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## More About Recapture Air Mail Pay - Editorial

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## EDITORIALS

### MORE ABOUT "RECAPTURE" AIR MAIL PAY

Permanent relief seems to be in sight for the heavy blow dealt the air carrier industry by the Civil Aeronautics Board through its air mail pay order of March 12, 1942, providing for recapture of approximately \$4,000,000 from American Airlines. The full texts of the opinion and order were published in the April 1942 issue of this *Journal*. Progress as to reconsideration and further hearing was reported in the July issue. American Airlines and Eastern Air Lines, with an Examiner's Report providing for recapture of air mail pay, have been granted temporary relief. Just how and why such drastic action was visited upon two of our largest domestic air carriers is somewhat of a mystery, especially since it was taken three months after Pearl Harbor.

However, the Board now seems to have a better grasp of war-time economy, for it has lately found recapture of excess profits contrary to the public interest for two American-flag air carriers operating abroad, which have heretofore enjoyed far more generous air mail pay than any domestic carrier. We report these decisions from official press releases of the Civil Aeronautics Board.

The Civil Aeronautics Board on July 30, 1942 issued its final order in the air mail rate proceeding involving Pan American-Grace Airways, Inc., and decided not to effect the recapture of profits earned by Panagra under the mail rates prevailing over an extended period in the past: *Recapture was declared to be economically unsound and contrary to the public interest*. The Board, however, while not issuing a conditional order, made definite suggestions to the carrier, setting forth its views as to appropriate procedures which the management should take to insure that the excessive earnings collected by the carrier should be devoted to the transportation service until the carrier becomes economically self-sufficient and not transferred as dividends to the company's stockholders.

The Board's opinion points out that Panagra, operating under a contract entered into with the Postmaster General in 1929, shows operating profits during the last 13 years of \$6,035,258, approximately one-half of which accrued during the pendency of the rate inquiry which preceded the opinion. In its final opinion the Board

affirmed its previous holding that \$1,375,000 of these profits were excessive.

The Board made note of its decision on March 12 in the American Airlines rate case, now under reconsideration, and stated that it had reached its conclusion against the policy of recapture in the Panagra rate case "upon considerations which have been accentuated by developments affecting air transportation since the Board's former decision involving the same issue". The Board made it clear, however, that in fixing the future rate, these excess earnings would not be considered as a part of Panagra's investment on which it would receive a profit until it reached a self-sustaining basis and was paid for the carriage of mail only on a basis of compensation for such service.

Two primary considerations were presented as influencing the Board against the recapture policy: First, the detrimental economic effect of such a policy upon the carrier during present wartime conditions; and second, the need of the carrier for ample reserves to act as a "cushion" against the exigencies of the future in which (the Board said) it will be called upon to perform "a task of unpredictable magnitude". "Our international air carriers . . . will face a need for capital," said the Board, "which is likely to be as sudden as it will be urgent. If they are to be able to satisfy those capital requirements they must present a reasonably sound financial condition to the investing public." To reduce the financial resources of Panagra under such circumstances "would clearly lack that justification which should accompany a policy vitally affecting air transportation."

Pan American-Grace Airways, commonly called Panagra, operates between the Canal Zone and Buenos Aires by way of the west coast of South America, serving Colombia, Ecuador, Peru, Bolivia, Chile, and the Argentine Republic; and also operates local services in some of these countries, especially Ecuador and Bolivia, where its operations have replaced those of companies under German domination.

The Civil Aeronautics Board September 1, 1942 announced a reduction in mail rates payable to Pan American Airways, Inc., over that carrier's Latin-American Divisions from Brownsville, Texas, to Trinidad, via Mexico City and Balboa, Canal Zone; and from Miami, Florida, to Buenos Aires, Argentina, via Rio de Janeiro, Brazil. The Board pointed out that increased war traffic in express,

mail, and passengers was resulting in constant heavy pay loads on the carrier's Latin-American Divisions. During the pendency of this proceeding, according to the Board, Pan American earned excess profits of about \$4,356,000 on an average investment of approximately \$8,442,000. *The Board stated, however, that it will not order the excess profits of \$4,356,000 recaptured.*

Instead, as in the recent Panagra Mail Rate case decision, the Board expects the carrier to place certain restrictions on the use of such earnings found to be excessive, emphasizing that these excess funds should be used to serve and develop public air transportation, and should not be devoted to the personal interest of the stockholders through the payment of dividends. Accordingly, the Board suggested that in addition to maintaining its capital stock account Pan American establish a special reserve account, to which shall be credited an amount equal to the excess earnings, or transfer such earnings to the capital account, or a combination of both.

In establishing the new rate the Board reviewed the financial history of the carrier's Latin-American routes from January 1, 1929, to May 31, 1942, and stated that during that period, on an average net investment of \$7,192,202 Pan American had earned an average annual net of 20.75 percent before Federal taxes and 15.32 percent after taxes and paid out an average annual dividend of 7.82 percent. Beginning September 1, 1942, the Board found that the carrier had a recognized investment of \$14,204,895 and indicated that reasonable earnings on this amount under present war conditions will be \$1,420,490 per year after payment of Federal taxes.