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THE WHITE HOUSE  
WASHINGTON

DATE: 8.3.76

TO: Jim Cannon

FROM: Max L. Friedersdorf

Please handle \_\_\_\_\_

Please see me \_\_\_\_\_

For your information  \_\_\_\_\_

Other



THE WHITE HOUSE

WASHINGTON

August 2, 1976

MEMORANDUM FOR:

MAX FRIEDERSDORF

FROM:

CHARLES LEPPERT, JR. *CLJ.*

SUBJECT:

Rep. James Cleveland (R. - N. H.)

Rep. Jim Cleveland suggests that the President act Presidential on the airline pilots slowdown and issue a statement.



*file*

THE WHITE HOUSE  
WASHINGTON

September 3, 1976

MEMORANDUM FOR: BILL SEIDMAN  
FROM: JIM CANNON *Jim Cannon*  
SUBJECT: U.S. International Aviation Policy  
Statement

I support the policy statement. I also approve of immediate issuance.



THE WHITE HOUSE

WASHINGTON

September 3, 1976

MEMORANDUM FOR: JIM CANNON  
FROM: PAUL LEACH *Paul*  
SUBJECT: U.S. International Aviation  
Policy Statement

On the two matters on which comments and recommendations are requested, I would suggest:

- (1) no objection to the new policy statement and
- (2) approval of issuance if the contents of the statement are supported with unanimity within the Administration (i.e., by the Senior Staff and EPB members).

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THE WHITE HOUSE  
WASHINGTON

September 1, 1976

MEMORANDUM FOR PHILIP BUCHEN  
JAMES M. CANNON ✓  
JOHN O. MARSH  
MAX FRIEDERSDORF  
BRENT SCOWCROFT  
ROBERT T. HARTMANN

FROM: L. WILLIAM SEIDMAN *LWS*  
SUBJECT: U.S. International Aviation Policy Statement

A draft memorandum for the President on adopting and issuing a new U.S. International Aviation Policy Statement is attached. The Economic Policy Board has approved the proposed statement and unanimously recommends that the President adopt and issue the new policy statement the week of September 7. The Chairman of the CAB has submitted some thoughts on the timing of a U.S. International Aviation Policy Statement, which are also attached, suggesting several reasons why issuing a statement should be deferred.

I would appreciate your comments and recommendations on: (1) whether you approve of the new policy statement and (2) whether you recommend issuing a new policy statement at this time or deferring issuing a statement.

For the reasons stated in the memorandum, the Departments of Transportation and State are anxious for a decision on this issue as soon as possible. I would appreciate your comments no later than Noon, Friday, September 3, 1976 in order that this paper may go forward to the President.

Attachment



DRAFT

THE WHITE HOUSE  
WASHINGTON

September 1, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: U.S. International Aviation Policy Statement

In 1963 and in 1970 the White House issued international aviation policy statements designed to serve as policy guidance for government officials in dealing with international aviation matters. Changed circumstances have given rise to problems that were either nonexistent or considered negligible when the most recent statement was issued in 1970 including significant excess capacity, a noncompensatory and discriminatory fare structure, an ambiguous relationship between scheduled and charter services, and the difficulty of expanding gateways and other new services while maintaining the economic viability of existing services.

Early last year, the Economic Policy Board established a Steering Group, chaired by the Departments of Transportation and State, to review U.S. international aviation policy with a view to preparing a new policy statement. The Steering Group, which devoted extensive time and energy to the task and benefitted from the views of an array of interested nongovernmental parties, has now completed its review. The Economic Policy Board, after considerable discussion and deliberation, has approved the policy statement which, along with a summary, is attached at Tab A.

The Economic Policy Board unanimously recommends that you adopt and issue the new policy statement. The Departments of Defense and Justice, who also participated as members of the Steering Group, recommend that you approve and issue the statement.

U.S. goals in international aviation differ substantially from those of most other nations. The policy statement reaffirms our preference for the play of competitive forces in, rather than government control of, the international aviation marketplace.

The Aviation Act of 1975, which you proposed to the Congress last October, focuses on domestic air transportation policy matters. While recognizing the differences between the

domestic and international aviation environments and the need to cooperate with foreign governments, the new policy statement stresses the need to reform regulatory policies that inhibit realization of improved lower-cost scheduled and charter-type services and enhanced economic viability of international operations.

The Departments of Transportation and State are anxious that the statement be issued prior to the September 9 air services negotiations with the United Kingdom. On June 22, 1976, the United Kingdom renounced the U.S.-U.K. air services bilateral agreement (commonly called the "Bermuda Agreement"), stating that, because its share of benefits is only half of ours, a new agreement is needed to assure equal benefits for each side. Japan and Italy have similar concerns. The State Department feels that a clear and forward-looking policy statement will strengthen the U.S. negotiating posture vis-a-vis these nations.

The Economic Policy Board members unanimously recommend that you adopt and issue the new policy statement the week of September 7. John Robson, the Chairman of the Civil Aeronautics Board, has submitted some thoughts on the timing of issuing a new policy statement which are in a paper attached at Tab B. He argues that the resolution of various pending "real world" matters such as the U.K. negotiations and the development of a policy statement should be carried forward in tandem.



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## SUMMARY OF THE POLICY STATEMENT

Four fundamental concerns are addressed throughout the Statement:

- . The public interest in obtaining low cost, readily available air transportation - both scheduled and charter-type services.
- . The industry's need to achieve a financially viable international aviation system, and the need for private enterprise U.S. carriers to enjoy fair and equal competitive opportunity in foreign markets.
- . The need to reform regulatory policies that inhibit meeting these two concerns, and the need for the system to have sufficient flexibility to meet changing market conditions.
- . Recognition of the role that foreign carriers play in the international system.

### Routes

The key points related to the U.S. flag international route system are:

- . A system of routes, as extensive as can be economically sustained, with regular, scheduled services by U.S. carriers is encouraged.
- . The basic consideration in determining whether a U.S. carrier should schedule service on a new or an existing route is the commercial viability of the route and its impact on the international route system.
- . U.S. interests are not served when foreign carriers can seek a valuable traffic right in exchange for our operating an uneconomic route.
- . Services to Canada, Mexico, and the Caribbean should be extensions of the domestic route system.
- . U.S. international carriers should be permitted (1) to carry local traffic on flight segments between U.S. points, and (2) to have domestic authority to feed traffic to their international operations.



## Competition

The Statement underscores the point that a basic tenet of U.S. economic philosophy is that market-place competition results in improved service and lower total costs to the consumer. Competition within a region is recognized as an important characteristic in international air transportation, as well as the head-to-head competition among carriers. As foreign flag competition must be taken into account, it may be counter-productive to have multiple U.S. carriers on the same routes.

Regarding the international competitive environment, the Statement says:

. The U.S. opposes unfair, discriminatory, or restrictive practices by foreign countries that limit the competitive capability of U.S. flag carriers. The U.S. also opposes discriminatory or inequitable charges imposed on U.S. flag carriers, for the use of airway and airport properties.

## Role of Scheduled and Charter Services

The Statement is explicit than the 1970 Statement in addressing the more relative roles of scheduled and charter passenger operations. The discussion focuses on market requirements for scheduled and charter services; in the past the principal focus has been on regulatory distinctions.

. Government has the responsibility to assure that essential levels of scheduled service can be economically maintained; restraints on charter services should be the minimum, consistent with this need.

. There is a substantial public need for charter-type passenger operations in international markets.

. As in 1970, the value of competitive, yet complementary, scheduled and charter passenger services is recognized.

. Consideration of economic efficiency, service innovation, responsiveness, and profitability should be foremost as the relative roles of scheduled and charter operations are assessed.

. Governmental regulatory regimes should not stifle the flexibility of the industry to respond to market demand, nor remove incentives to keep costs low.

. The U.S. opposes foreign government restrictions on the competitiveness of U.S. charter operations.

. Administrative regulations constraining the availability and operation of charter services should be modified to make more low-cost services available. As in the Aviation Act of 1975, one-stop-inclusive-tour charter and advance booking charter programs are explicitly endorsed.

. While the number of carriers is not an index of the quality of the competitive stimulus provided by the supplemental industry, the ranks of the supplementals should be opened to new entrants where there are opportunities for additional carriers to initiate economically viable operations.

### Air Freight

Freight and passenger service characteristics differ in important areas; where they do, freight issues merit separate consideration.

. All cargo and intermodal services should be encouraged where economically justified. The need routing and scheduling flexibility is recognized.

. To stimulate competition for entry into new air freight markets, there should be separate certificates for combination passenger/cargo authority and for freighter authority.

### Capacity

The Statement makes explicit the U.S. view that capacity levels should be set individually by carriers, although because of the importance of economically viable operations, we would support temporary carrier agreements in certain cases.

. The preservation of the underlying competitive concept in our service bilaterals is vital, because systems under which carriers or governments predetermine capacity for market share reasons can introduce artificial restraints unrelated to carrier efficiency or traffic demands.

. The U.S. will seek bilateral review of foreign carrier operations considered to be in violation of our bilateral air transport agreements and will attach high priority to resolution of this matter.

### Fares and Rates

International fares and rates should to the maximum degree feasible be cost-related, responsive to consumer demand, and established on the basis of competitive market forces.

. Tariffs should be greatly simplified compared with the present proliferation of discount arrangements, yet sufficiently flexible to provide genuine price/service options.

. As most other governments are unwilling to accept a system in which fares are established by carriers unilaterally, the U.S. at present intends to continue to accept IATA as the principal vehicle for intercarrier negotiation of scheduled tariffs. At the same time IATA and its member carriers should revise their tariff-setting structure, so that it can be more responsive to market forces and innovative fare programs, including greater flexibility for rate setting by individual carriers.

. Peak/off-peak pricing and charter groups on scheduled service should enable carriers to lower the regular fares by attracting additional traffic to utilize otherwise unused capacity.

. To encourage the long-term growth of the air freight industry, general commodity rates should be established at reasonable levels.

. The U.S. will continue to support the International Civil Aviation Organization (ICAO) and its efforts to adopt and implement international standards.

. We will continue the present U.S. policies concerning safety, security, the environment, and fuel availability. We will seek reduced aircraft noise level standards.

. There has been substantial improvement in security measures throughout the world since 1970 resulting in increased protection of civil aviation and its users from criminal acts that threaten their safety. Nevertheless, the U.S. supports and seeks adoption by ICAO of even stronger security standards and recommended practices.

STATEMENT OF INTERNATIONAL  
AIR TRANSPORTATION POLICY  
OF THE UNITED STATES

Prepared for the President's Review

August 30, 1976

## THE WHITE HOUSE

WASHINGTON

International aviation reflects the extent to which the nations of the world are economically interdependent. Historically, the United States has had a leadership role in the development of international air transportation and intends to continue that role.

Aviation is an essential part of the foreign commerce of the United States. It is required for mail, high priority cargo, government and business travel, and urgent personal travel. A desirable low-cost means of international pleasure travel, it has played an important role in bringing peoples of many cultures and nationalities to a greater sense of friendship and mutual understanding.

The United States seeks an international economic environment and air transportation structure conducive to healthy competition among all air carriers. We shall rely upon competitive market forces to the greatest extent feasible, for it is a basic tenet of our economic philosophy that marketplace competition provides improved services and lower total costs. At the same time we recognize that other States may differ in their views as to how such transportation should be organized and operated. We shall work through appropriate bilateral and multilateral forums to bring about constructive change for the benefit of air travelers, shippers, and carriers of all nations.

The international air carrier industry should continue to have the primary responsibility for adapting its air transport product to public demand. Regulatory regimes imposed by governments should not stifle the industry's flexibility to respond to this demand, nor should they remove incentives to keep costs low.

The Secretaries of State and Transportation, with the assistance of all the members of the task force that studied the current and prospective problems in international aviation, have produced a comprehensive statement of United States policy. The statement sets forth the objectives the United States will seek in forthcoming negotiations with other States. It calls for balanced revisions of certain regulatory policies of the Civil Aeronautics Board. I invite interested parties to make their views on these revisions known to the Department of Transportation, which shall have the principal responsibility for seeking implementation by the Board of the regulatory reforms called for here.

I am approving this statement of international air transportation policy to supersede the one issued June 22, 1970, and am directing that this new statement of policy guidance be used henceforth by responsible officials of the Government in dealing with international aviation matters.

Gerald R. Ford

September 8, 1976

STATEMENT OF INTERNATIONAL  
AIR TRANSPORTATION POLICY  
OF THE UNITED STATES

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction . . . . .	
Overview . . . . .	
Structure of International Air Service . . . . .	
Principal Objectives . . . . .	
II. Public Service Considerations. . . . .	
Goals. . . . .	
Policy . . . . .	
U.S. Flag International Route System . . . . .	
Extent of Route System . . . . .	
Emphasis on Major Trunk Routes . . . . .	
Relationship to Domestic System. . . . .	
Competition. . . . .	
Relative Roles of Scheduled and Charter	
Passenger Operations . . . . .	
Charter Services . . . . .	
Regulations . . . . .	
Landing Rights . . . . .	
Authority for Charter Services . . . . .	
Expansion of Supplemental Carriers . . . . .	
Cargo Services . . . . .	
Route Authority. . . . .	
Service Considerations . . . . .	
Split Charters . . . . .	
III. Viability of the U.S. International Air	
Transportation System. . . . .	
Goals. . . . .	
Policy . . . . .	
Capacity . . . . .	
Excess Capacity. . . . .	
Market Share . . . . .	
Sixth Freedom Capacity . . . . .	
Cooperative Agreements . . . . .	
Fares and Rates. . . . .	
Role of IATA . . . . .	
Role of the Civil Aeronautics Board. . . . .	
Passenger Fares. . . . .	
Charter Rates. . . . .	
Cargo Rates. . . . .	
Mail Rates . . . . .	



Tariff Integrity. . . . .	
Role, Compensation and Regulation of Middlemen . . . . .	
Government Procurements . . . . .	
The International Competitive Environment . .	
IV. Safety, Environmental, and Other Considerations	
Goals . . . . .	
Policy. . . . .	
International Organizations . . . . .	
Certification and Operation of Aircraft . .	
Safety. . . . .	
Avilability, Allocation, and Cost of Fuel. . . . .	
Environmental Objectives and Their Impact. . . . .	
Security Objectives and Their Impact. . .	

## I. INTRODUCTION

### Overview

The decade of the 1970's has been characterized by growing recognition of the extent to which the nations of the world are economically interdependent. International aviation is no exception. The airlines of many countries now provide safe, fast, and efficient international air service; U.S. citizens benefit from these services as they do from their own. Historically, the United States has had a leadership role in the development of international air transportation. Our continued effective participation is important to the national interest.

Consistent with the longstanding recognition by the United States that privately owned and managed companies provide the most efficient and consumer responsive services, the private sector will continue to have the responsibility for operating the U.S. international air transportation system, consistent with the policies set forth here. We look forward to an era in which private American air carriers can operate effectively in the international economic environment without the need for Government subsidy and without being placed at an unfair competitive disadvantage. We will work to reform and modernize the international aviation structure in order to enable well-managed U.S. carriers to serve the public interest by providing economic air travel, to compete successfully with foreign air carriers, and to earn a reasonable rate of return on investment.

The international aviation policy of the United States should be consistent with and contribute to our objectives in national defense, foreign policy, and international commerce. We recognize that our international aviation policy objectives can be achieved most effectively in cooperation with other governments, working through bilateral and multilateral channels.

### The Structure of International Air Service

There are three major considerations in the development of international air service: route patterns, which define the markets to be served; capacity, meaning the number of flights and types of aircraft flying in these markets; and the fares charged for different kinds of services and consumers. All three are integrally related economic issues. As we attempt to introduce greater



rationality into the international aviation structure, we will take pragmatic steps to bring about more rational pricing policies that reflect actual costs and are responsive to consumer demand, to relate capacity to demand, and to select routes that closely reflect natural traffic patterns and are economically viable. As a result of these steps, U.S. carriers should be able to operate profitably, and the users of air transport services will be well-served.

The United States cannot impose its economic philosophy on the rest of the world, but as a significant participant in the international aviation community we can work through bilateral and multilateral forums to bring about constructive change for the benefit of the air travelers, shippers, and carriers of all nations. We recognize that international transportation presents special challenges -- the most obvious being the need to cooperate with other sovereign nations. While the governments of other nations may share our objective of efficient transportation service, many differ sharply in their views as to how such transportation should be organized, financed, regulated, and promoted. Thus, the means by which we pursue our international policy goals often cannot be the same as those by which we conduct our domestic transportation system.

While this Policy Statement calls for a large measure of regulatory reform, consistent with our domestic aviation policy, differences between the approaches taken here and those in the proposed Aviation Act of 1975 reflect awareness of the substantial differences that exist between the international and domestic operating environments:

- . Private U.S. companies must compete with state enterprises in most markets; competition in international air transportation is limited by government policy in almost all other countries. In some instances restraints are imposed against efficient competitive practices.
- . Some foreign states underwrite their national carrier's losses in order to maintain large capacity to the United States for a number of reasons (e.g., tourist revenues). Similarly, foreign carriers sometimes seek below-cost cargo rates as a means of promoting their nation's exports.

- . The problem of tailoring supply to meet demand is more difficult on international routes than on usually denser domestic routes; the ratio of daily flights to the number of competing carriers is generally much lower than domestically; international aircraft are larger on average; and carriers have less flexibility in arranging intercontinental schedules.

### Principal Objectives

In addition to promotion of an international economic environment and aviation structure conducive to healthy competition among air carriers, five principal objectives will guide U.S. international air transportation policy for the future.

First, reliance on competitive market forces to the greatest extent feasible, recognizing that the views of other nations may differ and that our policies must be modified in some instances in order to reach bilateral and multilateral accommodations.

Second, provision for the transportation of people, mail, and goods, wherever a substantial need exists, at as low a price as is economically justified.

Third, support of a private U.S. international air transportation industry that is economically viable and efficient, and that will generate sufficient earnings to attract private capital and provide job opportunities.

Fourth, consistency with and contribution toward U.S. national objectives in defense and security, foreign policy, and international commerce.

Fifth, encouragement of a safe and efficient system of airports and airways and protection of the U.S. environment.

In pursuing these objectives, the United States is concerned with the public interest in both low-cost, readily available air transportation and a financially viable international aviation system. We recognize the fundamental importance of maintaining a scheduled U.S. flag system to meet the public need for regular and frequent air services on an economically sound basis. We also recognize the growing demand for low-cost services and the inherent efficiencies of full plane operations generally characterized by charter-type services. Most importantly, we recognize the need to have governmental policies that will accommodate the competitive interrelationships between these two types of services.

This Policy Statement identifies ways in which the private enterprise U.S. international aviation industry and concerned U.S. Government agencies can move toward the stated objectives. To avoid undue disruption, there should be an equitable phasing of the elimination or relaxation of the regulatory restrictions called for here.



## II. PUBLIC SERVICE CONSIDERATIONS

The United States seeks to meet the needs of the consumer by providing for the safe and efficient transportation of people, mail, and goods. The international air transport system should have a favorable impact on the economic growth and foreign commerce of the United States and of our trading partners.

In pursuit of this objective, the United States seeks an international air transport system that provides the capability and flexibility to respond efficiently to changing market conditions and requirements, wherever a substantial need for air transportation exists.

### GOALS

To this end, the United States will pursue the following goals:

- . Regularly scheduled international air transportation of people, mail, and goods at as low a cost as is economically justified.
- . International air charter transportation of people and goods by charter specialists and scheduled carriers operating charter flights, at as low a cost as is economically justified, recognizing that essential levels of scheduled service must be maintained.
- . Effective competition among carriers and among the classes of service offered, including a fair and equal competitive opportunity for the private enterprise air carriers of the United States.

### POLICY

#### U.S. Flag International Route System

Air transportation is an essential part of the foreign commerce and international trade of the United States; it is required for mail, high priority cargo, government and business travel, and urgent personal travel. It is a desirable, low-cost means of international pleasure travel.

International air transportation operates in a complex and changing regime of law and politics involving a few multilateral treaties, many bilateral arrangements, and a wide collection of national laws, regulations, and policies. Continuation of a U.S. flag air transportation system will require continuing negotiations between the United States and other nations to arrange equitable operating rights and privileges.

Air transport interests are best assured for Americans by the presence of a strong, viable, privately owned U.S. flag international air fleet. Such a fleet is also an important reserve asset to meet U.S. military requirements and non-military emergency situations.

Extent of Route System. Because most business travelers, many other international travelers, and most air freight shippers rely on the regular availability of air service on relatively short notice that is characteristic of scheduled services, the U.S. Government should encourage a system of routes, as extensive as can be economically sustained, with regular, scheduled service by U.S. flag air carriers.

The basic consideration in determining whether a U.S. carrier should be authorized to schedule service on a new or an existing route is the commercial viability of the service on that route and its impact on the international route system. The U.S. Government should support fully actions by U.S. flag carriers to rationalize their route structures: to drop uneconomic routes, to identify new markets that are economically viable, and to seek an overall route structure that is responsive to consumer demand and profitable to operate. There may be a few extremely rare instances where a specific and clearly defined national defense or foreign policy interest may require service by a U.S. carrier on a route that is not economically viable. For these exceptional circumstances direct Federal subsidy would be preferable to a policy of indirect subsidy or cross-subsidization from profitable routes.

New international route authority is awarded to U.S. carriers in the context of the bilateral framework within which international air transportation operates. Thus decisions on entry raise issues that must be negotiated between governments. It does not serve the interest of the United States to be put in a position where foreign governments can seek valuable rights for their carriers as a consequence of our granting uneconomic routes for our carriers. Consistent with the policy that international routes should be economically viable, where the

United States has paid in bilateral route concessions for the traffic rights which could be implemented in a given route award proceeding, an important decisional criterion in carrier selection is the ability to compete effectively with foreign flag carriers in the market at issue.

U.S. policy continues to be that negotiations should lead to an equitable exchange of route rights for both scheduled and charter services. Our primary and overriding objective is to achieve an international environment in which privately owned and operated U.S. air carriers have a fair and equal opportunity to compete for benefits at least as great as those available to foreign carriers.

The United States will continue to endorse the exchange of air transport rights and privileges through a system of bilateral air transport agreements. We have considered multilateral agreements and other alternatives to the bilateral system, but are not convinced that another system would work more effectively. While particular problems, such as fare and rate regulation, may require multilateral discussion, we can work within the basic structure of bilateral agreements, which provides sufficient flexibility to accommodate most circumstances.

Emphasis on Major Trunk Routes. Major traffic flow patterns and trunk routes between the United States and four principal areas of the world--Europe, Africa, Central/South America, and Asia/Oceania--are clearly discernible. U.S. carrier operations over these trunk routes form the backbone of our intercontinental air transport system. U.S. carrier participation on these routes is essential to the maintenance of a U.S. flag system. Major trunk routes and markets should be identified by the U.S. air carriers and given priority negotiating attention by the U.S. Government. Reciprocal operations provided by foreign carriers with supporting secondary traffic should be expected on such routes. As the quality and quantity of foreign flag air service between foreign air traffic hubs improves, U.S. flag carriers should emphasize third- and fourth-freedom scheduled services, even while recognizing that fifth-freedom traffic is important for their economic viability.

Viable airline routes, particularly long-haul trunk routes, draw upon a variety of traffic flows for support. Many cities in foreign countries are situated ideally to serve as gateways, or conduits, through which foreign carriers have attracted traffic flows and thus have improved their





competitive position relative to U.S. carriers. In negotiating international route patterns for U.S. carriers, the U.S. Government should structure routes in a way that enables our carriers to draw upon natural traffic flows and, thereby, compete effectively with foreign carriers.

Relationship to Domestic System. The U.S. international route system is not and should not be viewed as completely separate from the domestic system, although we must recognize the differences between domestic and international air transportation. The growing volume of international traffic, both passenger and freight, has resulted in expansion of direct international scheduled services at many American cities. A number of cities are seeking new direct and nonstop services to points in Europe, Asia, and South America. The United States-Canada routes already are natural extensions of the domestic networks in both countries; the United States-Mexico routes increasingly are becoming extensions of domestic route systems.

Closer integration of international and domestic route systems is in the public interest, in part because excessive channeling of passengers and freight through a limited number of gateway points inconveniences passengers and shippers and ignores, in some instances, natural traffic flows, market requirements, and the economics of modern aircraft. The following actions will lessen the artificial regulatory distinctions between domestic and international traffic categories and will result in greater convenience for the public and operating efficiency and competitive opportunity for the carriers.

- . Services to Canada, Mexico, and the Caribbean should be extensions of the domestic route system.
- . Authority to carry local traffic on domestic segments of international flights, both passenger and freight, should be granted, because regulatory restrictions on the local traffic authority of U.S. international air carriers no longer serve the public interest. Such authority will increase the economic viability of domestic extensions of international flights, thereby supporting more direct services for the shipping and traveling public.
- . Blocked space agreements on domestic segments of international flights and equipment interchange agreements should be considered by the carriers and the Civil Aeronautics Board as means to increase the economic viability of behind-the-gateway route segments, and hence to benefit the public with more direct service at more American cities.

- All U.S. international carriers should be permitted to have domestic traffic systems to feed traffic to their international operations.

In the interest of obtaining better services for the consumer, consideration also should be given (1) to the competitive and public service benefits that might be achieved in major international markets by authorizing different U.S. carriers to serve a foreign point or area from different cities or regions of the United States, and (2) to lessening the emphasis on the traditional intercontinental gateways, by granting direct service authority at more domestic points. The need to gather traffic at "gateways" in order to have the high load factors in widebodied equipment that permit low fares and fuel savings, however, must be taken into account.

### Competition

A basic tenet of U.S. economic philosophy is that marketplace competition produces improved service and lower total costs for the consumer. This is as true in aviation as it is in other areas of commercial activity. However, it does not follow that there must be multiple U.S. flag carriers on all international routes. Foreign carriers are sophisticated competitors for U.S. carriers in most markets; their competition needs to be taken into account as we determine whether more than one U.S. carrier should be designated for a particular route or market area. Too many carriers on some routes may undercut the economic viability of service without benefiting the public.

A primary consideration in authorizing an additional U.S. flag carrier on a route already served by one or more flag carriers is the quality of service (availability and price) provided the public. Accordingly, U.S. carriers should recognize that award of a route carries with it the responsibility for adequate service and performance. Poor performance by an incumbent carrier, which is not due to factors over which it has no control, may be grounds for replacement.

In addition to route competition between carriers, area competition is a fundamental characteristic of international air transportation. Such competition among carriers should be recognized in designating U.S. carriers for international routes, because unlike domestic travelers, tourists who are flexible in their choice of overseas destinations constitute a large share of the intercontinental air passenger market. Beach resorts around the world (and the carriers serving them) often compete, for example, for the same tourists. The Alps and the Rockies may compete as destinations for skiers. Within Europe,

Amsterdam, Brussels, Copenhagen, and Luxembourg compete with Frankfurt, London, Paris, and Rome as the starting points for European holidays. The air carriers serving these points, both charter and scheduled, compete in arranging and offering tourist opportunities, both group and individual, to the destinations they serve.

Furthermore, the service benefits, stimulated by U.S. carrier competition on an area basis for the destination-flexible tourist traffic, are of course often available to the destination-inflexible traveler.

If the U.S. Government authorizes more air carriers than a particular market will support, predatory pricing or market restrictions by other governments may result. The United States should authorize more than one U.S. flag airline in scheduled international markets only if they can operate profitably, taking into consideration the presence of competition from foreign scheduled airlines and from domestic and foreign charter airlines.

#### Relative Roles of Scheduled and Charter Passenger Operations

There are generally two kinds of international air passengers: those who are departure time-sensitive and relatively insensitive to price, and those who are price-sensitive and relatively insensitive to departure time. In most cases, time-sensitive travelers have fixed engagements at foreign points; they rely primarily upon scheduled air service available on short notice. For the benefit of these passengers, the Government has the responsibility to assure that essential levels of regularly scheduled service can be economically maintained. Restraints on charter services should not go beyond what is needed for this purpose.

Travelers who are primarily concerned with price generally are willing and able to accept advance purchase requirements. Since many of these passengers have considerable flexibility in the day and time of their travel, they usually can adjust their schedules to fit efficient patterns of capacity. Therefore, they should enjoy the benefits of lower prices that result from the inherent efficiency of high load factor or planeload movements and the flexibility realized by the carriers in scheduling capacity for maximum utilization. Bringing the benefits of such efficiencies to the traveling public offers the best opportunity for increasing traffic in the price-elastic sectors of the market. Thus, there is a substantial public need for charter-type passenger operations in international markets.

The 1970 Statement of International Aviation Policy recognized the value of competitive, yet complementary, scheduled and charter passenger services. The basic policies articulated there will be continued. However, the regulatory structure at the Civil Aeronautics Board and within the International Air Transport Association (IATA), as it affects

scheduled and charter services, requires substantial alteration to improve the efficient utilization of equipment and energy resources, thereby assuring the lowest possible fares over the long term. Considerations of economic efficiency, service innovation, responsiveness to market factors, competitiveness, and profitability should be foremost as the relative roles of scheduled and charter passenger operations are assessed.

The industry should continue to have the primary responsibility for adapting its air transport product to public demand. Regulatory regimes imposed by governments should not stifle the flexibility of the international air carrier industry to respond to this demand, nor should they remove incentives to keep costs low. This is particularly true in the area of charter transportation where regulatory structures traditionally have been restrictive. In particular, the United States will use all appropriate means to prevent restrictions by foreign governments on the competitiveness of passenger charter operations by all U.S. carriers.

### Charter Services

Regulations. Consistent with the foregoing principles, the administrative regulations constraining the availability and operation of charter services should be modified to make available more low-cost services to the traveling public. This government is presently developing new charter program types to replace some existing types that have not served the public well, because they have been either discriminatory or overly restrictive. Our objective is to reduce the multiplicity of charter types to a smaller number, to simplify the regulations, and to facilitate the use of charters by the public and the travel industry. Furthermore, we request other governments to accept U.S.-origin charters of these basic types.

A year ago the Civil Aeronautics Board took an important step in broadening the availability of low cost travel opportunities by announcing the One-Stop Tour Charter (OTC) programs. It also has proposed regulations for a charter type new to the United States--the Advance Booking Charter (ABC). Final ABC regulations should be promulgated at the earliest opportunity, with conditions that will assure their viability in the market place.

Charter regulations that impose requirements not related to cost or quality of service, such as prior-affinity requirements or three-stop requirements, should be eliminated as soon as viable alternatives are in place. Overly restrictive Travel Group Charters should be eliminated.



Although empty seats are an inevitable product of any on-demand, scheduled transportation service, they represent an inefficient and wasteful use of resources, if some of the seats might be filled without turning away on-demand traffic. The scheduled carriers should have the flexibility of carrying advance-purchase charter groups on either their regularly scheduled flights or on flights dedicated to charter movements, provided that neither the financial soundness of the scheduled carriers, nor the operations of the supplemental carriers, are unduly harmed by this new authority.

In the long term it would be desirable to achieve as much commonality among nations as possible on the regulatory principles governing charter traffic. However, because the specifics of charter regulations must be adapted to the particular economic and marketing circumstances of the country in which the traffic is organized, it cannot be expected that complete international commonality can be achieved. Accordingly, the United States will continue to advocate the "country of origin" concept, enabling each country to adopt those requirements that meet its unique needs.

Landing Rights. The United States will continue to pursue landing rights for charter services that are as free from restrictions as possible, and will seek the negotiation of agreements wherever appropriate. At issue in such negotiations will be the continuation of charter rights held by foreign carriers, and the nature of such rights. While charter service landing rights should be negotiated on their own merits, we must be sufficiently flexible to take into account the present and future realities of the marketplace, including the relationship between scheduled and charter operations. The United States will continue to insist that, in the provision of charter services, U.S. scheduled and supplemental carriers be treated equally.

Authority for Charter Services. While they may have had some regulatory value in the past, distinctions between on-route and off-route charters for scheduled carriers and geographic restrictions on the charter authority of supplemental carriers reduce competitive flexibility and the availability of charter services. In place of the present on-route/off-route distinctions for international charters by scheduled carriers, U.S. international carriers should have unrestricted charter authority within the regions where they provide scheduled services. The supplemental carriers

already have authority on a regional basis. Both international scheduled and supplemental carriers should have expanded opportunities to operate charter flights outside their authorized regions.

#### Expansion of Supplemental Carriers

The fact that a carrier was initially certificated as a supplemental should not bar it, as a matter either of law or of regulation, from acquiring a scheduled certificate, so long as it meets the same requirements that a scheduled carrier must meet.

Since 1963, mergers, bankruptcies, and other adjustments have caused a substantial reduction in the number of supplemental air carriers. Of the thirteen U.S. carriers originally granted supplemental certificates, only six are currently active operators of charter authority. In the past decade the supplemental carriers have been an effective, valuable competitive spur. They have fostered market development and introduction of new price/quality options that have benefited the traveling public and the tourist industry here and abroad. While the number of supplemental carriers is not an index of the quality of the competition provided by this important segment of the air transport industry, there now may be opportunities for additional supplemental carriers to initiate economically viable operations, in which case the ranks of the supplementals should be opened to new entrants.

#### Cargo Services

Freight and passenger service characteristics differ in important areas; where they do, freight issues merit separate consideration. International air cargo operations should respond to the need of commerce and the shipping public for fast, reliable transport of relatively high-value or short-life goods. The 1970 Policy Statement recognized the impact of wide-bodied aircraft on passenger services. Now U.S. policy must be cognizant of their impact on freight service and development.

Because of the inherent cost advantage and energy efficiency of surface transportation, air freight is and always will be a premium transportation service, although for international passenger service, air travel is the low cost option. While surface transport provides for the regular flow of most goods, air freight is and must be available for urgent shipments to respond to peak requirements, to compensate for underestimates of product demand, and to remedy untimely shipping delays.

Air freight must be viewed as a part of the total freight transportation system, inevitably involving truck transport, and often rail or water movement as well. Air transport is an essential component of an expedited intermodal freight delivery system. The air carriers should seek to improve the quality of the total transport service by effectively integrating the ground and air transport segments, in order to lessen total transit time, improve shipment security, and lower transport costs.

Route Authority. All-cargo and intermodal services provide a distinct benefit to shippers; their expansion should be encouraged where economically justified. In granting authority for all-cargo operations, recognition should be given to the need for routing and scheduling flexibility, which may differ considerably from passenger routing and scheduling patterns.

At present, if an all-cargo carrier wishes to obtain route authority, it must make a public convenience and necessity (PC&N) argument based on freight operations alone. A passenger carrier, however, can make its PC&N argument based on passenger traffic only or on a combination of passenger and freight traffic, initiate passenger (and combination freight) service, and then, at its option, initiate freighter service as the air freight market develops without any regulatory PC&N requirement or hearing before the Civil Aeronautics Board. In such a regulatory cycle the cargo specialists, whose innovations and efficiencies have spurred the growth of international air cargo service, have little opportunity to compete for new markets and to speed freight market development. Thus to stimulate competition for entry into new air freight markets, the Board should make separate determinations to grant separate certificates for combination passenger/cargo authority and for freighter-only authority.

As a further step in stimulating competition in the development and service of air freight markets, the Board should consider granting the U.S. all-cargo carriers authority for international scheduled freighter services on a regional basis. Such authority would enable the all-cargo carriers to institute new scheduled freighter services in their service region at their option without the need for and the delays inherent





in successive regulatory "PC&N" investigations. The authority for the combination carriers to institute freighter services on any of their routes which now serve passengers predominantly would remain unchanged.

Rights for all-cargo routes should be incorporated into existing bilateral agreements, rather than being made the subject of separate agreements.

Service Considerations. Because shippers place a high value on the availability and timeliness of delivery, the primary service considerations for the international freight shipper are departure time and arrival time. Freight shippers generally seek the on-demand availability characteristic of scheduled service. Indeed, small shippers do not even have access to charter services. Consequently, the development of air freight service should provide for substantial service improvements for those shippers, large and small, who desire or require the premium transportation service offered by reliable, frequent, extensive schedules of freighter aircraft. The greater the volume moving on scheduled services the more extensive can be the scheduled route network and, by increasing the load factor, the lower the cost to the shipper. The availability of charter services is especially important for off-route freight shipments and for freight requiring peculiar handling or security arrangements.

Split Charters. Passenger charter operators are permitted to carry separate charter groups on the same flight, but currently are prohibited from carrying passenger and cargo charter traffic on the same flight; this may result in inefficient aircraft utilization. The economic efficiency of charter operations would be enhanced by removing this prohibition, and permitting separate cargo charters to be carried on passenger charter flights.

### III. VIABILITY OF THE U.S. INTERNATIONAL AIR TRANSPORTATION SYSTEM

The air transport interests of the United States are best assured by a private U.S. international air transportation industry that is viable, efficient, and capable of generating sufficient earnings to attract private capital and provide job opportunities.

#### GOALS

In pursuit of this objective, the United States will support vigorously:

- . A strong, viable system of international routes.
- . A modernized regulatory structure within which carriers can respond to changing market conditions.
- . Fare structures that respond to consumer demand, offer price and quality-of-service alternatives, enable long-term market growth, and permit profitable operations by efficient carriers.
- . Innovation in developing services that expand markets and attract passengers and cargo shipments.
- . Efficient use of fuel and other resources.
- . Prevention of predatory and monopolistic practices.

#### POLICY

##### Capacity

Because international routes are determined by government agreements and tariff structures are determined within the International Air Transport Association forum, capacity has been the principal competitive medium. However, in recent years excess capacity, caused by commitment to too many aircraft and by declining traffic, has been a severe economic burden to the industry.

Many carriers have chosen to compete through illegal fare discounting or excessive payments to middlemen rather than risk the loss of market share by reducing capacity. Although perceptions may differ, many industry managers appear to attach significant value to market share. Of particular relevance to government policy is the fact that many foreign governments are willing to underwrite the costs of excess capacity in order to preserve or improve the market share of their national carriers or to generate additional foreign exchange earnings.

In adjusting capacity to changes in traffic, scheduled carriers must contend with the relatively low frequency of long-haul international flights, the number of carriers in any given market, and the size of efficient modern long-range aircraft, all of which impede scheduling flexibility and aggravate attempts to rationalize capacity. Carriers on only four or five intercontinental routes operate more than once-daily service. In many international markets, direct services are operated only two or three times a week. Bilateral exchanges have led to the authorization of at least two air carriers on most international routes even though the optimum number of daily flights is much lower on many international routes than on domestic routes. Long route segments, multiple time zone changes, and airport curfews inhibit carrier flexibility in arranging intercontinental schedules.

Three principal international capacity issues that require attention are excess capacity, market share, and sixth freedom capacity.

Excess Capacity. Even under circumstances of extreme financial distress, the preferred approach to excess capacity is unilateral reductions by the carriers. However, in the recent past, in a marked departure from fundamental U.S. policy, limited and temporary carrier agreements on capacity have been permitted. This exception was made because of the serious level of excess capacity (i.e., capacity in excess of traffic demand at a reasonable load factor) in the international aviation system and the resulting financial distress of the U.S. carriers. Most of this excess capacity resulted from the purchase of equipment in anticipation of continued traffic growth which failed to occur during the fuel crisis and worldwide recession. As the economic recovery continues and demand catches up with capacity, such agreements would no longer be necessary. The recovery of the world economy should absorb the present excess over the next several years, and market-based decisions should again be adequate to establish rational levels. Nevertheless, in the short run, because of the importance of economically viable operations, we should support approval by the Civil Aeronautics Board of temporary carrier agreements if the following standards apply:



- . Excess capacity is having a serious, adverse impact on the viability of operations on the route system in question.
- . The public interest is served by assuring adequate scheduled service on the route by a U.S. carrier.
- . Unilateral reductions, or other less anticompetitive alternatives, are shown by clear and convincing evidence of past practice to be infeasible, and, if undertaken in the current context, would put the carrier making them at a significant competitive disadvantage with respect to other carriers on that route.

Carrier agreements should be temporary and subject to approval, monitoring, and evaluation by the Civil Aeronautics Board. Any renewal of such agreements should be subject to the foregoing standards.

Capacity agreements arrived at between governments generally do not have the benefit of exposure to public reaction and response that carrier agreements do. Government intervention should be used only where there is a clear need for capacity reduction, as defined above, and attempts at unilateral cutbacks and carrier agreements have been ineffective.

Market Share. The second capacity issue is market share. The United States has traditionally espoused the Bermuda system, under which each carrier determines for itself the level of capacity it believes is warranted, subject only to ex post facto review by governments. The United States is faced with increasing criticism of the Bermuda system by foreign governments whose perceptions of competitive principles differ from our own. The preservation of the competitive concept underlying the Bermuda system is vital, because systems under which carriers or governments predetermine capacity for market share reasons can introduce artificial restraints unrelated to carrier efficiency or traffic demand. When capacity disputes arise, the United States must weigh carefully each situation to determine overall U.S. interests. Special procedures to deal with capacity disputes may be appropriate in some instances. When other countries advocate less flexibility in capacity competition, we may insist, as a quid pro quo, on greater flexibility in pricing competition, so long as forecast load factors are well below full utilization load factors.

Sixth Freedom Capacity. The third capacity issue arises from situations where carriers rely excessively on traffic having its origin or destination behind the homeland of the carrier. Such reliance is contrary to the provisions

of our bilateral air transport agreements; these operations have severely distorted traffic levels and distribution in certain markets. The United States will seek bilateral review of foreign carrier operations considered to be in violation of such provisions and will attach high priority to resolution of this matter.

### Cooperative Agreements

The United States will continue to have a flexible policy with respect to operating arrangements, such as interline agreements, equipment interchanges, and blocked space agreements. Arrangements of these kinds can help to promote efficiency and improve service. They may also allow economically viable operations in markets that might otherwise go unserved and may meet other international aviation policy objectives as well. Such arrangements may be permitted and even encouraged in cases where their service benefits clearly are more substantial than their anticompetitive impact. On the other hand, economic agreements such as revenue or traffic pools generally are contrary to the public interest and will be discouraged. Pooling proposals should be disapproved unless there is clear and convincing evidence that the pool would achieve significant U.S. policy objectives and more competitive alternatives are not available. Strict reporting and tariff conditions must be integral to such agreements to assure that they are not contrary to the public interest.

### Fares and Rates

The preferred means of assuring economic efficiency is through the operation of free-market forces. However, fundamental restraints limit the operation of free competition in international air services. In support of an economically sound and efficient air carrier industry, therefore, the United States will continue a system of government oversight of international passenger fares and cargo rates.

International fares and rates should, to the maximum degree feasible, be cost-related, responsive to consumer demand, and established on the basis of competitive market forces. The tariff structure, based on these principles, should substantially benefit passengers, shippers, and carriers alike. Within such a structure we would expect to achieve fares and rates that are:

- . Set by individual carriers at the lowest levels that permit an efficient carrier to earn a reasonable return.
- . Greatly simplified compared with the present proliferation of discount arrangements, yet sufficiently flexible to provide genuine price/service options.

A more simplified fare structure, including simplified construction rules, stopover provisions, and circuitry allowances, would facilitate adherence to and enforcement of the agreed fares.

The compulsion of some carriers to pursue traffic at any cost on a total market share basis, whether to maintain market share or to support unneeded capacity, has resulted in special, low unprofitable fares. It also has led to unlawful discounting. Such practices obviously have aggravated the carriers' financial difficulties in the past. In the last analysis, however, carriers cannot expect to achieve profitable operations unless capacity is related to demand.

Role of IATA. Most other governments are unwilling to accept a system in which fares are established by carriers unilaterally. The alternative of establishing fares by intergovernmental agreement, whether bilaterally or multilaterally, would be complex and unwieldy. Moreover, it is not a desirable alternative because governments should not be involved in fixing international fares as a general practice. Therefore, the United States at present intends to continue to accept the International Air Transport Association as the principal vehicle for intercarrier negotiation of scheduled tariffs. At the same time IATA and its member carriers should revise their tariff-setting structure, so that it can be more responsive to market forces and innovative fare programs, including greater flexibility for rate setting by individual carriers.

Role of the Civil Aeronautics Board. In reviewing both agreements and individual tariffs, the Board should provide a meaningful opportunity for public hearings or other public review. Board action on IATA agreements should be taken in a timely fashion, so that the member carriers of IATA can give reasonable public notice of new tariff schedules prior to their implementation.

To assist in achieving a cost-based tariff structure and maximum pricing efficiency, the Board should identify the types of costs that it will apply in determining whether to approve rate agreements or individual tariff filings. Generally, the cost levels should be those of the most efficient carrier. The Board should publish its cost data well in advance of IATA traffic conferences or the likely dates of significant new individual tariff filings.

Passenger Fares. The present international fare structure contains fares that are largely unrelated to the costs of providing the service. Because of its unwarranted complexity, the present fare structure also is unfair to the traveling public, as it results in frequent misquotation and misconstruction of fares.

The United States has serious reservations about the practice of charging normal-fare passengers fares that are unreasonably in excess of fully allocated costs, in an attempt to subsidize the carriage of other passengers at fares unreasonably below cost. For example, since today only about twenty percent of North Atlantic travel is at undiscounted fares, the point of departure for rationalization of the fare structure would seem to lie with the promotional fares and with bringing published tariffs into line with actual costs. Across-the-board percentage fare increases will not solve this fundamental problem. The United States supports a narrowing of the gap between normal economy fares and promotional fares and the rationalization of the present charter-competitive fares on a cost-related basis. These fares, as well as any new promotional fares, must be justified on their respective economic merits. In evaluating new proposals for promotional fares, the Civil Aeronautics Board should take into account the relationship to scheduled service costs. Further, the entire question of the validity of the present highly differentiated North Atlantic passenger fare structure should be explored in depth in the North Atlantic Fares Investigation, presently before the Board.

A more rational relationship between normal and promotional fares is not inconsistent with the use of pricing flexibility as a means of achieving a satisfactory balance between traffic and capacity levels. As noted earlier, the nature of long-haul international markets inhibits



the carriers' ability to adjust capacity to meet daily and seasonal fluctuations in demand. Pricing policy can be an important tool for lessening these fluctuations by encouraging traffic to adjust to efficient levels of capacity. Increased efficiency in capacity utilization means higher average load factors, which can then permit lower fares for scheduled flights, stimulating still more traffic. Much of the international air travel market is composed of price-sensitive, destination-flexible vacation travelers; therefore, the traffic stimulus of lower fares can be large, as has been demonstrated in the transatlantic market in the past decade with the major expansion of charter services. Such traffic expansion can result in greater revenues for the carriers and in greater tourism receipts for the destination countries.

The carriers, however, should exercise restraint in their pricing practices. In seeking charter-competitive fares, scheduled carriers have paid insufficient attention to demand peaking, incurred major losses, and attempted to offset these losses by increasing the regular fares. Peak/off-peak pricing and charter groups on scheduled service should, to the contrary, enable carriers to lower the regular fares by attracting additional traffic to utilize otherwise unused capacity. While some carriers may argue that the result is to dilute yield -- i.e., revenue per revenue-passenger-mile -- the more meaningful result is to increase total flight revenue, meaning that the regular fare passenger has a lower expense burden per aircraft mile. Governments, however, must prevent predatory price competition.

Charter Rates. Charter rates, for both passengers and freight, should be subject to the same criteria and policies as fares for scheduled air services, particularly their relationship to costs. The Civil Aeronautics Board proposed several years ago a system of minimum passenger charter rates related to costs. While the courts held that this proposal exceeded the Board's powers, the Board can and should publish its cost data against which particular charter rates are to be judged, as is recommended above for scheduled service fares.

Cargo Rates. Cargo rates should be responsive to shipper demand and related to actual costs. The Civil Aeronautics Board should prevent the use of scheduled cargo rates below the costs of the most efficient all-cargo carrier, whether the rates are offered by all-cargo or combination carriers.



With the further introduction of wide-bodied all-cargo aircraft, appropriate weight breaks reflecting large volume cost savings should be permitted.

The present structure of specific commodity rates (SCRs) is, as the Civil Aeronautics Board has stated, unfair both to the shipper (and hence, the consumer) and to the carrier. Rate differences among commodities do not reflect inherent carrier cost differences, and so result in cross-subsidization: one commodity paying, in part, for the transport of another. Unduly low SCRs invite misclassification of commodities, thereby sapping carrier revenues or posing a burdensome tariff enforcement requirement. Continued reliance on moving two-thirds to three-quarters of the tonnage at promotional specific commodity rates based on marginal costs is incompatible with developing a sound economic structure for air freight service.

To encourage the long-term growth of the air freight industry, general commodity rates should be established at reasonable levels related to costs. When this has been accomplished, it should be possible to abandon the specific commodity rates as they exist today. The introduction or maintenance of a limited number of specific commodity rates, where considered essential to attract new traffic, would be desirable. These rates should not remain in the structure indefinitely, but should be increased over a period of time to the general commodity levels. Special commodity rates may also continue to be appropriate for commodities that have special handling or shipping requirements.

Mail Rates. The Civil Aeronautics Board should act expeditiously on proposed changes in rates for the international air transportation of mail. It should provide for temporary rates, which cover the costs of U.S. carriers, until final Board resolution of the issue and, as provided by the International Air Transportation Fair Competitive Practices Act of 1974, should give proper consideration to the cost-related elements of the Universal Postal Union (UPU) rates. In addition, the Congress has directed that the Board consider the competitive disadvantage of U.S. flag carriers resulting from their foreign competitors' receiving the UPU rates for carriage of foreign mail.

#### Tariff Integrity

The existence of a tariff structure is of little value if there is widespread deviation from the published tariffs. In the past few years, the practice of undercutting published tariffs has become common in international operations, and is now of considerable economic significance. We are concerned about this erosion of tariff integrity and the harmful discrimination that results from it. The general public suffers from higher fares, and the carriers from reduced net revenues. A basic consideration in this area is the need to relate fares more closely with costs and to eliminate the excess capacity which encourages undercutting.

#### Role, Compensation, and Regulation of Middlemen

Transportation middlemen-- travel agents, tour operators, air freight forwarders, cargo agents and others -- perform a valuable service for the traveling and shipping public. The major part of international traffic is handled through the thousands of businesses that compete in arranging not only air transportation services, but the ancillary services that facilitate the efficient flow of passengers and goods.

Since middlemen are an integral part of the international air transport system, it is essential that reasonable standards for consumer protection be observed. Federal licensing or certification of middlemen should be considered only to the extent necessary to ensure minimum consumer protection standards. Those middlemen that operate as indirect air carriers (air freight forwarders, inclusive tour charter operators, and military charter operators) should continue to be regulated by the Civil Aeronautics Board only to the extent necessary to protect the consumer. Self-regulation should be considered for the remainder of the industry which could establish standards and conditions of operation, subject to Government review.

The compensation of travel agents by commissions has become a subject of considerable controversy. Rather than having IATA involved in the establishment of commission levels, we recommend that each carrier establish its commission structure independently. This will promote additional competition and allow each carrier to tailor its approach to commission structure independently. It would also permit each carrier to relate the level of commissions to the value of the middlemen's services.

To help ensure consumer awareness and to permit the Civil Aeronautics Board to take commission costs into account in determining total carrier costs as a basis for fare decisions, carrier commission structures should be filed for public inspection at the Board. However, the Board should not regulate the level of commission rates. As long as travel agent commissions are a part of the air ticket price, the public should be informed as to the arrangement between the carrier and the middlemen. This will guard against undue preference or advantage being given to any particular agency or individual.

#### Government Procurements

U.S. Government procurement of foreign and overseas air transportation services from U.S. flag carriers helps to sustain the U.S. international route system, and thereby to assure the continuing availability of U.S. flag service for the transport of U.S. mail, U.S. Government personnel, and U.S. citizens.

We should make better use of civil capacity to meet Department of Defense and other Government air transportation needs. Specifically, we should minimize the economic impact on commercial air carriers of large scale operations by the Military Airlift Command (MAC) fleet by utilizing civil capacity rather than MAC capacity to the extent practicable in peacetime. However, this policy recognizes the need to maintain an effective MAC capability and to use efficiently the MAC airlift capacity resulting as a by-product of essential training.

U.S. carriers are encouraged to continue participation in the Civil Reserve Air Fleet (CRAF) program. The airlift capability, maintained by normal civil air carrier operations and therefore available for national emergency use, is a major contribution to the preparedness of the United States and makes military duplication of that capacity unnecessary. A viable U.S. flag industry is essential to make the program effective; any diminution of U.S. flag capability would reduce the effectiveness of the CRAF program.

As set forth in the International Air Transportation Fair Competitive Practices Act of 1974, U.S. Government-financed air transportation must be performed on U.S. flag carriers to the extent such services are available. The Government should pay the same tariff rates as the general public for all its procurements of air transport service except where a separate rate is established on the basis of costs incurred by the airlines in providing specific services to the U.S. Government.

In the event that U.S. flag scheduled flights are not available for the timely transport of U.S. mail, the Postal Service should attempt to transport the mail on charter flights of U.S. carriers, route or supplemental. To the extent that the Board-determined international mail rates are below UPU rates, this practice would offer cost savings to the Postal Service.

#### The International Competitive Environment

The United States opposes unfair, discriminatory, or restrictive practices by foreign countries that limit the competitive capability of U.S. flag carriers. Section 2 of the International Air Transportation Fair Competitive Practices Act of 1974 specifically directs Departments and Agencies of this Government to seek elimination of these practices. This policy will be pursued vigorously.



The United States also opposes discriminatory or inequitable charges imposed on U.S. flag carriers for the use of airway and airport properties, and we will utilize to the maximum extent feasible Section 3 of the International Air Transportation Fair Competitive Practices Act of 1974, or Section 301 of the Trade Act of 1974, to correct inequities. This Government clearly recognizes the need to recover from users the costs of the services provided. We believe that, in imposing such charges, care should be taken to ensure that they are not discriminatory and that the level of the charge is related to cost.

On both of these issues, the United States will seek change through negotiation. As a last resort, however, unilateral action may be taken to correct the problem.

#### IV. SAFETY, ENVIRONMENTAL, AND OTHER CONSIDERATIONS

It is the objective of the United States to achieve an advanced, safe, and efficient system of airports and airways to support international air transport.

##### GOALS

In support of the foregoing objective, the United States will pursue:

- . Full and fair allocation among users of the costs of operating airports and airway systems.
- . Prevention of hijacking, air piracy, and terrorism.
- . Maintenance and development of high quality aircraft, airports, and navigational systems and development and implementation of technological improvements that enhance energy and economic efficiency in air transportation.
- . Enforcement of regulations to protect the U.S. environment.

##### POLICY

###### International Organizations

The United States will continue to support the International Civil Aviation Organization (ICAO) and its efforts to adopt and implement international standards. A fundamental policy principle is to promote, through ICAO, common requirements and practices regarding technical, facilitation, and legal matters affecting international civil aviation.

In this respect, the United States believes that ICAO should continue to direct its activities towards those issues where solutions customarily have been sought through multilateral governmental action.



A basic strength of ICAO has been its ability to focus on the technical aspects of international aviation and the willingness of its members to minimize political influences on the work of the organization. The United States will resist the injection of non-aviation issues into ICAO proceedings; we urge other governments to adopt a similar position.

#### Certification and Operation of Aircraft

We will continue the present U.S. policies concerning safety, security, the environment, and fuel availability.

Safety. With respect to safety (including the air movement of hazardous materials), the United States supports the development of uniform international regulations governing flight safety, airspace systems, operations, and airworthiness. To advance this objective, the United States has embarked upon a program of comprehensive biennial reviews of its safety regulations to ensure that its aircraft are produced and operated safely as air navigation and aeronautical technology advance. These reviews are being conducted in cooperation with other nations with the intention of achieving more general agreement on common standards.

Availability, Allocation, and Cost of Fuel. Nations should treat their own carriers and foreign carriers the same in any system of fuel allocation and pricing for international air transport. The United States intends to adhere to this principle and expects other countries to do likewise.

Environmental Objectives and Their Impact. The United States encourages agreement on international environmental issues through the ICAO forum. This should promote equal treatment for foreign and domestic carriers through international regulations and preclude any unwarranted economic advantages or disadvantages for competing carriers which would otherwise have to satisfy diverse national requirements.

While the environmental needs and resources of the United States may differ from those of other nations, every effort will be made to obtain international acceptance of U.S. requirements. The actions taken by the U.S. Government must be responsive to the legislative mandates that seek to protect the public health and welfare of American citizens. We will seek an ICAO agreement on application of noise standards for existing aircraft in international operations. If it proves impossible to obtain international agreement on environmental problems such as noise and engine emissions, the United States may then find it necessary to develop U.S. national standards more stringent than those which can be developed through ICAO, in order to protect human health and environmental quality.



Security Objectives and Their Impact. Travel on all air carriers must be safe and secure from unlawful acts. The Anti-Hijacking Act of 1974 and the Air Transportation Security Act of 1974 strengthened the U.S. domestic and international civil aviation security program, which is based upon the sharing of responsibilities among air carriers, airports, local law enforcement groups, and the Federal Government. The basic objective of these Acts is to prevent the carriage of weapons, explosives, and incendiary devices on board U.S. carrier aircraft, and unauthorized access to aircraft on the ground. Security responsibilities are clearly delineated in the Acts.

Airport operators and air carriers are required to develop and implement acceptable security programs. The Federal Aviation Administration provides advisory technical assistance to operators of U.S. air carriers and airports, enforces Federal security regulations, and evaluates the program to assure effectiveness.

There has been substantial improvement in security measures throughout the world since 1970 resulting in increased protection of civil aviation and its users from criminal acts that threaten their safety. Nevertheless, the United States supports and seeks adoption by ICAO of even stronger security standards and recommended practices. We also shall continue bilateral programs to provide technical assistance to, and to exchange information with, foreign nations to improve security at foreign airports having a direct impact on the safety of U.S. citizens abroad.



B

SOME THOUGHTS ON TIMING  
OF A  
U. S. INTERNATIONAL AVIATION POLICY STATEMENT

For a number of months the Executive Branch has had under consideration the issuance of a new international aviation policy statement. It is the purpose of this memorandum to set forth certain factors which you may wish to consider relating to the timing of such a statement.

At the outset I should make clear that I do not oppose international aviation policy statements in general. Our government should enunciate its international aviation policy. Moreover, because of the CAB's rather peripheral involvement in the policy review during the past several months, I am not sufficiently familiar with the specific content of the currently proposed statement to endorse or criticize its substance.

The matters here discussed are intended solely in connection with the timing of the statement.

Presumably it is the objective of the policy statement to articulate the U. S. Government's international aviation policy so as to provide a basic and specific guide for the negotiation of bilateral aviation agreements, Executive review of international aviation cases and in the resolution of many "brush fires" that regularly erupt in relations with our international aviation partners. To be meaningful, then, the statement should concretely address the important issues confronting the international aviation community.

At present there are pending before the President, or to be submitted to him in the near future, a number of international air cases which present many of the basic issues that a comprehensive international aviation policy statement should address.

In addition, the U. S. Government is currently negotiating bilateral aviation agreements, among others, with the United Kingdom and Japan -- our largest aviation partners in the Atlantic and the Pacific. In the case of the U. K., we are negotiating in the context of the U. K.'s



termination of the so-called "Bermuda Agreement" which for 30 years has served as the cornerstone and basic model for the principles of U. S. aviation relationships around the world.

One can argue persuasively that it would be the most rational to negotiate these important relationships and decide these international aviation cases against the backdrop of a clear declaration of U. S. policy on the fundamental issues that are involved. However, the fact is that the U. S. is presently in the process of formulating its negotiating positions and, in that process, will be considering various alternatives which are inextricably linked to broader international aviation policy matters.

The point is that there exists a fundamental and visible relationship between a new U. S. international aviation policy statement and the resolution of these various pending "real world" matters. And it may be, that time and events have brought us to a point where this interdependence requires that the policy pronouncement and the determination of these matters be carried forward in tandem.

It would seem futile to issue a policy statement so elastic that any resolution of these particular matters would be consistent with the statement of U. S. policy. On the other hand, to promulgate a policy statement of adequate specificity and then face the circumstances in these proceedings or negotiations which required a departure from its dictates, would erode the durability and credibility of the policy.

There remains a final consideration. Whatever international aviation policy is ultimately promulgated, it will be most difficult to attain the stated objectives until our governmental mechanisms are organized to better assure that our policies can be implemented. In my judgment this requires a central focus and a regularized and sufficiently high-level process for addressing international aviation matters and more effective coordination of the presently fragmented responsibility in the Executive Branch. In my view the occasion of a new U. S. policy statement should be seized to deal with at least the most pressing organizational matters for handling international aviation.

I recognize that there are arguments both for issuance now and for deferral. And it is understandable that those principally involved in this worthy undertaking of many months desire to conclude the task.

However, I hope that these thoughts on the timing question will be received, as they are offered, in the spirit of constructive contribution to the Executive Branch deliberations on this matter as well as broader issues of international aviation strategy.

John E. Robson  
Chairman



*file*

THE WHITE HOUSE  
WASHINGTON

September 8, 1976

MEMORANDUM FOR:

JIM CANNON  
ART QUERN

FROM:

STEVE McCONAHEY

*SM*

We should encourage Coleman to stay out of this issue.  
This is a local issue and there is no need for us to  
get trapped in another no-win position.

Attachment

Call SBM  
Is a call needed to  
Coleman? Sounds  
like he is  
in line.



19248

## LANDING OF CONCORDE IN NEW YORK IS SEEN WITHIN 2 OR 3 MONTHS

Head of F.A.A. Says Agency May  
Join in Court Moves to Aid in  
Lifting Barriers at Kennedy

By RICHARD WITKIN  
Special to The New York Times

FARNBOROUGH, England, Sept. 7 — Approval for the Concorde supersonic airliner to land in New York is likely in the next two or three months, the head of the Federal Aviation Administration said here today.

The American official, Dr. John L. McLucas, also said his agency might join court action, if necessary, to remove the ban on Concorde landings at Kennedy International Airport.

But a spokesman for Transportation Secretary William T. Coleman Jr., under whom Dr. McLucas serves, said in Washington that the department had not changed its position that "this is a matter for local authorities."

"It is not the present intention of the department to join in the court action," he said in a telephone conversation after consulting with Mr. Coleman.

### News Conference Held

The views of Dr. McLucas on the Concorde's prospects were given at a news conference here on the third day of the week-long Farnborough air show.

His remarks buoyed the spirits of the British and French partners in the Concorde program. They also tended to dispel any residual resentment at some comments the F.A.A. Chief had made about his first Concorde flight earlier this year. He had thought the seats somewhat cramped, and the cabin too hot.

British Airways and Air France, which now operate the 1,350-mile-an-hour plane on routes to Washington, Rio de Janeiro, Caracas, Venezuela, and Bahrain, have pinned their hopes for eventual profits on service to New York. Largely because of the plane's noise, a ban was imposed at Kennedy early this year pending an assessment of at least six months of scheduled service to other cities.

### Support Is Indicated

Dr. McLucas, in his statements today, seemed to Concorde supporters to have gone further than any American official before him in holding out the possibility of Federal support in the British-French airline suit to lift the Kennedy airport ban.

And while spokesmen in Washington, and later here, stressed the Transportation Department position had not changed, it was enough for the British and French that, once again, a high Federal aviation official had spoken so helpfully about the plane.

Arguing that the Constitution gave the Federal Government the power to regulate air commerce, Dr. McLucas said he thought the courts would recognize these "as the ultimate authority" in the Concorde case.

The issue had been due to come up in Federal District Court in Manhattan next Monday. But, by agreement of both sides, the matter has been put off until late November.

### Pressures May Ease

Moving past Election Day will ease some of the political pressures involved in the controversy. It will also mean that there will have been six months of flights to this country. Service to Rio and Bahrain began in January.

Dr. McLucas said the F.A.A. noise monitoring around Washington's Dulles International Airport showed the plane producing almost exactly the noise levels predicted in the environmental impact statement. The impact statement served as a basis for Dr. Coleman's February decision approving limited flights to

Continued on Page 59, Column 1



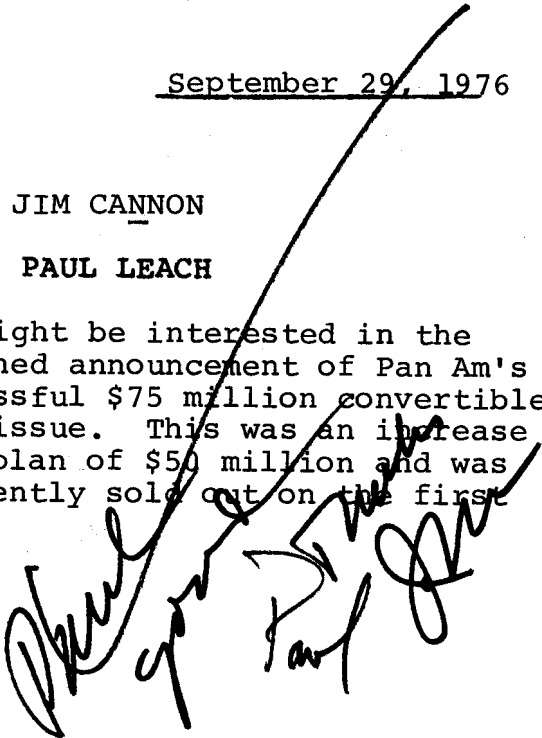
THE WHITE HOUSE  
WASHINGTON

September 29, 1976

TO: JIM CANNON

FROM: PAUL LEACH

You might be interested in the attached announcement of Pan Am's successful \$75 million convertible debt issue. This was an increase of a plan of \$50 million and was apparently sold out on the first day.

A large, thick black diagonal line is drawn across the page from the top right towards the bottom left. Below this line, there are several handwritten signatures in black ink. One signature on the left appears to be 'Paul Leach'. Another signature in the center is partially obscured by the diagonal line but seems to be 'Paul Leach'. To the right, there are two more distinct signatures, one of which is quite stylized and appears to be 'Paul Leach' again.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities.  
The offer is made only by the Prospectus.

*avoid  
none*

\$75,000,000



# Pan American World Airways, Inc.

10½% Convertible Subordinated Debentures  
due October 1, 2001

Convertible into Capital Stock at \$5¾ per Share

Price 100%

Plus accrued interest from October 1, 1976

Copies of the Prospectus may be obtained in any State only from such of the several Underwriters, including the undersigned, as may lawfully offer the securities in such State.

**Pan Am's \$75 Million  
Of Convertible Debt  
Is Sold Out Quickly**

**Lehman Brothers**  
Incorporated

SEPT. 29, 1976



By a WALL STREET JOURNAL Staff Reporter  
NEW YORK—Pan American World Airways' \$75 million public offering of 10½% convertible debentures sold out quickly yesterday after reaching the market at a price of 100, a spokesman said.  
The 25-year securities, which are rated triple-C by Standard & Poor's, can be converted into the carrier's common stock at a rate of one share for each \$3.75 face amount, a 9.52% premium from the stock's market value when the debt was priced.

Proceeds will be added to Pan Am's general funds and, together with internally generated funds, will be used for general corporate purposes, including working capital and capital spending.

The sale, which was originally slated to total \$50 million, was managed by Lehman Brothers Inc.



THE WHITE HOUSE  
WASHINGTON

October 1, 1976

216 52 21

TO: JIM CANNON

FROM: PAUL LEACH

*Paul*

Attached are three recent notices of airline financing and airplane purchases which may be of interest.

*Paul  
Thank you*

10/1/76

*Overton*



PM 3 38

New Issue / September 30, 1976

**\$60,000,000**

# The Flying Tiger Line Inc.

**9% Equipment Trust Certificates Due October 1, 1991**  
Interest payable April 1 and October 1

**Price 100% and accrued interest, if any, from October 6, 1976**

The day's other new taxable sale, a \$80 million offer of Flying Tiger Line equipment trust certificates, also fared well. Only "tag ends" were unsold by late yesterday, Salomon Brothers, lead underwriter, said. The 9% securities, rated single-A by Moody's and triple-B by Standard & Poor's, were offered at a price of 100.

The 15-year certificates were the first marketed by an airline in more than five years.

Copies of the Prospectus may be obtained in any State in which this announcement is circulated only from such of the undersigned as may legally offer these securities in such State.

## Salomon Brothers

**Bache Halsey Stuart Inc.**

**The First Boston Corporation**

**Blyth Eastman Dillon & Co.**  
Incorporated

**Dillon, Read & Co. Inc.**

**Dominick & Dominick,**  
Incorporated

**Drexel Burnham & Co.**  
Incorporated

**Goldman, Sachs & Co.**

**Hornblower & Weeks-Hemphill, Noyes**  
Incorporated

**E. F. Hutton & Company Inc.**

**Kidder, Peabody & Co.**  
Incorporated

**Kuhn, Loeb & Co.**

**Lazard Frères & Co.**

**Lehman Brothers**  
Incorporated

**Loeb, Rhoades & Co.**

**Merrill Lynch, Pierce, Fenner & Smith**  
Incorporated

**Paine, Webber, Jackson & Curtis**  
Incorporated

**Reynolds Securities Inc.**

**Smith Barney, Harris Upham & Co.**  
Incorporated

**Wertheim & Co., Inc.**

**White, Weld & Co.**  
Incorporated

**Dean Witter & Co.**  
Incorporated

**Warburg Paribas Becker Inc.**

**Bear, Stearns & Co.**

**L. F. Rothschild & Co.**

**Shearson Hayden Stone Inc.**

**Shields Model Roland Securities**  
Incorporated

**Weeden & Co.**  
Incorporated

**Johnston, Lemon & Co.**  
Incorporated

**Moore, Leonard & Lynch,**  
Incorporated

**Craigie Incorporated**



October 1, 1976



461,242 Shares



# Southwest Airlines Co.

## Common Stock

Price \$17.50 Per Share

### Southwest Air Combination Offer

**NEW YORK**—A combination offering of 461,242 common shares of Southwest Airlines reached the public market at \$17.50 each late yesterday.

The existing shares had closed at \$18.125, down 37½ cents, in American Stock Exchange trading. Recently, about one million shares were outstanding.

Southwest, based in Dallas, offered 366,242 shares to repay bank debt incurred for aircraft purchases, a spokesman said. The remaining 95,000 shares were offered by certain holders. Underwriters led by E. F. Hutton & Co. handled the sale.

Copies of the Prospectus may be obtained in any State in which this announcement is circulated only from such of the undersigned as may legally offer these securities in such State.

**E. F. Hutton & Company Inc.**

**Blyth Eastman Dillon & Co.**

**Drexel Burnham & Co.**

**Bache Halsey Stuart Inc.**

**Hornblower & Weeks-Hamphill, Noyes**

**Kidder, Peabody & Co.**

**Lehman Brothers**

**Loeb, Rhoades & Co.**

**Paine, Webber, Jackson & Curtis**

**Reynolds Securities Inc.**

**Smith Barney, Harris Upham & Co.**

**Wertheim & Co., Inc.**

**White, Weld & Co.**

**Dean Witter & Co.**

**Shearson Hayden Stone Inc.**

**Interstate Securities Corporation**

**Wheat, First Securities, Inc.**

**Arthurs, Lestrangle & Short**

**Baker, Watts & Co.**



10/1/76

# UAL's United Air Gets Clearance to Buy 727s At Cost of \$350 Million

By a WALL STREET JOURNAL Staff Reporter  
CHICAGO—Directors of United Airlines and its parent, UAL Inc., voted, as expected, to purchase 28 of Boeing Co.'s 727-200 planes. The total \$350 million outlay by United, the country's largest airline, will include payments for spare engines and parts.

At their meetings yesterday, the two boards didn't act on a proposal to buy an unspecified number of DC10s from McDonnell Douglas Corp. United said, however, that both boards will review the possible purchase of DC10s before year-end. The wide-bodied aircraft cost about \$25 million to \$30 million each.

As part of the Boeing transaction, which is subject to final agreement, United will trade in to Boeing 28 of its 30 nonfan DC8s. The carrier added that it will phase out the other two nonfans. Altogether, United has 90 aging DC8s, a type of aircraft it began using in 1959.

Richard J. Ferris, United's president, said the purchase will be financed with existing cash, plus funds generated internally from earnings and depreciation.

Six of the 727s are slated for delivery late next year with the rest to follow in 1978. They will seat 134 passengers compared with 129 in the DC8s and 128 in the 28 earlier 727-200s that United currently operates. The Boeing order marks United's first acquisition of new aircraft since 1972, when it bought seven DC10s.

By 1990, United contemplates spending about \$9.8 billion for fleet replacement and expansion. The estimate is based on 5% yearly traffic growth and a 6% annual inflation rate. The airline figures that during the 1980s it will need what Mr. Ferris has termed "a moderate number" of current-generation, wide-bodied aircraft as it retires more of the DC8s.

A major decision facing United in the 1980s will be the purchase of a new-generation plane, seating 175 to 200 people and replacing the last of the DC8s and United's 122 727-100s, which seat 96. Last year, United abandoned a proposal to spend \$600 million for 50 of a stretched-version 727 known as the 727-300. The new-generation craft under study are Boeing's 7X7, which would seat 180 to 200, and McDonnell Douglas's proposed DCX.

Mr. Ferris said last week that "Financing our needs through 1980 doesn't present a problem; indeed, we could cover these outlays with internally generated funds. The capital problem arises in the early and mid-80s." To obtain such financing from the private sector will require "reasonable, sustained earnings," he said.

Mr. Ferris described the 727s approved yesterday as 33% more fuel efficient than the nonfan DC8s they'll replace. For example, on a full flight from Denver to Chicago, the 727 will burn 1,308 fewer gallons of fuel, for a saving of \$428.

The planes will be powered by three Pratt & Whitney JT8D-15 engines to be turned out at the engine maker's commercial products division, East Hartford, Conn. Pratt & Whitney is a division of United Technologies Corp., Hartford.

In Seattle, a Boeing spokesman said the United order is the largest commercial-airplane order the company has received since 1968. He said the order, along with sizable orders earlier this year by other U.S. airlines, has halted the slow but steady 18-month decline in Boeing's Seattle-area employment and boosted the airplane-production rate at the company's Renton, Wash., plant where 707, 727 and 737 aircraft are assembled. The production rate, currently nine planes a month, will rise to 13 planes a month by the end of next year, he added.

The company's Seattle-area employment is expected to stabilize at about its present level of 45,000, the spokesman said.

The United order increases 727 sales this year to 102 planes from 50 planes in all of 1975. Other large orders for the 727 this year were 21 for Delta Air Lines and 16 for American Airlines.