Chapter I - United States
Certificated Services

CHAPTER I

UNITED STATES CERTIFICATED SERVICES

Industry Development: 1963 - 1968

The Airline industry recorded remarkable advancement and growth during the five-year period in all categories of service--domestic trunkline and local service, scheduled international services, and supplemental air carrier charter services. The following tabulation will illustrate the growth during this period:

	As of 12/31/63	As of 3/31/68	Increase
Available seat miles flown1/	99.9	208.4	108%
Revenue passenger miles1/	54.6	122.9	125
Cargo ton miles1/	2.0	5.4	170
Total operating revenues2/	$3.9	$7.3	80
Total assets2/	$4.2	$10.0	133
Total capital invested2/	$2.9	$6.9	130

1/ In billions of miles.
2/ In billions of dollars.

The momentum of growth as evidenced by the confidence displayed by the carriers in their commitment to purchase the next generation of aircract. Currently, 597 aircraft are on order to augment the fleets of the certificated carriers before 1970; 731 are on order for delivery before 1975.

Domestic Trunkline Certificated Services

The Board has embarked upon an ambitious and far reaching program of adapting the network of air transport services to the progressive capabilities of jet technology and to the demands of a society increasingly oriented toward air travel. In the case of the domestic trunklines the Board has embarked upon an extensive reassessment of the route pattern with three principal objectives in mind: 1) the creation of new and additional nonstop services in markets now sufficiently mature to warrant such service and quantity; 2) development of a more competitive system by authorization of additional carriers in the higher traffic density markets; and 3) alteration of the system structure to permit and encourage the carriers to schedule their services with the goal of bypassing major hub airports in such cases where congestion in the air and on the ground is approaching the critical mark.

The Board has been very active in the institution of investigations to determine the need for nonstop authority in markets where the traffic has demonstrated such a need. Areas in the southwestern and midwestern portions of the United States have been foremost as the subjects of such investigations. San Antonio and Austin, for example, are the subjects of an investigation currently under way for new service to Washington, D. C. and New York City; Boston is also currently being considered for single plane service to Los Angeles via El Paso, Tucson and Phoenix. Currently under way is an investigation to consider the need for nonstop service between Houston and Cleveland. Albuquerque's needs for nonstop service to San Francisco, Los Angeles, Las Vegas, Dallas and Chicago are being studied. Also in progress at the Board are applications by several air carriers for nonstop service between Phoenix and Seattle and Portland.

In the midwest, Omaha is the subject of several investigations currently in progress to determine its need for service to such midwestern points as Chicago, Denver, Kansas City, Minneapolis, St. Paul and St. Louis. Omaha's needs for service to far west and east coast points such as Seattle, Portland, Los Angeles, San Francisco, New York and Washington are also under study. A similar study is being given to the need of Des Moines for such transcontinental service. In the case of a market for air transportation services which literally created itself, the Board has granted certificated authority to Aspen Airways for service between Denver and the Colorado resort community of Aspen.

In the south the Board granted new nonstop authority to two airlines for service between Huntsville, Alabama and New Orleans. The Board also instituted an investigation to determine the need for long-haul air service to Los Angeles from Memphis, Huntsville and Birmingham. The Board will soon decide on the need for service and resulting choice of carriers in such varied midwest markets as Dallas and Detroit, Kansas City, and St. Louis; Chicago and New Orleans; Chicago and Memphis; and St. Louis and Houston. In the case Service to Acapulco, Mexico the various trunk carriers serving Mexico City were granted authority to serve Acapulco as well, thus allowing direct access to that resort community from the interior of the United States.

Between the southwest and the Pacific northwest, the Board has awarded new route authority from Seattle/Portland to Dallas, San Antonio, New Orleans, Houston, St. Louis, Oklahoma City and Tulsa.

In the Pacific northwest, the Board has granted nonstop authority for service between Spokane and Portland. Both a Canadian and United States carrier were granted authority for service between Los Angeles, San Francisco and Vancouver via Portland. Service by Canadian and United States carriers was also authorized nonstop to Toronto from Los Angeles and Chicago.

In Alaska the Board is considering the need for nonstop service between the cities of Anchorage and Fairbanks. The Board also has revised the mainland-Alaska air route pattern, and has approved several mergers of lines serving Alaska in order to permit the improved service which would flow from greater financial strength of the merged carriers.

On the east coast Canadian and United States carriers have been granted authority for direct service to Miami and Tampa from Montreal and Toronto. Northeast Airlines was given permanent authority for service between Florida and the northeastern portions of the United States. The Board will soon decide on the need for service between various points in Maine, Vermont and New Hampshire on the one hand and Albany, Syracuse, Cleveland, Detroit and Chicago on the other hand in the current Northern New England-Great Lakes Service Investigation.

Related to the increasing authorizations for nonstop authority across the country has been the Board's endeavor to add competitive air carrier service in markets where the traffic has warranted increased service. For example, in the Detroit-California Nonstop Service Investigation the Board granted nonstop authority between Detroit and Los Angeles and San Francisco to three trunk carriers. Other competitive service investigations have been instituted to determine the need for nonstop competitive service between Denver and Minneapolis/St. Paul; between Dallas/Ft. Worth and Phoenix; and from New Orleans and Atlanta to Washington and New York City. Additional competitive service has been authorized between Cleveland and New York, Chicago and Philadelphia; and between Philadelphia and Detroit. In a major investigation, the Southern Tier Competitive Nonstop Investigation, competitive service is being considered for the following markets: Atlanta to Dallas, Los Angeles, and San Francisco; Dallas to Los Angeles, New Orleans, San Francisco, Tampa, and Miami; Houston to Los Angeles, San Francisco, and Miami; Miami to San Francisco and Los Angeles; New Orleans to San Francisco, Los Angeles, Tampa, and Miami.

A third element related to increased nonstop and competitive service in the Board's route planning has been the institution of service to smaller but nevertheless important traffic generating communities not only so that they may receive service in their own right but so that the pressure on major hub airports for connecting service is somewhat relieved. An example of the interrelationship between the needs of various cities for service in their own right and the ability of such direct service to reduce the congestion caused by connecting traffic at major hub airports is found in the Board's investigation of service from Minneapolis, St. Paul and Milwaukee on the one hand to Boston, New York, Philadelphia, Washington, Baltimore, Los Angeles, and San Francisco on the other. The Board will consider whether such direct service will benefit the markets involved and relieve the pressure for connections to and from these midwest points at Chicago.

Other Board proceedings are considering the same matters. In the Bermuda Service Investigation service to Bermuda is being considered from such points as Chicago, Detroit, Boston, New York, Washington and Baltimore. The Board will consider whether certification of service to Bermuda from these points will aid in relieving the connecting pressure at New York City. Similarly, in granting authority for service between Washington and San Juan the Board, while recognizing the need for service from Washington itself, is aware that the addition of Washington as a coterminal with New York and Newark will enable the traffic from the interior of the United States destined for Puerto Rico to have the choice of another, less congested, hub for connecting purposes. In the same vein the Board is investigating the need for service over the transatlantic route between such points as Boston, Hartford, Philadelphia, Baltimore, Washington, and Miami. Direct service from these points to London and other European points possibly would have the effect of reducing congestion at New York City while serving a legitimate traffic need for the other points involved.

Further examples of the Board's concern and action are found on the west coast of the United States. The Board has allowed the various carriers serving Hawaii from the mainland to serve Hilo as well as Honolulu directly on their flights from the west coast. Service to San Diego is the subject of an investigation under which carriers may be given direct unrestricted nonstop authority between San Diego and New York, Newark, Washington, Baltimore, Chicago and Denver.

The Board also has attacked the problem of congestion at major hub airports by designating "satellite" or "reliever" airports sufficiently near the major hubs to provide alternate facilities for servicing these metropolitan areas. For example, the Board has designated San Jose, California as a point which may be utilized optionally by various air carriers to serve San Francisco. Various satellite airports in the Los Angeles area are being considered for use in serving that point to relieve the pressure on the Los Angeles International Airport. On the east coast, White Plains, New York, is being considered for use as a reliever airport for New York City, with direct service being proposed to White Plains from Chicago, Cleveland, Cincinnati, Pittsburgh and St. Louis. Also in process is the Northeast Corridor VTOL Investigation which is considering the need for and feasibility of service by short take-off or vertical take-off and landing aircraft between the major cities of the northeast corridor. This investigation, should it result in the authorization of service by such aircraft between major points, will aid in relieving congestion to the extent that such aircraft are capable of operating from airports closer in and less congested than the major airports now serving the principal cities. There is also a current investigation to determine the need for helicopter service in and between the Washington—Baltimore area. In determining whether such service is needed, the Board will consider whether it may have the effect of helping to facilitate the use of Friendship and Dulles Airports, and whether that in turn will aid in the distribution of aircraft services from Washington's National Airport to these less utilized facilities.

Local Service Carriers

With a view toward improving service to our small and medium sized communities and at the same time reducing the dependency of these carriers upon Federal subsidy by strengthening their economic opportunity, the Board has placed special emphasis upon a two-pronged program relating to local service carriers. First, the route structure of almost every local service carrier has been reviewed and realigned to consolidate the various individual segments of each, thereby affording the opportunity for more nonstop and one-stop service. This program is substantially completed and has provided much improved service to our smaller communities, linking them more effectively into the total national economy. Secondly, during the past several years the Board has concentrated upon a program of awarding the local carriers access to higher density markets, even where the awards may place the local service carriers in direct competition with trunkline carriers. This program represents a significant policy innovation. It is premised upon the conclusion that both local service and trunkline carriers are now competitive from the standpoint of equipment operated, and that as a result the local service carriers should be in a position to compete on a profitable basis with the trunkline carriers. Certificate awards of this type are not eligible for subsidy support from the government; moreover, profits from operations of such authorizations are applied to reduce the total subsidy paid to the local service carrier.

Three mergers of local service carriers recently have been approved by the Board. Approval has been premised upon the proposition that both service to smaller communities and service in competition with trunk carriers in high density markets will benefit from the strengthened merged local service carriers. The mergers have involved Allegheny-Lake Central, with the surviving carrier being Allegheny; Frontier-Central, with the surviving company being Frontier; and Bonanza-Pacific-West Coast, with the new company being called Air West.

Each of the local service carriers has been the subject of Board attention in recent years. Prior to the merger resulting in Air West, West Coast Airlines was the subject of two investigations resulting in route realignments of its system, thus allowing greater operational flexibility. It also received authority for service between Spokane and Seattle and between Portland and Seattle. Pacific Airlines was given authority to engage in foreign air transportation between Phoenix and Tucson, Arizona and Puerto Vallarta, Mexico. Additionally, Bonanza was given authority to serve the Grand Canyon between its flights from Las Vegas, Nevada and Kingman, Arizona. In the Service to Tucson Case, Bonanza was selected to provide nonstop service between Tucson on the one hand and Los Angeles, San Diego, Las Vegas, Salt Lake City and points in southern California.

Prior to its merger with Allegheny Airlines, Lake Central Airlines received authority for nonstop service between Pittsburgh and Columbus, Dayton and Cincinnati. Lake Central also was authorized to add the cities of Lawrenceville-Vincennes as an intermediate point on its flights between Terre Haute and Evansville. Lake Central's system was realigned by the Board for greater operational flexibility; that realignment included the elimination of intermediate stop requirements between Baltimore, Cincinnati and Indianapolis, allowing nonstop operations between those cities. Allegheny, prior to the merger, was authorized to extend its system southward to Nashville and Memphis via Lexington, Kentucky; it was also authorized to extend its system from Pittsburgh to Louisville. Other authorizations given to Allegheny allow it to provide service between Philadelphia/Camden and Norfolk/Newport News and nonstop service between Baltimore and New York, Baltimore and Boston, Philadelphia and Boston, Boston and Washington, and Hartford/Springfield and Washington, The carrier's system was also extended north from Trenton to Albany, thus allowing one-stop Albany to Washington service.

The route system of Central Airlines was realigned for greater operational flexibility prior to its merger with Frontier Airlines. Central was also the subject of the Board's investigation to determine the need for extension of its system from Topeka to Chicago. Frontier has received authority to serve West Yellowstone; it is also authorized to serve Jackson, Wyoming as an intermediate point between Billings and Salt Lake City. Missoula and Bozeman were added as points to be served by Frontier on its Billings to Salt Lake City route segment. Frontier was also authorized to provide nonstop service between Tucson and Albuquerque. Grand Junction, Colorado was added to Frontier's route on the segment between Denver and Las Vegas. The Board also certificated Frontier to serve Columbus, Nebraska on the east-west route between Omaha and Denver; between Denver and Salt Lake City, Frontier was authorized to serve Steamboat Springs-Hayden-Craig, Colorado.

Mohawk Airlines received an extensive route realignment allowing it to eliminate many intermediate stop requirements and to achieve greater route operating flexibility. Mohawk has received new authority for service between Albany, White Plains and Washington, D. C. Its certificate has been amended to include White Plains as an intermediate point on flights from Boston to New York City and to include Poughkeepsie as an intermediate point on flights from Boston to Binghampton, New York. Under the new "Subpart M" proceedings designed to expedite local service carrier requests for improved operating authority on their existing systems, Mohawk has received authority to eliminate the intermediate stop requirements on its flights between Buffalo and Rochester and New York City, provided that the intermediate points continue to receive proper service.

North Central Airlines has been the subject of a Board route realignment proceeding. In addition, it has received authority to fly between Detroit and Toronto. (Authority for flights between Erie and Toronto was granted to Allegheny

Airlines). North Central also has been authorized to operate over a new route segment between Sioux Falls, South Dakota; Rochester, Minnesota; and Chicago, Illinois. Additionally, North Central has been granted nonstop authority between Huron and Pierre, South Dakota.

Ozark Airlines has received authority from the Board for nonstop service between Sioux City and Denver; between Chicago and Des Moines; and between Louisville and Indianapolis. The Board currently is investigating whether Ozark's system should be extended from points in Illinois to Washington, D. C. and New York City.

Piedmont Aviation received Board authority to extend its system from Roanoke to New York City via the intermediate points Lynchburg, Hot Springs, Staunton, Charlottesville and Washington, Regarding service to Washington the Board inserted a provision in Piedmont's certificate that service on the Roanoke-New York route via Washington had to be effected through Washington's Dulles International Airport rather than the much more crowded Washington National Airport. The Board currently is processing Piedmont's application to extend its system to Chicago. Also being processed are requests for additional service by Piedmont to Columbia, South Carolina and Augusta, Georgia. Piedmont has received authority to serve Hot Springs, Virginia on its route between Baltimore and Atlanta and to provide service to Memphis from Roanoke, Nashville and Asheville.

Southern Airways has been the subject of a Board route realignment investigation affording it more operating flexibility and authorizing Southern to perform Atlanta to Miami service via Orlando and Tallahassee. The Board has extended Southern's system from Eglin Air Force Base to New York City via the intermediate points Dothan, Alabama; Columbus, Georgia; and Washington, D.C. As in the case of Piedmont's extension to New York from the south via Washington, service to Washington by Southern on this route must be through Washington's Dulles International Airport. The Board has granted Southern an additional service pattern extending between Panama City, Florida and Memphis via Montgomery and Muscle Shoals, Alabama; it also amended Southern's certificate to authorize service at Anderson, South Carolina as an intermediate point between Greenville and Greenwood, South Carolina.

Among the Board's actions taken with regard to Trans-Texas Airways, the Board granted Trans-Texas international authority to provide service from Texas to Mexico; the points involved are Mission-McAllen-Edinburg, Texas to Monterrey, Mexico, on one route, and Harlingen-San Benito, Texas to Vera Cruz via Tampico, Mexico.

Many of the local service carriers have availed themselves of the Board's new "Subpart M" procedures for the expeditious processing of requests to modify or remove restrictions preventing nonstop operations contained in their certificates. The Board amended its procedural regulations in January 1968 to incorporate the expedited hearing procedure and as time goes on expects that it will be of great help in strengthening the local service carriers.

No discussion of the local service carriers would be complete without reference to the Federal subsidy which has fostered their growth and supported their operations over the more remote or sparse segments and traffic generating points on which they operate. In 1964 the Federal Government was providing subsidy for the local service industry, for operations to and within Alaska, to the intra-Hawaii carriers, helicopter operations in three major metropolitan areas, and for the regional operations of one trunkline carrier (Northeast) which were more akin to local than trunkline services. The overall subsidy in fiscal year 1964 amounted to \$82.5 million of which about \$65.6 million went to various local service carriers across the country. It is obvious that the greatest proportion of the total subsidy bill (about 85%) goes to support development of the local service system, which serves many communities which often by themselves do not yet contribute traffic support sufficient for a self sustained airline service. The overall subsidy bill is declining, however. As of 1968 the helicopter services are no longer subsidized, nor are the services of Northeast or the two Hawaiian carriers.

Subsidy provided in support of services to and within Alaska has been eliminated for some carriers and has declined for others. Similarly the subsidy support for local service carriers has been diminishing, due to a number of factors. For one, the carriers are rapidly becoming equipped with more efficient and modern equipment which reduces the cost of providing service, albeit creating a burden of increased investment in the immediate years ahead. Secondly, liberalized route authority and expanded market access as authorized by the Board and mentioned earlier have substantially strengthened the local service carriers. The Board has endeavored to enable the local service carriers to provide more efficient and economical service between points already on their systems and has accomplished this through the various route realignment proceedings mentioned earlier. Additionally, its "Subpart M" and other proceedings have attempted to afford these carriers access to new and more heavily traveled markets. Thus, by the end of fiscal year 1968 the overall subsidy is expected to decline to about $59.3 million; the subsidy for the local service carriers should decline to $52 million. The Board estimates that this decline will continue in the forthcoming years.

International Services

During the period 1964-1968, the Board has undertaken to review the pattern of United States flag carrier services in all three of the areas directly touching the United States. This review is aimed at elimination of unnecessary duplication of service by United States carriers, and authorization of additional United States flag service in those markets where additional service appears needed either because of basic market potential or to bolster United States flag competitive standing in the area. The three proceedings involved are as follows: The United States-Caribbean-South America Investigation; the Transpacific Route Case; and the East Coast Points-Europe Case. Each of these cases will be decided by the Board and then transmitted to the President for his approval. Two of the cases will be transmitted to the President for his approval during 1968; these are the Transpacific and United States-Caribbean-South America cases. The third case, East Coast Points-Europe, will commence hearings at the Board some time during 1968.

Supplemental Carrier Services

During the 1966-1967 period, the Board granted certificates to twelve supplemental carriers, authorizing them as charter specialists and thereby creating a new class of certificated air carrier.

These supplemental carriers represent a relatively small part of the total industry activity but are nevertheless a significant contributing force in developing the industry as a medium of mass transportation. At the present time the supplemental air carriers have a total investment of $217 million, and employ approximately 5,000 people. They operate a variety of large aircraft--about 192 in number; 46 of these are large jet aircraft, and additional jet aircraft are on order. The contributions of the supplemental air carriers have been significant to both civil and military transportation. They instituted the "no frill" air coach service domestically. In the late 1950's supplemental carriers developed and promoted transatlantic vacation charters for affinity groups. These carriers also flew numerous charters for the military between various domestic bases in their early years. The supplementals were able, promptly, to supply air lift during the Korean War, during the movement of Hungarian refugees, and during the breaking of the Berlin blockade. One supplemental later became a certificated passenger carrier between New York City/Washington and San Juan. Their current national defense importance, with particular regard to their aid to the military in the Vietnam airlift, is indicated by the award in 1968 of some $68 million in military air command business, about 25 percent of the total military air command business awarded.

In 1966 the Defense Department, recognizing the reliance by supplemental carriers on military business, instituted a policy whereby only those carriers receiving at least 30 percent of their air transportation revenues from commercial services were to be awarded military contracts. One of the reasons for this policy was to preclude excessive reliance upon military business alone. This was for the purpose of insuring that the supplementals would maintain their required reserve capacity which would be called upon by the Defense Department in time of need.

Because of the need of the supplemental carriers for substantial non-military revenues and because of the desirability of promoting air transportation among the vast number of persons who have not availed themselves of the advantages of air transportation, the Board in 1966 awarded these carriers inclusive tour charter authority, which was a major departure from established policy regarding the concept of charter services. This innovation permits the supplemental air carriers to charter aircraft to tour operators who in turn solicit individuals from the general public to travel as a group on package tours.

The dramatic development of this traffic particularly in the short span of two years has testified to the public benefit of this policy. During the first full year of operation of the tours in 1967 there were 175 tours carrying approximately 30,000 persons. The bulk of the tours were from the mainland of the United States to Hawaii, with seven being operated within the continent of the United States and twenty to Europe. By mid-1968 the Board had approved about 800 tours to be operated from the mainland of the United States to Hawaii. It is estimated that the 25,000 passengers carried on inclusive tours to Hawaii in 1967, will increase to about 136,000 in 1968. A few tours also have been approved to Europe, Mexico, the Caribbean and South America. At the moment, however, there is substantial uncertainty as to the legality of these tour charters as a result of a 4 to 4 split vote of the Supreme Court, which had the effect of sustaining a lower court determination that such tours were illegal in the international field and leaving unchanged a lower court decision which declared that such tours were legal in the domestic area. The Board is attempting to resolve this question in favor of what it believes to be its proper power to authorize such inclusive tours both internationally and domestically; and Congress currently is considering legislation upholding the Board's power to this effect. The Board feels that once the cloud on the legality of such tours is lifted, their tremendous appeal in the mass travel market will afford substantial growth and will provide substantial benefit to supplemental air carriers and to the industry as a whole.

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Domestic Passenger Fares

In November and December of 1968, each of the Big Four trunklines, Braniff and Northeast filed proposals for a general increase in passenger fares. The proposals are broad in scope, encompassing both normal first-class and coach fares and the various discount fares now being offered. While each carrier would approach the matter in a different fashion, their proposals are quite close together in terms of the net revenue increase which could be expected, the range being with one exception between 5 and 6 percent.

Because of the importance of the matter to the traveling public and the industry, and in view of the variety of approaches which have been put forward, the Board has granted a carrier request for a meeting between the industry and the Board to exchange views on the over-all situation. The meeting is set for mid-January, after which the Board will determine whether or not a general revenue increase is warranted at this time and, if so, the manner in which it should be accomplished.

Promotional Fares

In the late months of 1968, the opportunity for tourist travel within the United States was broadened further when new low round-trip fares became available on scheduled services for inclusive tour travel by large groups from certain major points in the eastern section of the country to Hawaii. These fares reflected a competitive response by the scheduled carriers to the success of the supplemental carriers in mounting a program of inclusive tours to Hawaii on a charter basis.

The fares are available to groups of 88 or more persons traveling together, and decrease in three steps according to the size of the group. The length of the tour must be within a range of 13 to 21 days, and stopovers are permitted at certain points in the continental United States and in the outer islands of Hawaii. A minimum add-on of $175 is required to cover ground accommodations and other non-air transport expenses associated with the tour.

Taking a round-trip journey from New York as an example, the fares range from $325 for groups of 88 to $255 when the size of the group reaches 154 or more persons. By way of comparison, use of the present transcontinental "Discover America" fare and the economy class fare between the west coast and Hawaii would entail an expenditure of $417. The group fares, therefore, reflect significant reductions from the lowest fares otherwise generally available, ranging from upwards of 20 percent to about 40 percent. Because of the relatively low level of these fares for schedule service, the possible impact which they might have upon the supplemental charter specialists, and the potential importance of the fares to the traveling public and the state of Hawaii, the Board decided that a broad investigation of all group inclusive tour fares now available in this market should be undertaken.[1/]

1/ Order 68-12-114, December 20, 1968.