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FOR IMMEDIATE RELEASE

THE CRISIS FACING COMMERCIAL AVIATION

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In this period of general economic difficulty, many industries and businesses have experienced declines in profits and reductions in growth rates. The financial crisis of the United States airline industry, however, is particularly disturbing because of the airlines' importance to and dependancy upon the health of the general economy.

After a period of strong growth and sustained prosperity, commercial airlines have recently experienced severly reduced earnings and are bearing a heavy burden of the current economic slowdown. One especially visible indication of this problem is the employment cutback which the airlines have instituted. Whether called "layoffs", "furloughs" or "cutbacks" their effects have been widespread and severe. One close-to-home indication for me has been the impact of Trans World Airlines' financial problems on the many highly skilled TWA employees who live in the state of Kansas. Hundreds of personnel at Trans World's Aircraft Overhaul and Maintenance Base in Kansas City, Missouri, as well as hostesses, pilots and others have lost their jobs. The hardships imposed by these layoffs reach far beyond the individuals and families directly involved and affect entire communities.

A HARD YEAR

This experience is not unique to TWA or the Kansas City area, for in the last year America's scheduled airlines were forced to lay off more than 12,000 employees in all parts of the country. 1970 was the worst year in the financial history of the Nation's air carriers, and only a handful of the 21 U.S. scheduled airlines earned profits. In contrast, 1966 saw the scheduled airline industry show profits in excess of $400 million. When one compares that figure to last year's losses of some $175 million net, the real weight of this crisis

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becomes apparent. If this situation is not improved soon, the industry's future is in grave doubt, for no modern, growth-oriented industry can expect to survive for long with net earnings losses of over half a billion dollars in such a short time.

The ramifications of this situation do not obtain solely for the airlines. And it is not difficult to foresee what would happen to aircraft manufacturers and suppliers if the airlines were not financially able to accept delivery of aircraft for which they have had longstanding orders. The aircraft industry has already been dealt a serious blow in the untimely and unwise termination of the American SST, and a further drain on its revenues would be more than it could absorb. Also, severe retardation of the airline industry would cause serious problems for airports, which depend almost entirely on the carriers for revenues to finance the terminal construction and related airport improvements so vital to the future of air transportation.

THE MAJOR FACTORS

It is important that we understand the factors involved in the airlines' economic troubles and that we see what steps can be taken to alleviate them. Several major trends, operating over the years, have contributed to the industry's poor financial showing in 1970. They include a decline in the rate of air traffic growth, spiraling inflation and the continuing need to make large expenditures for new aircraft and ground facilities. In studying the overall problem we must recognize that inflation, the general economic slump and investment requirements are beyond the control of the air carriers, and in many instances they are actually part of the price which must be paid to provide the traveling public with the quality of air service it requires and expects.

QUESTIONABLE REGULATORY POLICIES

The point of real concern and the need for action is in the areas of controllable factors, and within the airline industry the most important of these factors are in the hands

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of the Federal Government, through the Civil Aeronautics Board. It is the CAB, in the final analysis, which determines the two critical controllable elements of airline economics -- fare levels and airline routes, and over the past several years the CAB's regulatory practices have tended to ~~exasperate~~ EXACERBATE rather than help relieve the economic pressures on the airlines.

TOO MANY NEW ROUTES

In the last decade, for instance, the CAB authorized hundreds of new route awards, which in many cases unnecessarily duplicated service already provided. Thus, previously profitable routes for one or more airlines have been converted to unprofitable ones for several. The maintenance of an airline route is a tremendously expensive operation, and the award of a route which institutes more competition than the traffic justifies imposes a heavy burden on an airline's entire system. One unprofitable new route may offset the earnings of several which are profitable.

AN UNRESPONSIVE TARIFF STRUCTURE

The other jaw of the vice which has clamped down on the airline industry was forged during this same period as the Board dispensed large numbers of new route awards but granted only a few fare increases. It is a glaring fact of life that during the past decade costs to consumers -- and to the airlines as well -- increased approximately 31%, but over the same period the cost of flying on a scheduled airline remained nearly constant. For example, in December of 1962, the fare from New York to Los Angeles was $145.10. The cost for the same trip today is $142.59. That is a real bargain. In fact it is too much of a bargain, and the airlines cannot be expected to survive under these conditions in today's economy.

Unlike other regulated industries, the airlines are not assured of a fair return on their investment, and in fact the carriers have attained the 10½% return on investments designated by the CAB as a reasonable return only one in the past 10 years.

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Federal regulatory bodies are charged with overseeing their respective industries to insure the recognition and protection of the public interest. But these bodies also are committed to fostering the economic health of the utilities and industries they regulate, because the public has a substantial interest in the growth and health of these regulated industries.

Inflation, rising costs, a stagnant traffic level, and increased investment demands have contributed substantially to today's critical financial situation for the airline industry. The airlines themselves have been instituting drastic remedial measures, to the extent that they are able. But they can only do so much.

A NEED FOR ADEQUATE REVENUES

At the heart of the matter, it seems to me, is the need to put the airlines on a sound financial basis by providing them a fare structure which will yield reasonable revenues. This adequate source of revenues will enable commercial aviation to continue to improve its service to the public, be a major source of employment and remain a mainstay of our economy and our transportation system.

The Civil Aeronautics Board is currently undertaking an intensive review of commercial air tariff structures. It is highly important that the Board's deliberations take a balanced and open-minded view of the needs of the public as well as the requirements of the industry. Both have legitimate and pressing interests in seeing equitable, reasonable and responsible fares being set. And both the public and the airlines have shared interests in the continued growth and development of air transportation in the United States.

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