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Administration Separation of Subsidy from Total Mail Payments to Domestic Air Carriers

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ADMINISTRATIVE SEPARATION OF SUBSIDY FROM TOTAL MAIL PAYMENTS TO DOMESTIC AIR CARRIERS

I. ADMINISTRATIVE SEPARATION OF SUBSIDY FOR DOMESTIC AIR CARRIERS

Purpose

THE Civil Aeronautics Board has effected an administrative separation of service mail payments from subsidy payments for the domestic air carriers [1] of the United States which are certificated for the transportation of mail in order to:

(1) Identify those amounts which are compensation to the air carriers for carrying the mail, and provide the public with full information as to the cost to the Federal Government of maintaining and developing the domestic airline industry.
(2) Provide the President and the Congress with information which will permit a review of the amounts being spent for domestic airline subsidies.
(3) Provide information which will assist the Board in arriving at policy decisions affecting the development of the domestic air transportation industry.
(4) Eliminate the uncertainty with respect to that portion of the Post Office Department deficit which is directly traceable to subsidies to the domestic airline industry.

The administrative separation is made at this time in order to expedite the release of full information concerning subsidy payments pending the enactment of appropriate legislation by the Congress.

In a letter addressed to the Chairman of the Senate Committee in Interstate and Foreign Commerce, dated July 9, 1951, the Chairman of the Civil Aeronautics Board stated:

> "The Board proposes on or before September 30, 1951 to submit to the President and the Congress a report which will be an administrative separation by the Board of the compensatory and subsidy elements of mail pay for all the domestic carriers."

The Board's proposal was made with full recognition of the magnitude of the task it was assuming and with knowledge of the numerous technical difficulties involved.

The Board has effected this administrative separation of service mail payments from subsidy through staff study and without consultation with the air carriers. It is recognized that many different techniques may be used to separate service mail pay and subsidy. The Board believes, however, that this report provides an objective, fair, and reasonably accurate separation.

The administrative separation in no way affects the total amount of

[1] This report covers the operations of domestic carriers only, within the continental United States and into terminal points in Canada.

mail compensation paid or to be paid to each air carrier by the Postmaster General in accordance with the effective rate orders of the Board. Such rate orders can be modified only through the normal rate-making processes of the Board.

Separation Legislation

The Board is in full accord with the program of the President and the Congress, which contemplates the enactment of legislation which will require the establishment of formal separation. The administrative separation program of the Board will, of course, be geared to such legislation as may be enacted.

Future Program

The Civil Aeronautics Board is attempting to place most of the domestic, international, overseas and territorial air carriers on final mail rates on or before June 30, 1952.

The Board will release a further report not later than June 30, 1952, setting forth the administrative separation of service mail pay and subsidy for the United States carriers in international, overseas and territorial operations which are certificated for the carriage of mail. In future years the Board will prepare an annual report separating service mail payments from subsidy payments for the entire air carrier industry of the United States. Each such report will present a separation for the preceding fiscal year on the basis of actual results, and a separation for the next two succeeding fiscal years on a projected basis.

The Board will endeavor to develop a progressively refined basis for establishing the separation in future annual reports. Adequate opportunity will be provided to obtain the viewpoints of all parties. In particular, continuing analyses and evaluation of the inter-action of costs and traffic characteristics will be made and careful consideration will be given to proposals for other types of service rate formulas, such as multi-element rate formulas, which appear to have merit.

In all mail rate cases for domestic air carriers processed after October 1, 1951, that portion of the payment which is for the service of carrying the mail and that portion which is subsidy will be appropriately identified.

II. SUMMARY

The administrative separation establishes the following breakdown of total mail payments to domestic air carriers between service mail pay and subsidy for the fiscal year 1951, on an actual basis, and for the fiscal years 1952 and 1953, on an estimated basis.

	1951	1952	1953
Service Mail Pay	$27,369,000	$29,599,000	$31,786,000
Subsidy	34,565,000	27,786,000	24,134,000
Total Mail Payments to Domestic Air Carriers	$61,934,000	$57,385,000	$55,920,000

Chart I shows the comparative service mail pay and subsidy for the domestic air carrier industry for the fiscal years 1951 through 1953, and indicates the declining trend in total mail payments, the relative proportion of subsidy and the relationship of subsidy to total operating revenues.

It will be noted from the above tabulation that it is estimated that the amount of subsidy for the domestic air carriers will decline approximately $10,400,000 between 1951 and 1953, or 30.2 percent. The service mail pay, however, increases approximately $4,400,000 as a direct result of the additional mail volume to be carried.

The chart indicates that in 1951, 5.54 percent of the total operating revenue of the domestic airlines constitutes subsidy mail pay as compared with 3.16 percent in the fiscal year 1953.

In the fiscal year 1951, the total payments by the Federal Government for domestic air mail service were $109,434,000. This total includes:

(1) service mail pay, $27,369,000
(2) subsidy, $34,565,000; and
(3) Post Office Department handling and delivery costs, $47,500,000.[2]

The total revenue received during the fiscal year 1951 from domestic airmail postage was $93,000,000.[3] Therefore, in the fiscal year 1951, the net cost to the United States Government, including service mail pay, subsidy and Post Office Department operations, was $16,434,000. This is approximately 46 percent lower than the net cost for the fiscal year 1950 (Appendix D).

The principal steps involved in effecting the administrative separation of service mail pay from subsidy are outlined below:

(1) The domestic air carriers were grouped to reflect their relatively attainable unit costs as determined by the revenue ton-miles per station transported by each carrier.
(2) Each of the domestic air carriers certificated for the transportation of mail was assigned to one of seven groups.[4]
(3) A service rate of $0.45 per mail ton-mile was established by the Board for the Big Four (American, Eastern, TWA, and United) on September 19, 1951.
(4) The service rates for the various carrier groups were determined as follows:
    (a) The percentage differential between the average operating costs for the fiscal year 1951 for the Big Four and the average operating costs for the carriers in each group was determined.
    (b) This percentage differential was applied to the service rate of $0.45 established for the Big Four to obtain the service rate for each of the other groups.
(5) The service mail rate for each of the seven groups is as follows:

Group	*Service Rate Per Mail Ton-Mile*
I	$0.45
II	0.53
III	0.75
IV	0.91
V	1.48
VI	2.58
VII	7.26

[2] Handling and delivery costs are estimated on the basis of data provided by the Post Office Department for nine months of the fiscal year 1951, and include costs attributable to territorial mail service which are not reported separately.

[3] Includes an indeterminate, but minor, amount of postage revenue from territorial mail services which is not reported separately.

[4] Senate Bill S. 436 (introduced in Congress by Senator Johnson of Colorado), as reported by the Senate Committee on Interstate and Foreign Commerce, provides for five groups, but empowers the Board to make such additional groupings as circumstances may warrant. While the preliminary studies of the Board also indicated that five groups would be adequate, based upon the more comprehensive study required for this report it has been found that seven groups are desirable to reflect the operating characteristics of the domestic industry.

III. Development Role of Subsidy

The Civil Aeronautics Act of 1938, as amended, provides for the payment to air carriers certificated for the transportation of mail of an amount needed under honest, economical and efficient management to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the postal service and the national defense.

This mail pay to airlines of the United States is composed of two elements — payment for the carriage of mail as a service and the difference between this amount and the total operating requirements of the air carriers (including a fair return on investment) which is subsidy.

During the 13-year period since the passage of the Civil Aeronautics Act, a total of $457,000,000 has been paid to the United States *domestic* air carriers certificated for mail service in meeting the threefold national interest objectives of the Act. It is estimated that less than 60 percent of the total payments, or approximately $270,000,000, represents subsidy.

As indicated by Chart II the total payments to the domestic air carriers and the total costs of the Post Office related to air mail service were $775,031,000 for the period. This is to be compared with the total revenue received during the period from air mails postage which was $718,726,000, or an excess of costs including service mail pay, subsidy, and Post Office costs over postage receipts of $56,305,000.[5] This is less than $44,331,000 per year since the passage of the Civil Aeronautics Act.

The soundness of the Congressional policy as expressed in the Act is clearly evidenced by the striking growth of the domestic airline industry, as indicated by the following:

A. Expansion of the Domestic Fleet

Type of Aircraft	1938	1951
Single engine	2	11
2-engine	229	528
3-engine	5	0
4-engine	0	315
Helicopters	0	11

B. Aircraft Fleet Cost	$ 22,919,000	$ 346,116,000
C. Revenue Ton-Miles	51,619,000	1,117,846,000
D. Revenue Passenger-Miles	423,000,000	9,311,000,000
E. Commercial Revenues	27,047,000	570,587,000
F. Communities Served	182	588
G. Total Annual Ton-Mile Capacity Available for Commercial and National Defense Requirements	194,947,000	2,861,997,000

This growth has occurred over a 13-year interval, and at the present time the United States possesses the strongest airline industry in the world. flying the most modern equipment.

The contribution of the domestic air carrier industry to the war effort during World War II included the assignment of a major portion of the domestic fleet to the military, the operation of large scale military transport contract services, the carriage of high priority traffic on the remaining

[5] Since it was impossible to segregate Post Office Department handling and delivery costs and postage receipts for territorial air mail service from domestic service, the total mail payments, Post Office handling costs, and postage receipts for the 13-year period include those relating to territorial air carriers. Inclusion of such data has no material effect on the domestic air carrier picture.

commercial services, and the furnishing of a reservoir of highly trained transport personnel.

Chart III compares total mail pay, including subsidy, with the total operating revenues of the domestic carriers from 1938 through 1953. Over this period there is a striking growth in the revenues of the domestic air carriers, showing an increase from $40,000,000 in 1938 to $763,000,000 estimated for 1953.

The local service carriers were certificated for a limited period on an experimental basis in order to determine whether air services could appropriately be expanded to the smaller communities which would otherwise be deprived of such service.

These carriers have been in operation for an average of approximately three years and are in the initial stage of development, which is characterized by low revenues and high operating costs, with a consequent demand for subsidy support. Since the certificates of these local service carriers have been awarded for a temporary period only, those carriers which fail to demonstrate ability to make substantial progress in reducing their subsidy requirements can and will be eliminated by the Board if they fail to make an adequate showing after they have been operating for a reasonable length of time.

Chart IV shows that since the fiscal year 1950 total mail payments to the domestic trunk airlines have been reduced and in the period from the fiscal year 1951 through 1953, it is estimated that the subsidy payments to these carriers will show a reduction of 59.5 percent. The four largest domestic carriers, which transport 70.3 percent of the total traffic, are now on a service rate and it is anticipated that by the end of the fiscal year 1953 additional trunk line carriers will become self-sufficient, if present economic conditions continue.

Chart VII in the Appendix shows subsidy per ton-mile of revenue traffic by domestic air carrier groups for each of the fiscal years 1951, 1952, and 1953.

IV. Techniques of Administrative Separation

In approaching the problem of administrative separation, it was necessary to determine a sound basis for arriving at the rates for the various carriers for the service they perform in carrying the mail. A service rate is one which compensates the air carriers for carrying the mail, reimbursing them for the related costs, including a fair return on the investment which is used in the mail service.

As previously noted, the Civil Aeronautics Board has recently established a service rate of $0.45 per mail ton-mile for the Big Four (American, Eastern, TWA, and United), based upon a detailed study of the costs of the mail service. This was the first service rate established by the Board during the post-war period and is the only service rate which has been fixed as the result of a comprehensive cost study.

In order to develop the service mail rates for the other domestic air carriers, it was necessary to adopt one of two courses of action:

(1) To determine such rates on the basis of a detailed costing of the mail service for each carrier, or
(2) to determine such rates by the use of an over-all statistical approach without costing the mail service for each carrier.

It was concluded that the statistical approach would permit the expeditious completion of a study that would be satisfactory for administrative separation of mail pay. The detailed costing of the mail service for each carrier, on the other hand, would have required a large staff for an extended period of time.

Staff study over a period of years has shown that the unit costs of an air carrier respond directly to the following primary operating factors:

(1) Length of traffic haul and average distance between stops
(2) Density of traffic
(3) Volume of operations

For example, an air carrier which is required to stop every fifty miles to pick up ten pounds of mail and express and three passengers will have much higher unit costs than an air carrier which stops every three hundred miles and, at each such stop, picks up one hundred and fifty pounds of mail and express and ten passengers.

It was determined, after extensive analysis, that revenue ton-miles per station was the most representative single measure which would reflect the combined impact of the operating factors mentioned above on attainable cost levels. Revenue ton-miles per station were obtained for each carrier by dividing the revenue ton-miles flown during the fiscal year 1951 by the average number of stations served during this period.

While there are other measures which may reflect particular operating characteristics with varying degrees of accuracy, the studies of the Board's staff have indicated that revenue ton-miles per station is the best available composite measure.

The cost curve of the domestic air transport industry, Chart V, demonstrates that unit costs decline in direct relationship to the increase in revenue ton-miles per station.

For example, it will be noted from Appendix F that American Airlines carried during the fiscal year 1951 approximately 4,058,000 revenue ton-miles per station at a cost per revenue ton-mile of $0.31, whereas Continental Air Lines carried 288,000 revenue ton-miles per station at a cost of $0.55 per revenue ton-mile and Frontier Airlines, a local service carrier, transported 63,000 revenue ton-miles per station at a cost per revenue ton-mile of $1.26.

It will be noted from a study of the industry cost curve that carriers vary in their unit costs even though they are at approximately the same place on the curve according to revenue ton-miles per station. It does not necessarily follow, however, that air carriers transporting the same ton-miles per station will achieve identical operating costs in any given year, since costs are affected directly by such factors as management efficiency, types of aircraft utilized, and various short-run factors, such as adverse weather, strikes, accidents, and groundings.

Since the preponderance of air carrier costs is common to all classes of traffic, the cost of carrying the mail will tend to parallel the cost of all traffic combined. Therefore, it is possible to determine a service rate for each individual carrier by applying the percentage relationship of its costs to the average cost of the Big Four to the $0.45 service rate of the Big Four.

However, the individual carrier approach was rejected in favor of carrier groups, because such grouping permits the averaging of costs and thus tends to minimize deviations between the reported costs of the carriers. In addition, the establishment of groups is desirable from the standpoint of simplicity of presentation.

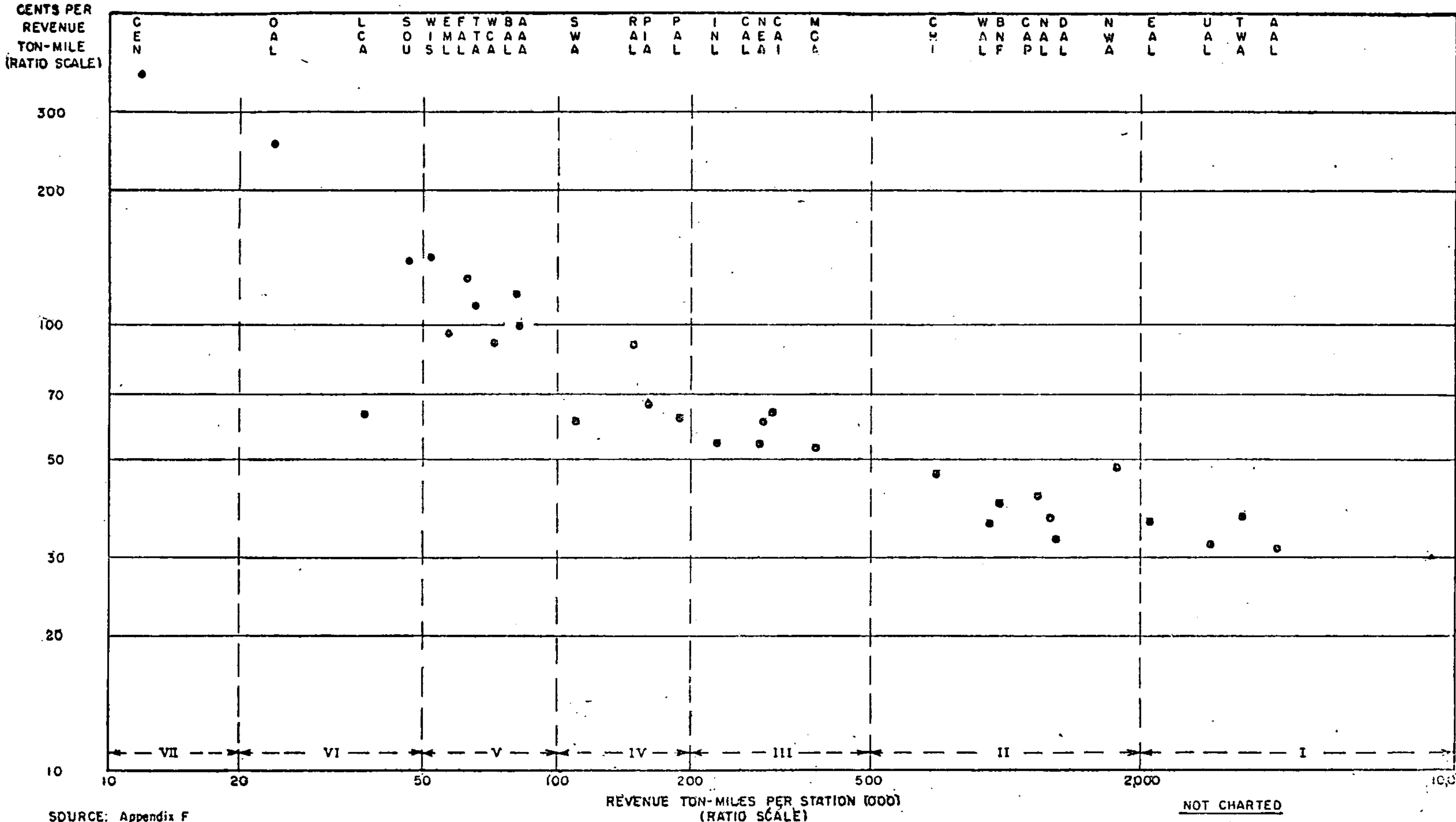
In arriving at the service rates for the domestic carriers it was determined that a reasonable grouping could be effected by listing the carriers in order of the revenue ton-miles per station for each carrier during the fiscal year 1951.

The determination that there should be seven groups was based largely

COST CURVE OF THE DOMESTIC AIR TRANSPORT INDUSTRY

(VARIATION IN COST PER REVENUE TON-MILE WITH REVENUE TON-MILES PER STATION)

12 MONTHS ENDED JUNE 30, 1951



SOURCE: Appendix F

NOTE: Cost per revenue ton-mile represents all operating expense as reported on CAB Form 41 after eliminating non-mail cost functions (passenger service, traffic and sales, and advertising and publicity). A standard allowance is made for flight equipment depreciation in lieu of reported amount. Does not include return on investment or provision for income tax.

NOT CHARTED

	REV. TON-MILE PER STATION	COST PER REV. TON-MILE
WIGGINS	2,000	752.16¢
MIDWEST	3,000	535.35¢

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upon the desire to attain maximum homogeneity within each group, which would permit close approximation of the reasonably attainable costs indicated for each carrier by the cost curve. It should be stressed that the grouping of the carriers is based solely upon revenue ton-miles per station and is not based upon the reported cost position of the individual carriers as plotted on Chart V.

The service rate for each carrier group was determined as follows:

(1) The reported costs per revenue ton-mile for each carrier for the fiscal year 1951 were compiled from the periodic financial reports (Form 41) filed with the Board. These costs were adjusted to:

(a) reflect standard depreciation allowances for flight equipment.

(b) eliminate the cost of passenger service, traffic and sales, and advertising and publicity, which are essentially non-mail functions.

(2) The reported costs for each carrier in each group were averaged to obtain the group cost per revenue ton-mile.

(3) The percentage relationship of the average cost for each group to the average cost of the Big Four was then computed.

For example, in 1951, the average cost for Group IV was $0.6952 per revenue ton-mile and the average cost for Group I was $0.3420 per revenue ton-mile. Therefore, the average cost of Group IV is 203.27 percent of the average cost for Group I.

This process was followed for each of the groups and the detail is shown in Appendix A.

(4) The service rate for each group was determined by applying the percentage relationship of each group to the $0.45 service rate established for the Big Four.[6]

For example, the service rate of $0.91 established for Group IV was determined by multiplying the $0.45 service rate of Group I by 203.27 percent.

The separation of subsidy from total mail payments for the fiscal year 1951 was determined as follows:

(1) The amount of service mail pay was computed for each carrier by multiplying the applicable group service rate by the actual mail ton-miles carried during the fiscal year 1951.

(2) The subsidy mail pay was computed by deducting the service mail pay, as calculated in (1) above, from the total mail pay for each carrier for the fiscal year 1951 under the latest effective orders of the Board.[7]

The service mail pay and subsidy for the fiscal years 1952 and 1953 were determined as follows:

(1) In projecting revenue ton-miles for the fiscal years 1952 and 1953

[6] In arriving at the $0.45 service rate in the Big Four mail rate proceeding, the Board included an 8 percent return on the investment devoted to the mail service, including an allowance for related Federal income taxes. In addition, freight and express were treated as by-products in order to recognize the priority nature of mail. It should be noted that the cost of $0.3420 for the Big Four, shown in (3) above, is an average operating cost for mail, passenger, express and freight traffic combined, and does not reflect the return element nor the treatment of freight and express as by-products.

[7] Approximately half the domestic carriers are operating under temporary mail rates which may be adjusted upward or downward through the final rates to be established. While such adjustments may result in a material change in the amount of total mail pay and subsidy for the fiscal year 1951 for individual carriers, it is believed that for the domestic carriers in the aggregate there will not be any significant change.

it has been assumed that the economic conditions producing the post-Korean traffic growth will continue but that the effect on airline traffic rate of growth will taper off. The trend over the period from the fiscal year 1949 through 1951 indicated an average industry growth rate of approximately 15 percent per year. This rate was used in projecting revenue ton-miles for the fiscal year 1952. It has been estimated that the growth of air traffic in the fiscal year 1953 will continue at approximately one-half the 1952 rate of growth.

In applying these growth rates to individual carriers it was necessary in some cases to adjust for abnormally depressed or abnormally high individual growth trends due to short-run factors. For those local service airlines which had recently started operations, higher growth rates were recognized for the fiscal year 1952, and a still high but slackening acceleration for 1953.

(2) The revenue ton-miles estimated for each carrier were divided by the number of stations served during September 1951, to arrive at the projected revenue ton-miles per station for each carrier for the two ensuing fiscal years.

(3) The carriers were grouped on the basis of revenue ton-miles per station for each carrier, using the same cut-off points between groups as indicated on Chart V for the fiscal year 1951. This produced some shifting of carriers between groups.

(4) The mail ton-miles for the domestic industry were estimated by applying the average annual rate of growth in mail volume during the four and one-half year period from January 1, 1947 through June 30, 1951, to the actual level of mail ton-miles of the industry for the fiscal year 1951.[8]

The mail ton-mile estimates for the individual carriers were derived from the forecast for the industry on the basis of the relative participation of each carrier in total industry mail volume for the fiscal year 1951.[9]

(5) The service mail pay for each carrier was determined by multiplying the mail ton-miles forecast for each carrier by the applicable service rate for the respective group in which the carrier fell in each year. The group service rates determined for the fiscal year 1951 have been used for the fiscal years 1952 and 1953 since staff studies have shown that the cost curve should hold the same relative shape for successive years. Therefore, the group service rates derived from this curve for one year are reasonable approximations of service rates for groups having the same operating characteristics in subsequent years.

(6) The total mail payments for each carrier for the fiscal years 1952 and 1953 were estimated in the following manner:

(a) It was assumed that five carriers, the Big Four in Group I and National in Group II, would not be subsidized carriers in 1952 and 1953 and their estimated total mail payments were therefore limited to their service mail payments determined as described above.

(b) It was assumed that all carriers currently on final mail rates would remain on such rates during the next two

[8] In this estimate no adjustment was made for the effect of pending proposals in Congress to raise air mail postage rates.

[9] Those local service carriers which commenced operations during the fiscal year 1951 were allowed a greater relative participation based on their experience in the last quarter of the fiscal year 1951.

fiscal years. The total mail payment for these carriers was accordingly derived by application of these rates to the forecast volume. If present economic conditions prevail, it is probable that many of these rates will be reopened and reduced; and, in that event, the subsidy payments for those carriers will be lower than estimated.

(c) For those carriers not on final rates nor assigned to be service carriers in 1952 and 1953, the mail rates were estimated on the basis of Board analyses now in process, recent trends, and rates determined for comparable carriers, It is probable with respect to these carriers, too, that the mail rates and subsidy payments will be lower in the fiscal years 1952 and 1953 than forecast.

(7) The subsidy mail pay was computed by deducting the service mail pay, as calculated in (5) above, from the total mail pay for each carrier as calculated in (6) above.

The details of the computations for the fiscal years 1952 and 1953 are set forth for each carrier in Appendices B and C, respectively.

The foregoing estimates do not reflect possible reductions in subsidy requirements attributable to improvements in route structures of the carriers resulting from mergers, route extensions, removal of restrictions or other modifications.

V. Carrier Groups and Applicable Service Rates

The administrative separation determined in this report results in the establishment of domestic air carrier groups and applicable service rates for each group during the fiscal years 1951, 1952, and 1953, as shown below.

For the fiscal year 1951, all of the domestic trunkline carriers are included within Groups I through III, and all of the local service carriers, which operate under temporary certificates of public convenience and necessity, fall within Groups IV through VII.

The two certificated helicopter operators are not included in this grouping.

Chart VI and Charts VIII, IX, and X, in the Appendix, show comparative subsidy and service mail pay for domestic carrier groups for the fiscal years 1951, 1952, and 1953.

Group I: Service Rate Per Mail Ton-Mile $0.45 [10]

1951	1952	1953
American	American	American
Eastern	Eastern	Eastern
TWA	TWA	TWA
United	United	United
—	Northwest	Northwest

Group II: Service Rate Per Mail Ton-Mile $0.53

1951	1952	1953
Braniff	Braniff	Braniff
Capital	Capital	Capital
Chicago & Southern	Chicago & Southern	Chicago & Southern
Delta	Delta	Delta
National	National	National
Northwest	—	—
Western	Western	Western

[10] Rate established by the Board in the Big Four mail rate case on September 19, 1951.

GROUP III: SERVICE RATE PER MAIL TON-MILE $0.75

1951	1952	1953
Colonial	Colonial	Colonial
Continental	Continental	Continental
Inland	Inland	Inland
Mid-Continent	Mid-Continent	Mid-Continent
Northeast	Northeast	Northeast
—	Pioneer	Pioneer
—	—	Piedmont

GROUP IV: SERVICE RATE PER MAIL TON-MILE $0.91

1951	1952	1953
Piedmont	Piedmont	—
Pioneer	—	—
Robinson	Robinson	Robinson
Southwest	Southwest	Southwest

GROUP V: SERVICE RATE PER MAIL TON-MILE $1.48

1951	1952	1953
All American	All American	All American
Bonanza	Bonanza	Bonanza
Empire	Empire	Empire
Frontier	Frontier	Frontier
Trans-Texas	Trans-Texas	Trans-Texas
West Coast	West Coast	West Coast
Wisconsin-Central	Wisconsin-Central	Wisconsin-Central
—	Lake Central	Lake Central
—	Ozark	Ozark
—	Southern	Southern

GROUP VI: SERVICE RATE PER MAIL TON-MILE $2.58

1951	1952	1953
Lake Central	—	—
Ozark	—	—
Southern	—	—
—	Central	Central

GROUP VII: SERVICE RATE PER MAIL TON-MILE $7.26

1951	1952	1953
Central	—	—
Mid-West	Mid-West	Mid-West
Wiggins	Wiggins	Wiggins

Changes Within Carrier Groups

The domestic air carriers during the fiscal year 1951, with few exceptions, have shown a substantial upward trend in total traffic. The forecast of traffic for the fiscal years 1952 and 1953 indicates a continuing, but slower, rate of growth. As a result of the forecast of increased traffic, six air carriers will move to groups with a lower service rate in the fiscal year 1952 and one additional carrier will move to a group with a lower service rate in the fiscal year 1953.

Local Service Carriers

The local service carriers are in their initial developmental stage. These carriers were granted temporary certificates on an experimental basis in order to bring air service to communities which would otherwise be without such service. Only one of these carriers has operated for a period as long as five years. The remaining 16 local service carriers have been in operation on the average for a period of approximately three years. Characteristically, these carriers have short hauls and serve low density routes which require a protracted period of time to develop the traffic potential.

During the fiscal year 1951, almost all of the local service carriers experienced a striking increase in traffic and the forecast indicates that traffic growth will continue through the fiscal year 1953.

During the period from the fiscal year 1951 through 1953, on the basis of the forecast it is anticipated that six of the local service carriers will move to groups with lower service rates. One carrier will move from Group VII with a $7.26 mail ton-mile service rate to Group VI at $2.58, three from Group VI to Group V at $1.48, and two from Group IV at $0.91 to Group III at $0.75.

As may be expected of air carriers in the initial stage of development, the subsidy requirements are relatively high in comparison with the trunk lines which are in a more advanced stage of development. It is recognized that the service to local communities, which have not yet realized their traffic potential, entails a subsidy to the community as well as to the air carrier.

Experience has demonstrated that, after the first few years of operation, the local service carriers show a sharp decline in subsidy requirements and it is expected that this favorable trend will continue.

Helicopter Carriers

Since mail is the only significant class of traffic carried, it has been assumed for the purpose of this report that the operations of both helicopter carriers will be limited to the carriage of mail through the fiscal year 1953 and all of the payments to these carriers have therefore been regarded as service mail compensation.