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RECENT ADDRESSES

AMERICAN CIVIL AIRPOWER AND WORLD AVIATION*

BY STUART G. TIPTON

President, Air Transport Association of America

PEOPLE take for granted the miracles of the age in which they live. In our day, what would have seemed miraculous to the grandfather in his boyhood is scarcely noticed by the grandson. And so it is that in 1956, most persons never give a second thought to the vast international air network, operating under the flags of many nations, which today knits the Free World together.

Yet, the functioning of that network is vital to all of us—even to those of us who do not personally fly upon it or send our freight or mail over it. The existence of that network is a sort of assumption on which a large part of our daily life is based. Our diplomats rely upon it to discharge their duties. Our defense forces rely upon it in making their plans for national security. Businessmen rely upon it to increase trade and, therefore, the prosperity of the countries involved. And most important, the average American tourist is using it more and more as a way of becoming acquainted with the peoples of other countries.

Quite apart from the dollars he leaves behind him, it has been said that one tourist can be worth a dozen ambassadors in establishing solid relations between countries. That statement does not downgrade ambassadors one bit, but it does emphasize the good that can be done by ordinary people meeting one another person-to-person all over the world. Figures, to which I shall refer shortly, show that most of the world's international travel is done by Americans. That is fine, but it would seem a worthwhile objective of our foreign policy to encourage people of other countries to travel here and see how we live and what we are like at home.

In any event, many countries maintain a sturdy, vigorous airline system under their own flag. As a recent Senate report said in our own case, "The United States, as the leader of the Free World, has a duty both to itself and to others to maintain a strong international air transport system, and at reasonable cost to the taxpayers." And it is a fact that large segments of our international system are now costing the taxpayer nothing.

Today, the United States has leadership in world air transportation, and it is essential that we maintain it. Of course, we know we face a number of technical and traffic difficulties; but over the years we have shown the capacity to surmount them. We have developed and demonstrated a high degree of proficiency at such things as maintaining the necessary supporting resources abroad, selling tickets in dozens of currencies, and taking care of people, freight and mail over long distances and under many climates and conditions.

These technical and traffic problems, which are largely within our own control, we will either solve or not solve according to our own capabilities. But, on the whole, such problems have been so well mastered that by 1959 or 1960, we expect to be hauling large numbers of passengers from conti-

* Speech before the Aero Club of Washington, June 26, 1956.

ment to continent at speeds close to 600 miles an hour. And we expect to be hauling them at reasonable fares.

But if we have confidence in our ability to cope with the technical problems which we must continue to surmount, we regard with considerable wariness a set of problems of an entirely different nature and which are beyond our own control. Those problems grow out of the rules under which we as well as other international airlines are permitted to operate—not the technical rules, but the economic and political rules, some laid down by our own government, and some set forth by foreign governments. Inevitably, those rules and the administration of them will determine the future of international air transportation. So we have good reason to be concerned with them.

Today's rules are really an outgrowth of things that happened in 1944. In that year—before, during and after the Chicago Aviation Conference, at which some 52 nations were present—there took place a series of very thorough discussions, with U. S. Government and airline representatives both participating, about what the character of the world's future international air policy should be. It soon became apparent that the views of the United States, which even then intended to achieve leadership, were miles and miles apart from the views of most other countries.

Beyond the borders of the United States, most people took the view—ingrained by long habit—that international air transportation should be conducted without the rigors of competition and with maximum emphasis upon security for the airlines. The number of flights would be specifically restricted. Schedules would be shared. Traffic would be pooled. In brief, the United States was confronted with the sort of ideas which, if adopted would over-protect airlines and would put a damper on the development of a vigorous international air transportation system.

Development of Bermuda Agreement

Figuratively speaking negotiations fell apart in 1944, because the ideas of the future character of international air transport were so widely opposed to one another. At that juncture, the United Kingdom and the United States took both the leadership and the responsibility for evolving a workable arrangement under which international air services could be conducted. The agreement was worked out in the benign atmosphere of Bermuda, and in consequence came to be called the Bermuda Agreement.

It would not do here to attempt to explain the Bermuda Agreement, for such an explanation could easily become an exercise lasting several hours. But the basic principle adopted did provide airlines the essential opportunity to develop business and to expand their operations to accommodate the growing number of travelers. The basic principle is that the services provided by an international airline shall retain as their primary objectives the provision of capacity adequate to the traffic demands between the country of which that airline is a national and the countries of ultimate destination. Conversely, it was not contemplated that an international airline would devote itself primarily to serving traffic between two foreign points.

The Bermuda Agreement became the model for other agreements, and the principles it embodied found worldwide application. It is fair, I think, to suggest that the subsequent flowering of world air commerce was the result of the adoption of the Bermuda principles.

This is not to say that there have not been problems, because there have been. There have been many arduous negotiations in the course of putting the Bermuda principles into force. And there have been equally difficult negotiations over the administration of agreements after they have been adopted.

But despite international arguments—arguments among friends, let me emphasize—air services have been conducted with considerable success, and there are good prospects for even greater success in the future. However, we can still expect to be plagued with difficult negotiations over the institution of new agreements and the administration of old ones. Recent negotiations have indicated that there are future problems for the United States in at least three areas:

One is the introduction of foreign-flag airlines into markets where they cannot operate economically under the Bermuda principles, thus sowing the seeds of disagreement and weakening American-Flag as well as other foreign-flag airlines.

A second is the imposition of restrictions upon American-Flag airlines operating abroad on routes in which they have a primary legitimate interest under the Bermuda principles—and which are necessary in the national interest.

A third is the failure of foreign governments, and perhaps of the United States Government itself in some instances, to attach sufficient importance to the value of the American market during the course of negotiations.

This is not the forum in which to present case histories bearing on those three points—another discussion which could easily become an exercise lasting many hours. But it may be instructive to look briefly at what the American market means to all airlines engaged in international commerce.

The importance of the American market can be summed up, although not fully described, in a single statistic: In 1954 there were a total of 8 billion revenue passenger-miles flown in international air transportation and of that number 4 billion, or one-half of the world total, were between points in the United States and foreign points.

There are many other statistics which might be used to measure the value of the market the United States offers to foreign-flag airlines as compared with the value of the markets foreign governments can offer in return. It is enough here to note that more than half of the passengers carried by foreign-flag airlines into and out of the United States are U. S. citizens.

It is clear that foreign-flag airlines, to be strong, must have access to the American market. It is clear that they are getting it. And it may surprise you to learn that in some ways they have better access to it than do the American-Flag airlines, in terms of being able to sell a comprehensive service. Outbound from the United States, a foreign-flag airline's first port of call, except for fuel stops of minor traffic importance, is often its capital city, the source and center of its whole network, and its gateway to the world.

To get this picture, you might visualize an American-Flag airline and a foreign-flag airline as two trans-Atlantic pipelines. To stay in business, both pipelines depend on the traffic flowing from America. But you see the American-Flag airline as a single pipeline passing through a relatively limited number of cities and able to sell and carry traffic directly to those specific cities only. But you see the foreign-flag pipeline connecting in Europe with its own pipeline network which spiderwebs out to the most important points in Europe and, frequently, the world. The significance, of course, is that thus the foreign-flag pipeline can sell and deliver American traffic not just to its own country but can sell and deliver American traffic directly over its own network to a large part of Europe and, frequently, the world.

I am not implying, by the way, that restrictions contrary to the Bermuda principles should be imposed upon foreign-flag airlines because of the great value of the American market to them. The only suggestion is that it is

important to give proper weight to the great value of the American market during the course of negotiations.

Problems arising in all three of the areas I have mentioned—introduction of foreign-flag airlines into markets where they cannot operate economically under the Bermuda principles: improper restrictions upon American-Flag airlines operating abroad; and failure to attach the proper importance to the value of the American market during negotiations—problems arising in all three areas can gravely affect the future of our country's air transportation system abroad. Errors of policy, errors of negotiation and errors in the administration of agreements can all do great harm.

Debate Spotlights Fundamental Policy

As some members of this group present here today are acutely aware, the recent air agreement with the West German Federal Government touched off a vigorous debate before the Senate Interstate and Foreign Commerce Committee. Without regard to the rights or wrongs of that agreement, its deficiencies or its virtues, the debate turned the spotlight on important, fundamental aspects of our aviation policy.

It engaged the attention of an important Senate committee. It gave industry and government spokesmen the opportunity of expressing their views in that important forum. And, more importantly, it revealed, I believe, a lack of common understanding as between the Executive, the Congress and the airlines as to what our goals should be and what means we should employ to reach them.

The report of the Senate Commerce Committee is an important milestone in the matter of our international air transportation policy. Among other things it constitutes an invitation for us to re-examine what we are doing and why we are doing it. I believe there is sentiment sympathetic to such a re-examination within both the executive and legislative branches of our government, as well as within the airlines. And, to be sure, after a decade in which a great many changes have occurred, it would seem wise to re-examine our policy systematically and in detail, despite the fact that we think its results, on the whole, have been beneficial for us and for other countries.

What would such a re-examination disclose? Perhaps it might persuade us that some changes are required. But I have a notion that such a re-examination would convince us, as is suggested in the Senate report, that the Bermuda principles are still the best that are possible today, and that in the Bermuda type of agreement, properly negotiated and properly administered, we have the best available instrument for furthering the development of international air transportation.

If those conclusions should be the result of a re-examination, our time would not have been wasted. For we would have re-established a common understanding which the Executive, the Congress and the airlines all would share. In addition, we would have imbued everybody concerned with new determination to give consistent, vigorous support to the policies we believe to be the right ones.

As part of the re-examination, we should perhaps take a look at our government's machinery for negotiating and administering our foreign air policy. It is true that any foreign negotiation has the benefit of the participation of our highest civil aviation authority, the Civil Aeronautics Board. Even so, within the State Department—which in most cases, must take the lead in any negotiation—aviation seems to have been reduced to rank below that which it deserves—and receives, as a rule, from foreign governments. Perhaps as part of its contribution to preparing for the next decade of

international air transportation, the State Department might review the way in which it is organized to handle foreign air policy.

For example, does aviation receive the attention of the highest levels when it requires it? Is enough manpower being made available to those charged with aviation matters? Do they have sufficient resources to do their job right? Is there provision for continuity of service so that those charged with aviation are not reassigned to other jobs and their expertness in aviation thereby lost to the country?

And a question might be raised as to the composition of the negotiating parties, with a view to including airline experts on a consistent basis. Under the present situation, the American-Flag airlines, with their close and expert knowledge of the situation, may or may not be represented continuously in the U. S. delegation sitting at the conference table. Foreign delegations, by virtue of the relationship between most foreign governments and their airlines, in effect automatically include airline representation, since most foreign-flag airlines are wholly or partly owned by, or are the special wards of, their governments.

The unfortunate result of this arrangement is to make the foreign delegation the spokesman and negotiator for its airline, with the American delegation becoming a sort of mediator between American-Flag and foreign-flag interests.

The first postwar decade has been a fruitful one for the development of international air transportation. Profits have not been significant. But a world air transport system under many flags has flourished in terms of its ability to offer more and better service to more and more people.

The next decade can be even more fruitful, for it will see the introduction of jet airliners. But it will not be fruitful unless we re-establish a policy basis for our actual operations. It is time to get ready for the jet age.

THE DOLLAR AND THE AIRLINER*

By STUART G. TIPTON

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THIS YEAR we are witnessing a great debate on the subject of American airpower. Questions are being asked as to whether American military airpower is remaining, or can remain, the world's strongest—or whether the Red air fleet is about to surpass our total military airpower. As a layman, a civilian, I have no special information as to what this debate will have revealed at its conclusion. But I share with almost all Americans the conviction that the quality of our military airpower is one of the most important questions that Americans can debate in 1956.

When I use the term "military airpower," I am referring to the components of the United States Air Force and United States Naval Aviation. But this audience knows, perhaps better than any other possible audience in the country, that military and civil airpower are inseparable. You know that airpower begins on the ground—with the manufacturing industry; with supporting installations; and with the young men and women whose interest must be counted upon to sustain American airpower in the future. You know also that a scheduled air transport industry in being is an indispensable—an *indispensable*—part of total national airpower. If the United

* Speech at the Aviation Writers Association Dinner, Mark Hopkins Hotel, San Francisco, May 29, 1956.

States did not have a scheduled air transport industry today, we would be compelled to create it in the name of national defense.

With its 1,500 airliners and its nearly 120,000 employees, with its thousands of stockholders and with the financial institutions which have supported the industry and made possible its growth, the American-Flag system constitutes the most efficient, the most useful and the most competitive air transport system in the world.

The world includes, of course, Aeroflot, Russia's civil air fleet. Aeroflot's domestic services are already extensive, as is to be expected in a country of Russia's size. And Aeroflot today is displaying the unmistakable intention of penetrating the foreign field and establishing a comprehensive international network under the Red Flag. Moreover, I think it reasonable to foresee that Aeroflot's own network will be linked with the air systems of such countries as Czechoslovakia, Poland and other members of the Communist empire. It is reasonable also to foresee that Red China will strive to develop a first-rate airline system, linked to Russia's. So we can anticipate a wholly new force on the world scene, a powerful world-wide network of Communist airlines, assisting each other in the development of routes and services, the generation of traffic, and the creation of new and improved technologies.

Although we are proud of our record, we must acknowledge that the ability to build and operate a civil air fleet is most certainly not an American monopoly. For example, Aeroflot is already operating jet airliners. It is probable that the arrival of the Tu-104 at London International Airport excited more attention than it deserved. From all reports, the Tu-104 does not compare with the jet airliners which the American-Flag industry has undertaken to acquire and operate. But it would be foolish not to expect the Russians to develop a good long-range jet airliner, perhaps based on the Bison bomber, just as the Tu-104 appears to have been evolved from the twin-jet Badger bomber.

Thus, in addition to the continuing competition with the fine airline systems of the rest of the free world, the United States can expect to face the test of strength offered by a new and powerful rival. We in the air transport industry would not be discharging our full responsibilities if we failed to analyze that prospect and its implications.

Now, my thesis tonight is a very simple one. It is this: There need never be any debate on the subject to American civil airpower as represented by the scheduled airlines of the United States; there need never be any question as to whether American civil airpower is paramount and will remain paramount—unless our own Government somehow manages to undermine our own air transport system. This country can continue to have the greatest airline system in the world only if our own Government, which has life-and-death powers over the industry, recognizes the great public issues with which it is dealing—recognizes the disaster that can come from errors, the national benefits that can flow from sound policy.

This is not the time, if there ever was or will be a time, when the Government should be arrayed against the industry or the industry against the Government. Nor is this a time when the Government should be required to apologize for sympathetic or realistic consideration of the industry's problems. The airlines have too much to do, and great issues hang on their ability to do it.

The Civil Aeronautics Board and members of the industry have greatly exasperated one another from time to time, and we have every reason to believe that they will do so again. But, by and large, a record has been written in which the airlines, the Government and the country can take pride.

Service to the national defense, most of this group will recall, was demonstrated in World War II, when the industry had been reorganized for barely three years. And today, the scheduled airlines of the United States enable the country to maintain the largest Civil Reserve Air Fleet in the world, its planes and crews subject to call on 48-hours notice. This addition to the stand-by strength of the military air transport services ensures that our armed forces in any emergency will have the largest air transport fleet of all the world powers.

Statistics concerning service to our commerce, foreign and domestic, are so various and numerous that I shall not even attempt to recite them in detail. Perhaps it is enough to observe that compared to 1946, speeds of airliners have doubled, and the number of persons using air travel has more than tripled. Volume of available air service has more than quadrupled. And with all of this, the average fare level stands today just about where it was in 1938, despite such increases in costs as reflected in a rise of 235 per cent in airline wage levels and an increase of over 90 per cent in consumer's prices.

Service to the Postal Service is also provable through an array of statistics. Here is the one of which we are proudest. The Post Office Department, which did so much to get air transportation off the ground, today gets more than 5 cents of every 6-cent airmail stamp. For handling the mail we get less than 1 cent. In addition to the carriage of priority airmail, the industry and the Post Office Department are today conducting an experiment in moving first-class mail by air in order to expedite delivery. That experiment will expand because the public will demand it.

The record of the airlines is and must be subject to repeated scrutiny by the Government. A recent computation disclosed that in the last ten years the industry has undergone at least ten Congressional inquiries and five inquiries by the Executive Branch of the Government. This year, we are even now keeping our record consistent in the matter of undergoing investigations. A committee of Congress is already conducting an inquiry, and the Civil Aeronautics Board just the other day announced a general passenger fare investigation of the domestic trunklines. Nevertheless, we like the goldfish bowl we live in, because the people who look in like what they see.

It is important to note that the industry did not oppose the idea of a general passenger fare investigation—nor, of course, did the industry endorse it. The domestic trunklines have no reason to fear the outcome of such an investigation, for the outcome of an honest study can be nothing but constructive. However, the reason given by the Civil Aeronautics Board for starting the investigation was no good. The Board gave an alleged high level of airline profits as the reason for its concern. This caused some of us to fear that even our own Government—in fact, our own regulatory agency—may not be fully aware of the basic economic facts of our business. So I am going to take the opportunity tonight of previewing one or two of the facts which the investigation of the domestic trunklines will reveal.

Let me simplify the story at the outset. After a lot of lean years we finally made a profit. The first thing that happens is that the Government moves in and takes 52 per cent of it. Then we sit down and figure out how little of the remainder we can give our stockholders, and still maintain our credit. We give it to them, and then we take the rest and buy airplanes. When we get the airplanes we call the military department and contribute them to the Civil Reserve Air Fleet to be called up on 48-hours notice. Scheduled air transport is the biggest bargain the Government or the public ever had.

And there can be no quarrel with today's level of fares as compared with

the cost of other services or products. Air travel today is one of the country's best buys. In fact, the Board did not say airline rates are too high. What the Board said, in effect, was that regardless of the level of fares, airline profits were high. To arrive at such a conclusion, the Board employed a formula known as rate of return on investment.

Rate of return on investment has a traditional significance in some industries—whose economic characteristics are quite unlike scheduled air transport's. But the Board and everyone concerned with our business must recognize that rate of return on investment is not a useful way to determine whether airline profits are too high, too low, or exactly right. As a matter of fact, if the Board were to bind the airlines to this arbitrary, irrelevant formula with all the theoretical monkey business that goes with it, the airlines' financial prospects would be dim indeed. Neither the Board, nor the industry, nor anyone else should be hypnotized by a formula such as a rate of return on investment, or any other formula. That is the easy way. That makes it unnecessary to think. That makes a decision easy to defend because reliance can be placed on ancient principle. Instead, the Board must face up to the real question: How much money do the airlines need to do their job? The Board must answer that and then be prepared to support and defend the industry in getting that much money.

And over the next ten years the scheduled airlines are expected to spend some three billion dollars for new airliners and related equipment!

Actually, the level of a public utility's profits is not nearly as important as the disposition of them. Were they used to make solid contributions to the public service or to indulge in corporate riotous living? Listen to what the domestic trunklines did with their money during the last ten years.

Our studies show that if you add up trunkline revenues from all sources—earnings, sale of additional stock, borrowings, depreciation, property retirements and other amortizations—you come up, for the last ten years, with about one billion, seven hundred sixty million dollars. The analysis of how those funds were used discloses the startling fact that some 82 per cent of all funds available to the domestic airlines during the last ten years were ploughed back into new and better equipment. That 82 per cent represents one billion, four hundred forty-eight million dollars invested in better service. Meanwhile, some 91 million dollars were being paid out in dividends—about five per cent of all funds available to the industry. Incidentally, a large portion of those dividends was paid to preferred stockholders, which is to say that those payments were virtually mandatory from a credit standpoint.

How did the dividend pay-out of the domestic trunklines compare with other industries? I am informed by security analysts that a growth industry, such as scheduled air transport, ought to be paying out about 40 per cent of its net income, after taxes, in dividends. During the ten-year period beginning in 1946, dividends paid out by the domestic trunklines amounted to about 32 per cent of net profits after taxes. During the same period, the comparable figure for all U. S. corporations was 47 per cent of net profits after taxes.

During the past five-year period—the period in which, relatively speaking, the airlines began to show some indication of generating earnings—dividends paid out by the domestic trunklines amounted to about 28 per cent of net profits after taxes. The comparable figure for all U. S. corporations was nearly 54 per cent.

If the airlines were rolling in profits, that remarkable fact would be readily evident through a number of means. It would show up, for example, in the market price of the industry's securities by revealing the regard, if any, for its equities by investment sources.

A study of the last ten years shows that despite the strong growth characteristics of the airline group as manifested by an increase of 263 per cent in gross revenues, airline equities have increased but 25 per cent in price from 1946 through the first quarter of 1956. This has occurred in the face of one of the biggest booms in the country's history, as evidenced by the industrial stock average increasing some 166 per cent from 1946 through the 1956 first quarter. The railroad business, which has been losing freight business to the trucks and passenger business to the airlines, has shown an appreciation of almost 80 per cent in its securities. Some other growth industries have shown increases in the price of their equities of 239 per cent, in the case of chemicals; and 476 per cent, in the case of aluminum.

I am not saying the domestic trunklines lack financial respectability. They have it. And in view of the fact that they have it, how do we account for the investors' appraisal of the industry's equities? Among the reasons may well be the fact that in recent years the existence of Government regulation has created doubt rather than the confidence it should generate as to the industry's future.

I have said the reason the Board gave for investigating the passenger fares of the domestic trunklines was a wrong one. Perhaps what I have been saying adds up to a good reason for an investigation. Perhaps it is high time that the airlines came at the CAB with the powerful arguments which must convince the Board of the basic needs of an air transportation system and give the Board an opportunity to assume its grave responsibilities in helping to maintain American airpower.

And this thought brings me back to what I said at the outset. We have, in the airlines of the United States, an industry that has been consuming most of its own funds in order to provide better and expanded service. That's how it is that we are able to say today that our country has the world's most efficient, most useful and most competitive air transport system. For the future, the industry will follow a similar course. And remember this: The Russian taxpayer will have to pay for the Tu-104 and its successor airliners. The airlines of the United States, though they freely acknowledge the subsidy help they once received, propose for the most part to acquire the new jet equipment without aid from the taxpayer.

The American-Flag air transport industry recognizes its obligations and the necessity of continuously submitting its record to the Government and the American people for scrutiny. But I do suggest that on its part the Government also has some obligations. The Government must recognize that the air transport industry by its continuing achievements on behalf of both the national economy and the national defense has become a symbol of American progress, and the Government must see to it that those achievements are not checked.