aviation field via the standards route and is now being made in the field of highway and auto safety. Progress, we hope, will soon be made in the area of railroad safety standards by means of the legislation now before Congress. The contribution of many of these standards is, of course, primarily to safety; but they also contribute to balance in the transportation system by preventing the passing along to users of unacceptable performance.

A third factor to be considered in achieving a balanced transportation system is environmental control by insistence on pollution control and noise control and by giving careful attention to the location of highways and the relocation of people when the highways go through.

Finally, a fourth method of achieving a balanced transportation system is through economic regulation. And it is this that I want to focus on with you today.

And at the outset, let me make clear one of my impressions. I think that the economic regulatory process, as it now stands, represents too much on the side of regulatory legalisms and procedural steps and

not enough on the side of practical business economics. Regulation should not be principally an exercise to intrigue lawyers and trade associations and make them prosper. It should be a fairly straightforward movement toward desirable economic goals, the protection of users and the achievement of balance.

I strongly believe that there is a need for a program which will reform both the regulatory statutes and the process by which they are administered and, very frankly, I am anxious to enlist your support for such a program.

In declaring the need for reform, I do not intend to be overly critical of our transportation system or the bodies which now regulate it. But since the Interstate Commerce Act was passed over 80 years ago, massive investments in our economy and vast technological progress have changed the face of the nation, and transportation has clearly played a key role. In the process, the transportation system itself has been transformed from what it was. The regulation and regulatory processes of 30 or 50 years ago which may have met the needs and conditions of the old system today simply grind too slowly and too fine, and they are clearly in conflict with a reasonable role for the marketplace. At the very least, they are open to review.

Further, today's transportation industry is massive and complex to the degree that it is now simply not feasible to completely or comprehensively regulate it. And finally, and perhaps most important, the

regulation which was originally designed to protect the public interest has itself been transformed so that today, in the view of many, it is overly concerned with carrier well-being, often to the exclusion of other bona-fide interests of the public.

President Nixon and Secretary Volpe both have a strong commitment to the long-run benefits of open and free competition. Unfortunately, the present transportation regulatory system often fails to permit the full realization of such benefits. This is especially true since major segments of the industry are wholly or largely unregulated. We think that this particular type of imbalance should be corrected by moving in the direction of freer competition rather than greater regulation.

Let me give you a few brief examples of some of the regulatory reforms which we are examining--not adopting as yet, but considering.

1. Automatic certification should be available where the absence of performance by existing carriers can be shown.
2. The industry should be responsible for developing, updating and submitting accounting, statistics and other management and informational systems necessary to evaluate performance. The regulatory authority would specify only criteria to be met.
3. Competitive rate standards should be based on avoidable cost standards.
4. Rate structures should be built around rates of return derived from the experience of improved productivity and the management of efficient firms and should be automatically adjusted periodically.

(And) 5. Common ownership should be permitted where improved performance characteristics of the integrated firm can be reasonably demonstrated in application for common ownership.

Let me emphasize that no one in the Administration suggests that these or other regulatory reforms should be accomplished by blitzkrieg. Reform is not just around the corner. If it comes--and I hope it will-- it will do so by the Darwinian method: Evolution. It will come by stages, carefully monitored and balanced with trade-offs between the modes. And, of course, the evolution will take place within the conventional political framework.

As an example of how some of the changes may be made while still preserving a balance between modes by trading-off benefits, I would like to discuss two pieces of current legislation which markedly affect the regulatory picture. One is the revision of the so-called "mixing rule" which deals with the exemption from regulation of certain bulk commodities carried on barges. The other is a revision of Section 15a(3) of the Interstate Commerce Act which deals with the intermodal rate competition.

As you know, earlier this year H.R. 8289 was introduced into the House to revise the "mixing rule." In its original version we supported that bill. That revision would have eased restrictions now placed on the barge operators concerning the mixing of exempt bulk commodities with

regulated cargoes. First it would have eliminated the restriction which now defines "bulk commodity" in terms of the custom of the trade as of June 1, 1939. At that time, for example, there was no bauxite carried on barges--there is today, and by every reasonable standard, it is a bulk commodity. But simply because there was none carried as of June 1, 1939, it is by the definition of the present "mixing rule" not a bulk cargo. This is plainly an outmoded provision. Second, in its present form, the law now prohibits the mixing of regulated and non-bulk commodities with bulk commodities under penalty of the loss of the exemption. Wording was proposed which would have eliminated this restriction. Finally, it was proposed that the sentence in the mixing rule, which applied its provisions to the entire tow, regardless of the number of barges in it, be deleted so that the rule would apply to each individual barge. Both of the latter restrictions adversely affect the efficiency and economy of operation of the barge lines. Their removal and the broadening of the definition of bulk commodity would have greatly benefitted the barge operators and shippers dependent on their services.

Not surprisingly these changes in the "mixing rule" encountered a great deal of opposition from the railroads in the House Interstate and Foreign Commerce Committee hearings. As a result, a compromise version was developed between the railroads and some of the barge operators, primarily the regular route operators. The compromise

consisted of trading the mixing rule for a requirement for the filing of tariffs by a large number of water carriers who up to this time have been entirely or largely exempt. This, of course, would do little to increase the flexibility of the regulatory process. Further the overall effects of the compromise version, standing by itself, were far from clear. The number of carriers involved was not known; some said 70, some 700. The applicability of Bullwinkle was not known; some said "yes," some said "no." So we opposed the compromise version. In our view, it is fortunate that the House Rules Committee voted to postpone action on it.

We hope now to have considered by the Congress a very slightly modified version of the original "mixing rule" revision in a package with an amendment to Section 15a(3). Taken together in a package (and in marked contrast to consideration of the "mixing rule" revision standing by itself), there is a trade-off of benefits and a real step forward toward the easing of regulation.

Section 15a(3) as it now stands requires that in proceedings concerned with the rates of carriers in different modes in competition with each other, "due consideration" must be given "to the objectives of the national transportation policy declared in (the) Act." That national transportation policy is not a precise statement--and, in fact, it is very ambiguous, so ambiguous that in most proceedings which involve it both

sides can support their arguments by quoting portions of it. It is a perfect example of the legalism in which the economics of regulation is submerged. After ten years from the date of its passage (which the ICC viewed as unnecessary in the first place) no one can say for certainty what it means. We propose to delete that policy requirement and, in addition, to broaden the scope of the section so that it would govern proceedings between carriers of the same mode. Finally, added language would establish a new test for regulating minimum rates. This test would establish the lawfulness of minimum rates in terms of their measurable destructive effect on the competing carriers of the same or different modes or on shippers of the same or competing commodities in the same markets. The net effect of these changes would be to afford more competitive flexibility to carriers while at the same time ensuring a more equitable geographical distribution of ensuing benefits.

Now if these two bills are considered as a package, we have an exercise in good old American logrolling. The package is a trade-off in benefits among the barge operators, the railroads, shippers and truckers. The carriers will be permitted to exercise greater competitive initiative and there may be a chance for the exercise of some originality. All of this, as I see it, will provide better balance in our transportation system and will benefit the general public interest.

Now, while I am trying to enlist your general support for the regulatory reform I talked about earlier, in this instance I ask for your specific support of this comprehensive ratemaking package. As it moves along the legislative pathway, I hope you will be able to forthrightly voice your approval. I say forthrightly because I think Congress has had its fill of carping, criticism, and nitpicking over the years in this particular area. For once let's get something done.

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U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

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REMARKS OF PAUL W. CHERINGTON, ASSISTANT SECRETARY FOR
POLICY AND INTERNATIONAL AFFAIRS, U. S. DEPARTMENT OF
TRANSPORTATION, BEFORE THE 20TH ANNUAL MEETING, NATIONAL
AIR TRANSPORTATION CONFERENCE, ANAHEIM, CALIFORNIA,
DECEMBER 1, 1969

Let me say that I am pleased and honored to be asked to give the
keynote talk at this 20th meeting of the National Air Transportation
Conference. As the fastest growing segment of the aviation industry,
you should be having as much fun as the kids here at Disneyland. I hope
that you are. But the real question is whether you are making as much
profit as Disneyland's owners. I am afraid that you are not, and it is
in part about the future profitability of your segment of the industry that
I would like to talk with you this morning. I suggest, therefore, as a
keynote: growth, fun and profits.

Let me say by way of qualifying myself to speak on this theme that
before joining the Government service I was, among other things, a
Director of a commuter airline and, hence, shared your hopes, aspirations--
and also your losses. Also, being from Boston, a hub of commuter air
carriers, I know the qualities of foresight, daring and hard work that
made this industry, qualities that are well exemplified by people such as
Joe Garside, NATC's first President and now Chairman of the Board.

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A year ago at your Cambridge meeting, I expressed the need for much greater market research and much quicker reaction to market facts and also the urgent need for closer financial controls than seemed at that time to characterize many of your operations. Today I would like to talk more specifically about two areas which appear to me to promise substantial potential profits. The first of these is the replacement of some local service airline operations by operations such as yours. The second is the whole area of STOL aircraft, airports and services.

Last spring I addressed a meeting of ALTA and urged that they give active consideration to turning over to members of NATC some of their light density routes and points. The reason for this recommendation is obvious. As the size of local service airline aircraft grows from 24 to 48 to 100 seats, frequent service to medium and small cities becomes increasingly uneconomical. Curtailment of schedules, however, back to a level of one or two a day tends to dry up the market, particularly when fast surface transportation is a readily available alternative. Frequency of service, made possible with smaller aircraft, is an obvious and economical way out for the local service line and a real opportunity for many of you. Both before and after my remarks to ALTA, there have been a number of proposals and actions in this direction. (I should add parenthetically that I am on the point of taking some of my own medicine by virtue of having a farm near Lebanon, New Hampshire, which Northeast proposes to turn over in part to Executive Airlines. I for one will welcome the shift and the greater number of schedules.)

You are, I am sure, all familiar with the case of Allegheny's contract service with Henson Aviation of Hagerstown, Maryland, one of the pioneers in this type of operation. Very briefly, the familiar facts are these:

In the last full year up to November 1967 before Henson took over the Hagerstown/Baltimore route as part of the Allegheny commuter service, somewhat over 6000 passengers were flown. In the following year over 12,000 passengers were flown by Henson as Allegheny commuters, an increase of over 100%. Along with this there was an increase of 5 percentage points in the completion factor, up to 99%. In May 1968 the Henson Allegheny commuter service between Salisbury, Maryland, and Washington/Baltimore was started with similar growth results. And Allegheny and several other airlines have extended this type of arrangement to other routes and points.

But passenger figures don't tell the whole story. Many of these services have been able to develop a profitable freight business, to say nothing of a considerable volume of mail.

One of the most interesting aspects of this remarkable story is the public relations job Dick Henson has done. Through personal contacts in Hagerstown and Salisbury and an effective newspaper and even TV campaign, he has caught the ear of the communities. While helping out his own operation, he has been able to highlight the obvious benefits that

accrue to those cities and thus enlist their support. All in all there's quite a lesson to be learned, and perhaps we all ought to give our thanks to Allegheny and Dick Henson for pointing the way.

No doubt there are many similar success stories around the country which have proven beneficial to the local service carrier and to the NATC member who has provided the substitute service. I would urge that NATC and ALTA form a joint committee to explore on a systematic basis other areas where it would be mutually advantageous to the carriers and to the public to provide substitute service. There are real opportunities for profit here, I believe, for NATC members and real opportunities for savings in the face of a rigid CAB subsidy policy for the local service lines.

Most of the operators who have talked with us indicate that even the best of the available aircraft under 12,500 pounds do not really meet their requirements for commuter service, especially as regards the ability to handle passengers and freight concurrently. Therein, it seems to me, lies a real challenge for the manufacturers. For it now seems clear that scheduled commuter service is here to stay and in growing amounts and that it will be serving both passengers and cargo.

One barrier to substituted service is the fact that its secret is increased frequency of operation and this in turn runs head on into the growing congestion problem at many of our airports. While it is true

that the FAA's flight restrictions have only been applied to five airports so far--Kennedy, LaGuardia, Newark, O'Hare and Washington National--congestion, as so many of you know at first hand, is a common and growing phenomenon at several other airports, particularly at peak hours. I would urge that, in considering substituted service, you give particular consideration to the possibility of operating at least some flights into near-in non-air carrier airports such as Teterboro, North Philadelphia, Hanscom and the like. In many instances, this will not be possible or will not provide the necessary interline connections that are needed. On the other hand, it may well tap a new market which thus far has been tied to surface.

While a good many cities have relatively small near-in airports, it is apparent that the real future of short-haul commuter-type service will depend upon the development of STOL or VTOL aircraft capable of landing near the center of the city, bypassing the air carrier airport altogether. The FAA and the Office of the Secretary, from Secretary Volpe on down, are particularly interested in the future of STOL. The problems, as you well know, are manifold. There is a very substantial air traffic control problem to be resolved. There is the cross wind problem. There is the problem of the development of a suitable aircraft and last, but by no means least, is the problem of whether STOL aircraft in a city center will be acceptable from a noise and pollution point of view.

These so-called environmental aspects of aviation are receiving an increasing amount of attention as those of you who have followed the Everglades jetport can readily understand. As things stand at the moment, operations which create a substantial amount of noise or smoke are simply not going to be allowed in urban areas.

But despite these problems and the difficult solution which many of them appear to pose, the advent of STOL service into what the FAA calls metroports seems almost certain. It will start with "make do" equipment and procedures, and it will use sites which are less than ideal in terms of location and operating flexibility. In the Department's brief to the CAB on the Northeast Corridor VTOL Investigation, we took the position essentially that the way to move forward with the STOL concept was to try it, and we proposed to the Board a considerable relaxation of the size rule in an effort to stimulate the development of a suitable STOL aircraft. We are hopeful that many of you in this room will be joining in the development of STOL services, either as operators of aircraft or as operators of metroports or both. There has been considerable planning done by the FAA of ways and means of progressing in this field. We would welcome your suggestions as to how it can best be done.

Given a reasonable aircraft and the ability to operate to near-in metroports, the traffic volumes which are available even at relatively high fares appear enormous and the opportunity for profit, once the initial trial period is over, could be extremely attractive.

Finally, let me turn to a question which is a recurrent theme whenever two or three members of NATC are gathered together, and that is the need for some kind of protection via certification or otherwise. I know that there are many of you who feel that certification is the only way in which pioneering market development can be protected against the inroads of in and outers and cream skimmers, and the CAB, in the case of Tag Airlines, has recently recognized such a need. Before taking the plunge in seeking full certification, I would urge you to examine at least two alternatives. In the first place, NATC might well do a study with or without Government assistance as to how much competition in fact there is between scheduled services. Is it actual competition or incipient competition about which you are really concerned? We all can think of the horrors where several commuter airlines are competing on a particular route but is this really a widespread phenomenon? It may very well be, it seems to me, that a continuation of open competition is the best answer to the problem despite the horrors and that the winner on a particular route will be the carrier that is best managed and most closely controlled. If such a study yields a different answer, you might wish to consider petitioning the Board for some limited form of certification which would not involve the great delay, cost and inflexibility of a full permanent certificate. For example, there might, as in the case of radio and TV stations, be two or three year certificates issued after

some form of foreshortened hearings and procedural steps. I am sure that your able President, Tom Miles, could assist you in organizing an appropriate study of these alternatives. We in the Department and, I am sure, the Civil Aeronautics Board would be glad to give you such help as we can.

In closing, let me say that my friend Kendall Hoyt has pointed out to me on the basis of his long experience with the industry that you don't as yet really have a suitable name for the kind of operations which your various companies conduct. Air taxi does not seem to be suitable and third level carriers has even less passenger appeal, nor is commuter air carrier quite the right term since about half of your volume is not made up of commuters but of interline passengers and others. He has suggested to me that perhaps the term "air transit" would be a suitable name and I am bound to say that I have not been able to think of a better one. In ground transportation, 'transit' tends to connote relatively short-haul operations as against 'transport' which tends to connote long-haul, but regardless of whether you are called air transit companies or find some better name, there seems to be no doubt that your industry has an exciting future. Secretary Volpe and others in the Department would like to help you make that future a profitable one.

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U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

REMARKS BY PAUL W. CHERINGTON, ASSISTANT SECRETARY OF
TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS,
BEFORE THE CENTRAL WESTERN SHIPPERS ADVISORY BOARD,
DENVER, COLORADO, JANUARY 22, 1970

I am very glad to be here to help you of the Central Western
Shippers Advisory Board celebrate your 100th anniversary.

We in the Department of Transportation are interested in the
problems of the shippers as well as the carriers; and we know that
around the country the shipper advisory boards have made substantial
contributions to the development of our nation's transportation system.
I certainly hope that the next 100 meetings will be equally as fruitful
for you and the nation as have the first 100.

Several groups, during my tenure in office, have made numerous
complaints to the effect that there is not a focal point within the Depart-
ment for shippers and shipper problems. In response to these complaints
we are setting up within my office a shippers group--people with traffic
management experience--where people such as yourselves can come
and tell us what is wrong with the kind of service you are getting, not
only from the railroads but also other modes of transportation. We
will receive complaints on loss and damage claims, which seems to
be a big item, legal fees for prosecuting loss and damage claims, car

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supply, pilferage and so on. It will take us a while to get this group together, but be patient with us. We do intend to have this focal point for shipper interests.

I want to discuss today the whole question of "balanced transportation" within our transportation system.

So far as I am aware, we have in this country the finest transportation system in the world. It's the most efficient in terms of productivity, the most economical; it's the best--but it's not good enough. Other systems abroad may have particularly strong features, such as the London Taxi, the Paris Metro, the Blue Train, and so on; but I think if you take a look at these systems, on an overall basis, you would have to agree that ours on the whole is the best.

Our critics are increasingly saying, however, that our system is "unbalanced." They usually do not specify just what "unbalanced" means but it's a bad word; and there are some obvious symptoms of "unbalanced." For example, we spend for people-transportation some \$2 billion a year for urban highways, but only some \$175 million on urban public transit. That's a ratio of 13 to 1, and we would agree that's unbalanced. Obviously we have to do something about it.

One of the objectives of the Department is to move toward a balanced system of transportation. Secretary Volpe, in fact, is committed to getting more balance into our system of transportation. For that

reason one of the first major programs that we developed was the urban public transit bill, which would jack up the public transit sector of our investment program to about \$1 billion a year. Senator Allott of Colorado is one of the people who was most helpful, the most progressive in this area.

There are other instances or symptoms of unbalance. For example, we spend about \$250 to \$300 million a year on the inland waterways system for which the barge lines pay not one penny of user charges, either to dig the river, to keep it open, to open the locks, or anything else. So they are very substantially subsidized. We have tried for a number of years, and tried again this year, to get waterway user charges imposed. We filed a bill, but it was not even introduced.

So we are now examining a different approach, namely: a matching subsidy for railroads which compete with the waterways. For every dollar spent on maintaining and improving rivers, we might spend a dollar on maintaining and improving railroads which parallel or compete with any waterway system.

Now, obviously in a year of budget stringency this is not going to go anywhere.

These are illustrations of the kinds of unbalance we have.

When we speak in the Department of a balanced system we have in mind three areas of balance: one is investment; a second is

competitive and regulatory balance; and a third is environmental balance.

In the investment area, I think you would agree with me that one of the major strengths of our U.S. transportation system is that it represents a mixture of both public and private investment. In many instances, however, private investment obviously just cannot do the job--the job is simply too big. Hence the waterways, hence the highway system, apart from toll roads, hence the airways system, although we might some day look at the possibility of having that under a corporate form. Our position, however, is that when the government makes those investments there must be user charges imposed to get back that investment and to defray the annual cost of operation. Otherwise, as we see it, the pressures for government investment as against private investment would be absolutely overwhelming, with both geographic regions and carriers who do not benefit having a very hard time of it.

What has surprised me this last year, in the waterway situation, is why people from the Rocky Mountain States, let's say, stand still for these very substantial investments in inland waterways, since inevitably the waterway, once it is completed, is going to suck to it the industry and traffic that might otherwise be located in your area. I think I know the answer and so do you: It's called "reclamation" and

other things. It's something, however, that non-water based areas have to give increasing attention to over the next few years.

Not only has there got to be, as we see it, a better balance between public and private investments, but stronger incentives to private investments to come into the transportation areas. We also have to give much more attention than has been given in the past to the balance of investment between modes.

I am sure that at these Advisory Board meetings you give a very substantial amount of attention to car supply and so-called shortages. This is in part an investment problem--not completely, but in part. It is something, incidentally, on which the Department is currently working. Not that we have the jurisdiction, because that belongs to the Interstate Commerce Commission, but we think this is a major and significant area. We are trying to measure how big the problem is, what it really costs, and what the elements of a possible solution would be in terms of control, in terms of incentive to private industry to make further investments either in cars or control systems--the whole spectrum of the situation.

We also, as you know, have been working on the passenger problem. We got hung up a little bit last week with a "misunderstanding" with the White House as to whether we had our program cleared. I

think we will come forward with some kind of proposal for cutting back the very substantial loss--\$220 million in avoidable costs, or \$480 million in total losses--which the railroads now sustain. Here again we are talking about balance between modes.

We have also been taking a look at the question of competitive or regulatory balance. We were able to hold up the waterway mixing rule in the Rules Committee until we could get a little better deal for the regulated waterways and the railroads. We do not have all of the loaf, but we do have a little piece of it. We will do similarly with other modes trying to get a little more evenhanded treatment of the regulatory climate.

New forms of regulation which are brought to us periodically, such as the proposed amendments to the water carrier mixing rule, certain livestock motor carriers and people of that sort who would like to become subject to economic regulation, are going to get very close scrutiny by the Department. We are not, as some of my trucking friends say, in favor of complete and immediate deregulation. By the same token we feel the track record of regulation is not sufficiently good so that we want to see it extended.

Finally there is the relatively new area of environmental balance, and I include in this safety. A great deal more attention is being given both to the safety dimensions of the transportation system and also

to transportation's relation to things like the disruption of cities and communities, water pollution, air pollution, noise--the whole spectrum. This is an area which we do not know how to handle well, as yet.

I am sure some of you have seen the announcement of the Everglades situation, where an agreement was signed between the County, the State and the Federal Government. This agreement was essentially to move the new Miami airport, in due course, away from the Everglades Park and to permit the strip they built there to be used for training purposes only. That will be a fairly expensive operation and it will take time. What we accomplished with the agreement was essentially to avert any threat to the parks including the alligators. What was lost in the publicity that came out about the conservation aspects of this--and I'm not knocking the agreement because it was a very difficult one to negotiate--was that we substantially increased the probability of a mid-air collision over Miami International Airport. So now we have the interesting situation of possibly trading alligators for vacationists. That's the kind of trade-off that makes you nervous.

Although they have not gotten as much publicity, probably the most significant of all the environmental problems that have come to the Department have involved the interstate system and its past practice of barging through a town or city, cutting a community in half, perhaps

destroying historic areas. The day of those roads is almost certainly past. They are either going to be in a tunnel, they are going to be diverted, or other protective steps are going to be taken. This I think is largely a new dimension to transportation systems that has come about in the last three or four years.

The railroads are going to see this first and foremost in the form of the rail safety bill which has passed the Senate and will go through the House, I think, in the next two or three months. This bill will empower the Department to set railroad safety standards. A major argument for this is the hazardous materials area. We have been phenomenally lucky thus far that we have not wiped out, with maybe 500 or 1,000 deaths, a complete community.

Safety is a major element of a balanced transportation system as Secretary Volpe sees it. In the air, the pending Airports/Airways bill is in large part a safety measure, and indication of President Nixon's concern for safety; the Highway Safety Bureau has just been made an independent agency by Secretary Volpe to give it greater prominence. This administration has also developed the rail safety bill and the boating safety bill, and they have been sent to the Hill.

As I said, I do not think we yet know how to achieve this environmental balance very well, but we are working on it. I think some of you will have to work on it too.

This is the general direction in which we are trying to drive. To achieve a better balanced system as between investment, as between competition and regulation, and matched up against the environment in which the transportation system works. I would say that we can achieve a greater degree of balance in the system. We will need your help in doing it. We would like to hear from you--either suggestions you may have or concerning actions that we take which you think are unnecessary or inimical to your interests. We will not guarantee to adopt all the suggestions, but we will be happy to listen.

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Remarks of Paul W. Cherington, James J. Hill Professor of Transportation
Harvard Business School and Chairman of the Board,
Temple, Barker & Sloane, Inc. at the NASA/MIT Aviation Workshop,
Waterville Valley, New Hampshire

July 21, 1972

The six propositions which this paper addresses can be summarized
as follows:

1. Despite efforts toward deregulation, regulation of the airline industry is alive and well and can look forward to many more years of growth. In short, regulatory powers will expand rather than contract.
2. In part, regulation will expand because, when all is said and done, the airlines like it (or at least prefer it to market competition.) So do their lawyers and consultants.
3. In part, this is true because the market competition model put forward by many economists is neither very realistic in terms of the real world nor does it take into account many socio/political facts of life.
4. The market competition model, aimed primarily at an optimum allocation of resources, is neither particularly good nor bad but simply irrelevant in a society where the economic allocation of resources is of much less concern than formerly. Economists, in many ways, are like someone who is trying to improve the buggy-whip industry. It is no doubt fun; the models are no doubt elegant; but the results are largely beside the point since no one wants buggy whips anymore.
5. We would do much better to try to develop a new strategy for regulation so that the CAB can grow into a constructive force for the development of civil aviation, rather than being the somewhat benign nuisance that it is today, or deteriorating, as has the ICC, into a rather drab and unattractive home for the disoriented.

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6. The elements of a new regulatory strategy would be first, to provide for the testing and introduction of new ideas and new services, aimed at new markets, much more promptly and effectively than today with far less attention to the creation of monopolistic competition for existing markets and services. Second, it would involve more responsive handling of industry and company crises on an administrative level, to clear these out of the way, and finally it would be focused on the attraction of new capital to the industry so that the interface of aviation economics with aviation technology can be fully exploited.

Before returning to a discussion of these six propositions, let me acknowledge that some of what I will have to say is based upon a study which Temple, Barker & Sloane, Inc. recently completed for Dr. Mundo of the Systems Analysis Office at the Transportation Systems Center. The study has not yet been released so that I will not quote from it or give its conclusions, beyond saying that it dealt with the impact of regulation on the growth in demand for air transportation. The interesting thing about our findings was to the effect that in the past regulation really hadn't mattered very much so far as growth was concerned, except to the extent that growth was influenced by the structure of the industry. Regulation had clearly influenced industry structure.

Returning now to the six propositions.

Proposition No. 1 - CAB powers will continue to expand. Deregulation is not in the cards. This is a good bet for almost any bureaucratic institution. It is almost a certainty for airline regulation. The only thing that might happen to CAB is that some of its powers might get transferred or usurped by DOT. But the total bundle of Government economic regulatory powers will not diminish. Unless CAB starts misbehaving (that is, becoming too effective) I would bet against any significant shift in power between CAB and DOT. That agency has not built up with the industry the kind of indebtedness which the airlines have to the CAB. Its attention is divided between several modes so that airlines can never be sure that they are not going to get "Northeast Corridorized." In short, DOT is an inter-modally balanced organization and that is not what aviation enthusiasts want.

Thus we have the CAB acquiring control over maximum and minimum international fares in 1972. No doubt other powers will gradually be added in the future.

It is safe to conclude that CAB is here to stay and that its powers will enlarge, not diminish. I am convinced of this by looking at the survivability of the ICC. Even when the majority leader in the Senate proposed the complete elimination of that agency (admittedly in a fit of pique), the ICC went right on cutting out its paper dolls, studying the tariff on Yak fat, pondering whether it was all right to abandon the rail line from Overshoe to East Overshoe (even though the trees were so large that no diesel could get through) meanwhile enjoying the spectacle of 60% of the eastern railroads slipping into bankruptcy. If an agency like that can survive (and get larger appropriations and have the chutzpah to ask for more powers), the CAB will surely flourish.

Proposition No. 2 - A second reason for believing that regulation will continue and will probably expand lies in the fact that it is what the industry secretly wants, or dislikes least. Certainly their lawyers and consultants are happy with things just the way they are and wouldn't enjoy deregulation at all.

No new upstart airlines are admitted to the club. If let in at all, they are only given permission to sit in the "strangers room" for a temporary period. The Board's procedures are well known and predictable even if its decisions often are not. Procedural order has much to recommend it as against the rough and tumble of an openly competitive brawl. The Board moves in the price area from time to time, but the main initiative on pricing is left up to the carriers. The Board does not give the carriers all that they ask for in the way of fare increases but as regulatory bodies go, it has been surprisingly benign in the fare area.

But there is more to it than the law of the survival of bureaucracies and the fears of the regulated. This leads to Proposition No. 3. The CAB will in part survive because the economists have not given us any attractive or realistic alternative to traditional regulation. The market competition model that they urge upon us is not of this world, and it ignores a large number of socio/political objectives that are very real.

The model says that there ought to be largely unfettered entry and exit, the ability to focus on markets where the demand is large and ignore those where demand is small. Also the model calls for vigorous price (not service) competition. Professor Jordan in his recent book makes a meticulously researched case for this approach based on the intra-California experience. I admire his craftsmanship and almost completely disagree with his conclusions. But whether we agree or disagree with the market competition model, the fact is that it is not very useful in today's world. For example, it ignores politics. We can all think of instances where politics have over-ridden economics. The important thing is not that this happens, but that no model which does not accommodate socio/political objectives will be accepted as a guide for policy-making. For example, political pressures are going to require a certain amount of cross-subsidization, a real "no-no" under the market competition model. Some people are going to have to serve East Overshoe. Ideally they can get directly subsidized for doing so. But mostly they can't. And when they can't, their good routes will have to supply the subsidy. If there are no "good" routes, there can be no cross-subsidization and no service in East Overshoe. Under open competition, there are no "good" routes.

The analysis used in defending the competitive model lays considerable stress on the fact that there appear to be few short-term operational economies of scale. Small companies can apparently compete with large ones on cost. I am not sure this has been entirely proven, but that is the way the numbers seem to run. But small companies almost certainly cannot compete with larger ones in terms of new equipment, and it is new equipment that explains much of the dynamism of air transportation. A B-747 is perhaps ahead of its time, but the industry would simply not exist as we know it today if it were still operating the DC-3, the DC-4, or the L-1049. Greater productivity (and the greater passenger appeal) of new equipment has kept the industry moving forward, and no band of gypsy operators can provide that kind of forward impetus.

If the competitive model can be enlarged to include some of these facts of the real world, perhaps it can be "sold" for public policy use. As it is today, it is neither used or useful, except in the Alice-in-Wonderland nightmare of anti-trust.

Proposition No. 4 - The market competition model is essentially addressed to an optimum allocation of resources. As our resources have increased, this objective has receded somewhat in importance. We spend enormous sums on things and in ways which surely do not represent an economically optimum resource allocation, including in the transportation field alone the support of our non-competitive ship-building industry, massive aid for unwanted urban transit systems, extensive rivers and harbors work of dubious value except for private yachts and the like. Thus efforts to make regulation substitute for open market competition may be not only futile but positively harmful in that it focuses all the attention on the allocation of the resources to aviation and to various types of air transportation and very little on the distribution of the product in a broad and equitable manner. This is the real problem today, and it is one to which the competitive model (and regulation) gives relatively little attention. The focus of a new model should not be so much on the economic use of raw resources as on the efficiency and effectiveness of the distribution of the product.

This leads to a consideration of Proposition No. 5 - The possibility of developing a new regulating strategy for the future. Despite its critics, air transport is a remarkable servant in its ability to provide rapid mobility at relatively modest cost. While there is a good deal of hand-wringing to the effect that the air transport market has been largely developed and that future growth will be at a slow pace, a moment's reflection will indicate that this is almost certainly nonsense. In the first place only a relatively small proportion of the population flies in any one year (about 10%), and the bulk of them fly only once or twice a year (about 80% of those who fly). Thus the opportunities for market expansion are immense, even within the confines of existing services.

But there are some exciting new areas for mobility that have hardly been tapped as yet. Within Europe the packaged vacation tour at bargain prices (because operated in full aircraft) has become enormously popular - far more so than in this country.

Much more economical short-haul air transportation in STOL or VTOL aircraft should be technologically possible within the next decade. These and other essentially new markets, some perhaps not even dreamed of as yet, should be made available through the remarkable mobility that air transportation provides. But these services will not be made available broadly under present restrictive regulation and under a competitive structure that virtually insures that half of the product is thrown away at the plant door (in this case via a 50% load factor).

Each new air transport market and service has essentially been started and developed outside the established air transport industry - cargo, coach, charter and third level service. At the same time the established

industry has been a major force in bringing in new and more productive equipment. The specialist carriers and gad-flies have had neither the resources nor the assured future to do much in the equipment area. Perhaps, it is time that these forces were brought together.

We turn now to the sixth and last proposition of this paper - the elements of a new regulatory strategy. We have already suggested its keystone - the rapid opening up and spread of new services and markets. This could be accomplished in many ways - making awards to those who propose imaginative new types of service, holding an investigation or doing a study, with no lawyers allowed, to see what kinds of service people will want over the next decade and what kind of service new technology will permit, and then opening a proceeding to award certificates to those with the best proposals. There are at least two other elements. The first has to do with the length of time it takes for CAB to take action including giving the industry relief when it is in recession, either due to general economic recession or the actions of the Board itself, or both. For example, it took well over a year for the first capacity restriction agreement to come into force. Perhaps this was justified since it was a "first." But in future much prompter action, handled on an administrative, rather than on a quasi-judicial basis, would remove much of the pressure for upward price adjustments and would greatly help the financial posture of the industry. It is exactly this financial posture which is a third basic element of the new regulatory strategy. The rather erratic nature of airline earnings and particularly the recent heavy losses have led to a distorted debt structure for much of the industry and to mistrust on the part of a good deal of the financial community as to the financial attractiveness of the industry. The opening up of new markets and services will call for very large amounts of capital. Without a more attractive financial climate the nexus between economics and technology, so important for the future, cannot take place.

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U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

STATEMENT OF PAUL W. CHERINGTON, ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE HOUSE INTERSTATE AND FOREIGN COMMERCE COMMITTEE, REGARDING THE ACQUISITION OF CONTROL OF AIRLINES, THURSDAY, MARCH 27, 1969.

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Mr. Chairman and members of the Committee:

I am Paul W. Cherington, the Assistant Secretary for Policy and International Affairs in the Department of Transportation.

I appreciate this opportunity to appear before the Committee to discuss the problem of acquisition of control of air carriers. This problem is receiving attention for the first time as a result of recent trends in financial organization characterized by the so-called "conglomerates".

The thrust of our existing laws is directed at the anti-competitive effects within the airline industry of mergers, consolidations, and other acquisitions. Thus, section 408 of the Federal Aviation Act presently prohibits, without the approval of the Civil Aeronautics Board, the acquisition of control of an air carrier only by other carriers or persons engaged in other phases of aeronautics.

With the growth of the conglomerate merger, the possibility arises that the acquisition of control of an air carrier by a non-carrier might be contrary to the public interest because of improper financial manipulation or the involvement of foreign interests. In dealing with this new development, we ought to be clear and precise as to the issue involved. That issue is not whether conglomerates per se are good or bad or whether control of an airline by a conglomerate is good or bad.

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The question, rather, is this: How and to what extent should the acquisition of control of an airline be regulated so as to assure that its operations are fully consistent with and contribute to the effectiveness and efficiency of the Nation's air transportation system, the postal service, and the national defense? The Department of Transportation believes that the resolution of this important public issue can best be made by providing the Civil Aeronautics Board with the authority and responsibility to assess, on a case-by-case basis, acquisitions of air carrier control, provided that the Board's scope of review is appropriately limited.

There are three bills before the Committee -- H.R. 8261, H.R. 8322, and H.R. 8323. H.R. 8323 would make it unlawful, unless approved by the Civil Aeronautics Board, for a person to acquire control of an air carrier or of any person engaged in any phase of aeronautics. H.R. 8322 would make it unlawful, unless approved by the Board, for any person not engaged in the business of transportation or a business reasonably incidental or economically necessary or appropriate to the operations of an air carrier to acquire control of an air carrier. We believe both of these bills are unduly restrictive and go further in regulating acquisitions than warranted by existing or foreseeable circumstances.

H.R. 8261 would require any person owning more than 5 percent of the capital stock or capital of an air carrier to submit a report of his interest to the Board at least annually. The bill also makes it unlawful without the approval of the Board for any person to acquire control of an air carrier and provides that any person owning

beneficially 5 percent or more of the capital stock or capital of a carrier shall be deemed to be in control of the carrier unless the Board finds otherwise. The bill would require the Board to notify the Attorney General of any hearings regarding acquisitions of control and would add the Attorney General to those who could request a hearing as to the effects of an acquisition.

We would endorse H.R. 8261 if the point of presumptive control were raised to 10 percent. This would still permit the Board to inquire into any stock acquisition but would not require it to do so in many cases where control was obviously not at issue.

The Board, in its testimony before this Committee last Tuesday, recommended amendments which would permit it to exempt certain acquisitions and expedite the issuance of its order in appropriate circumstances. As examples of possible exemptions, the Board cited small carriers, air taxis, and air freight forwarders. We strongly endorse such an exemption since it would remove from Federal scrutiny many small acquisitions not involving substantial issues of public policy. Indeed the Committee might well consider limiting Board review, by statute, to the certificated air carriers.

There are three questions that must be confronted in any legislation to be reported by this Committee dealing with the acquisition problem. First, how is the question of "control" to be defined and at what point should the acquisition of stock in an air carrier be presumed to constitute "control"? Second, what should be the Board's scope of review in reviewing a proposed acquisition of control in an air carrier? Put differently,

what standards should the Board be authorized to use in making a judgment whether or not to approve the proposed stock purchase? Third, how should the relevant antitrust considerations be considered? Let me briefly take up each of these questions in turn.

(1) H.R. 8261 properly, in our judgment, makes the question of "control" the central issue to be considered by the Board. This, we feel, is the principal subject of attention. If, as a matter of fact in an individual case, the person proposing to acquire stock in an air carrier will, as a result, gain control, the Board should have a full opportunity to assess the effects on air transportation. When such "control" is acquired will necessarily depend on the facts and thus it should be treated as it is in H.R. 8261. There is, though, the additional point: At what point should there be a presumption of control? As stated above, we would suggest the use of a 10 percent standard rather than the 5 percent standard used in H.R. 8261. This would seem to be a somewhat more realistic threshold and it would not preclude the Board from determining, in a given instance, that control had been gained with a smaller percentage of stock ownership.

(2) A non-air carrier's acquisition of control of an air carrier, particularly where the acquirer may be denominated a "conglomerate", can raise a great many questions about the effect on air transportation. It would be a mistake, in our judgment, however, to authorize or encourage the Board to engage in a boundless search for evidence relating to every conceivable pro or con that might be involved. Such an expansive inquiry could be used by the management of the to-be-acquired

carrier to perpetuate its control, without regard to the likely actual effects on the carrier's transportation operations. In any event, it could lead to lengthy delays in the resolution of particular cases.

In considering the acquisition's consistency with the public interest, the Board should not attempt to weigh all the imponderables associated with the acquirer's anticipated management of the carrier but should confine its review narrowly to the purchaser's capacity to fulfill the responsibilities imposed by the applicable certificates of public convenience and necessity. Beyond this determination, only two substantive issues appropriately warrant scrutiny: the effect of the acquisition on competition in air transportation and foreign control. We would urge this Committee to make clear in any report on H.R. 8261 that it anticipates that the Board will interpret the legislation narrowly along these lines rather than expansively.

(3) Any acquisition of control of one company by another may conceivably lessen competition. This is no less true when the acquirer is a conglomerate organization or when the acquired firm is an air carrier than in any other situation. In recent weeks the Assistant Attorney General in charge of the Antitrust Division of the Department of Justice has spoken publicly about the economic implications of conglomerate mergers. The problem with which H.R. 8261 deals must be considered in the larger context of our overall national antitrust policy. In examining H.R. 8261 we have concluded that by authorizing the Board to approve acquisitions of air carriers by non-carriers the bill may have the effect of immunizing such transactions from the

operation of the antitrust laws. This presents serious risk of unintended legal consequences. Section 414 of the Federal Aviation Act, as you know, states that "any person affected by" an order under section 408 is relieved from the operation of the antitrust laws "insofar as may be necessary to enable such person" to comply with the order. In the case of an acquisition of an air carrier by a conglomerate enterprise the competitive effects may be felt as much outside of air transportation as within it. Because of its breadth section 414 thus could confer antitrust immunity that would go beyond air transportation and subsume aspects of the economy that lie well outside the established jurisdiction of the CAB. Consequently, we feel that consideration should be given to changes in the measure so that it would not have the consequence of sheltering the parties from the antitrust laws. For fuller development of this point we would, of course, defer to the opinion of the Department of Justice.

In summary, we recommend that the provision in H.R. 8261 which prohibits the acquisition of control by an air carrier without Board approval be retained, that the point of presumptive control be raised to 10 percent, that the Board be granted the discretion it seeks with respect to simplifying procedures and granting exemptions (or, alternatively, that the legislation be limited to certificated air carriers), and that the area of the Board's inquiry be clearly delineated by the Committee.