Chapter II - Fares
and Rates

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FARES AND RATES

Domestic Passenger Fares

The vigorous growth of the national economy which began in the early 1960's continued without interruption during the 5 years of the Johnson Administration. Gross national product rose from $590 billion in 1963 to $785 billion in 1967. By the latter half of 1965 this expansion, together with an unemployment level which was trending toward a new low, was beginning to create inflationary pressures throughout the economy. As a result, restoration of price stability became a major objective of the President and his Council of Economic Advisors.

The Board's approach to domestic fares during this period was initially one of holding the line against increases, evolving in the last 2 years or so into an emphasis upon selective reductions designed to promote and expand the use of air travel. The trunkline industry's earnings were on an upward trend as a result of the quickening pace of our economy's growth and the continuing conversion to jet aircraft which are more efficient than propeller aircraft and consequently produced a declining trend in operating costs. By mid-1965, return on investment for the trunkline industry has reached 12.69 percent.[1/]

1/ In the General Passenger Fare Investigation, 32 CAB 291 (1960), the Board determined that a rate of return of 10.5 percent was reasonable for the trunkline industry. The cited return excludes investment tax credits.

In these circumstances, the Board felt that the public interest lay in price experimentation directed toward bringing new travel opportunities within reach of those who would not otherwise travel by air. The market for air transportation had historically been predominantly the business traveler. Now the focus shifted to attracting the potential personal and pleasure traveler. The success of the experimentation with promotional fares which was pursued from mid-1965 is apparent from the fact that an estimated 47 percent of total domestic air travel in the third quarter of 1967 was for non-business purposes.

The Board's policy towards domestic fares during 1964-1968 evolved in response to its statutory responsibility to promote air transportation in the interest both of the traveling public and the development of a sound industry. Accordingly, it cannot be said that the Board's activities in this area were a direct result of the Administration's emphasis upon restoring price stability in the economy. Nevertheless, the Board was keenly aware of the fact that transportation costs, whatever the mode, have a direct and significant effect upon total costs of other businesses and therefore ramify throughout the economy. It is fair to state that this awareness created an additional impetus toward achieving reduced fares.

At about the same time, the Administration undertook to encourage our citizen to take their vacations within the United States rather than traveling abroad. This program came to be called "Discover America", and was a specific factor taken into consideration by the Board in evaluating the carriers' fare proposals. By 1967, the deterioration in our international balance of payments had taken on added urgency and the Board became more directly involved in the

Administration's program to redress the deficit. This phase of the Board's activity will be discussed in a subsequent section of this chapter.

In evaluating the Board's efforts to bring about a more promotionally oriented pattern of domestic fares, it should be remembered that the Board is without direct legal authority to require promotional fares. Indeed, the Board can require a change in domestic fares of any kind only after formal proceedings, which are very lengthy undertakings. For this reason, the Board followed an informal route, bringing persuasion to bear in speeches and fairly continuous conversations with the carriers.

During the latter part of 1965 and the early months of 1966, three basic changes in domestic fares were introduced by the trunkline carriers. These were:

(1) Liberalized family fares which provided a one-third discount for the first accompanying member and a two-thirds discount thereafter for coach travel on weekdays. Family fare discounts on first-class service and weekend coach service were somewhat less. These family fares were revised in June 1968 so as to eliminate the undue complexity arising from differences in the discount depending upon the class of service used and the day of the week on which the family traveled.2/ As a result, present family fares provide uniform discounts of 25 percent for the first accompanying member and 50 percent thereafter, except that children under 12 receive a discount of two-thirds.

(2) Special fares for "young adults" between the ages of 12 and 22 years, available on a non-reservation stand-by basis at a discount of 50 percent from regular jet fares.3/ Within the past year a number of carriers, both trunkline and local service, have also introduced "youth fares" which provide a confirmed reservation at a one-third discount from regular fares.

2/ Order E-26925, June 18, 1968.
3/ Orders E-23137 and E-23138, January 20, 1966.

(3) Round-trip excursion fares at a 25 percent discount from jet coach fares.4/ These fares, which have become known as "Discover America" fares, are available on a firm reservation basis provided that the round-trip is not made within the same calendar week and is completed within 30 days.

The "Discover America" fares are a direct result of the Board's decision in the summer of 1965 not to permit surcharges on fares which the carriers were proposing for new jet services. When jet aircraft were first introduced in the late 1950's, the Board permitted the carriers to apply a surcharge on the otherwise applicable fare as a means of maintaining services conducted with propeller aircraft in competitive balance. This practice continued and the surcharge element became an integral part of the fare structure. However, in 1965 the Board felt that the proposed jet fares constituted an unwarranted increase in price to the public, notwithstanding that suspension of these fares would be disruptive of the overall fare structure. Essentially because of this potential disruption, the Board met with the carriers to discuss possible alternative solutions. The outcome was an agreement among the carriers to introduce the "Discover America" excursion fares, in return for which the Board permitted continuation of the practice of surcharging jet fares.

All the trunkline carriers offer the fares outlined above on a system-wide basis within the contiguous 48 states. They are available throughout the year with the exception of the few days surrounding major national holidays. In addition, all local service carriers offer comparable family fares; some offer stand-by fares, young adult fares with a firm reservation, and the "Discover America" excursion fares.

4/ Order E-23131, January 19, 1966; Order E-23461, April 1, 1966.

Virtually all carriers -- trunkline and local -- offer system-wide "Visit U.S.A." fares for travelers from abroad.[5/] These fares provide unlimited travel within the United States for a fixed period of time at a fixed dollar ticket price, with the option of several different periods of time and total price.

There are numerous other promotional fares which were put into effect during the years under review, although they are generally less extensive in scope. For example, a number of carriers offer reduced fares on services which are operated during off-peak hours. Typical of these are night coach fares between New York and Puerto Rico which, at 2.8 cents per mile, are believed to be the lowest for scheduled air service anywhere in the world; and adult standby fares in economy-class service between Chicago, Kansas City, Denver, and Los Angeles at approximately two-thirds of the regular fare.

The Board's policy toward fares was based upon the belief that the fare structure which most effectively serves the public interest is one which reflects the individual needs, desires, and alternative possibilities of a wide variety of customers. Generally speaking, a person traveling on business will select the flight departing on the day and at the hour which best suits his schedule, with cost being of secondary importance. Quite the opposite is true generally of the non-business traveler, who tends to be price conscious.

5/ Order E-21851, February 26, 1965; Order E-22975, December 7, 1965; Order E-24503, December 9, 1966; Order E-26100, December 11, 1967.

Moreover, the differentiated approach to setting fares is sound from the standpoint of airline economics. The basic fact is that air travel is subject to rather sharp peaking -- according to the time of the year, the day of the week and the hour of the day. The carriers must have sufficient capacity to meet the demand for service during these peak periods. The natural consequence is that they will have considerable unused capacity in non-peak periods. This represents an inefficient use of capital equipment from the airlines' standpoint. It therefore provides an excellent opportunity to offer reduced fare travel to the many people who would not otherwise fly.

The various promotional fares have had considerable success in developing additional traffic. It is estimated that approximately 19 percent of total trunkline revenue passenger miles is accounted for by the "Discover America" fare, with use of this fare rising as high as 30 percent in certain cases, for example, transcontinental non-stop services. Between 5 and 7 percent of total passenger miles are currently flown on family fares, and youth fares account for another 4 percent. While not the only factor, it must be concluded that promotional fares contributed in significant measure to the continued and accelerating pace of market growth which the airlines enjoyed during the 5-year period.

International Passenger Fares

International fares are arrived at by agreement among the carriers, reached within the framework of the International Air Transport Association (IATA). This Association numbers among its members virtually all the carriers providing significant international services in any part of the world, and participation of the U.S. flag carriers in IATA deliberations has been approved by the Board since the organization's inception in 1946.[6/]

All agreements reached by IATA must be approved by the Board before they may be placed in effect. This requirement affords the Board some opportunity to influence the level of fares offered. However, this is the extent of the Board's legal authority over the reasonableness of international fares. Should the Board disapprove an agreement as inconsistent with the public interest, or should the carriers find themselves unable to reach agreement, the Board is without statutory power to step in and secure the fares which it believes are required by the public interest.[7/] Generally in such instances, the status quo is maintained by the carriers.

The IATA membership is comprised of carriers with many and diverse characteristics. Some are wholly or partially subsidized by their governments; some have strong national markets; some operate over major long-haul routes; others do not. By the nature of the assemblage, therefore, carrier deliberations

6/ 6 CAB 639

7/ Throughout the 1964-1968 period, legislation was sought which would place such direct authority in the Board. These efforts were unsuccessful but will continue to be pursued.

in IATA tend toward the lowest common denominator -- to accommodate the least efficient carriers -- in their efforts to reach a mutually acceptable agreement. On the other hand, the U.S. flag carriers are among the most efficient operators in the world, and U.S. residents account for about two-thirds of transatlantic traffic, by far the most heavily traveled international route. For these reasons the Board over the years has found itself more or less continuously in the position of maintaining pressure for lower fares. Despite its lack of direct authority, it must be concluded that the Board has been instrumental in bringing about fares which are significantly lower than would otherwise have resulted had IATA been accorded sole and final responsibility.

As a direct result of the Board's efforts, major reductions in North Atlantic fares went into effect in April 1964.[8/] In fact, the Board felt so strongly that the traveling public deserved lower fares and that the carriers were in a position to provide them on an economic basis, that it departed from previous policy and sent observers to the IATA Conference. The fares which resulted provided a 20 percent reduction in normal first-class and economy service, except for a relatively limited peak travel period of about 10-1/2 weeks. In addition, special roundtrip excursion fares for travel completed within a 14 to 21 day period were extended so as to be available throughout most of the year. These fares had previously been offered only during the off-peak winter months, a season which has never been popular with the public for travel to Europe. At the time, it was estimated that these reductions would save the traveling public at least $50 million per year.

8/ Order E-20780, May 1, 1964.

In 1967, the opportunity for travel to Europe was broadened further with introduction of special low fares available to those who elected to travel as a member of a group of 15 or more persons and to purchase a total packaged tour -- consisting of land accommodations and sightseeing as well as transportation.[9] These fares were about 10 percent below the lowest fare otherwise available during the peak season (the individual 21-day roundtrip excursion fare), and more than 20 percent below that fare in the off-season period. There can be little doubt that the decision of the scheduled carriers to introduce these fares was provoked by the potential competition which flowed from the Board's decision in 1966 authorizing the supplemental carriers to charter aircraft to tour operators for the carriage of large groups traveling on organized inclusive tours.

The Board has been somewhat less successful in achieving the fare reductions on transpacific routes which it has consistently felt were economically feasible and required in the public interest. Following the Board's disapproval of the IATA agreement in late 1963,[10] fares on these routes remained unchanged until May 1966. For the reasons outlined above, the Board had little leverage with which to accomplish its objectives. Nevertheless, it pursued the matter with the U.S. flag carriers operating in the Pacific and in May 1966, these carriers acceded to moderate reductions in both first-class and economy service. In addition, inclusive tour fares for groups of 10 or more persons were then introduced for the first time on the Pacific and some months later were revised so as to be available for individual travel.

9/ Order E-24577, December 29, 1966.
10/ Order E-19385, March 18, 1963.

The IATA carriers finally reached agreement on transpacific fares in September 1967.[11/] This agreement provided further reductions in first-class and economy fares, and in the individual inclusive tour fares. In economy service, which is the service most used by the traveling public, the reduction amounted to about 15 percent from the level of one-way U.S.-Tokyo fares prevailing prior to May 1966. The Board approved this agreement as representing an improvement over the situation which had existed. However, in so doing it stated the belief that carrier earnings, which were continuing well above a reasonable level, justified more substantial decreases in price to the public. The Board admonished the carriers to agree upon further reductions, especially in the area of special promotional fares, at their next meeting in September 1968.

11/ Order E-25666, September 11, 1967.

Measures to Reduce the Travel Gap

In the late months of 1965, it became apparent that the country's international balance of payments was trending toward an increased deficit. The travel account came in for specific focus, partly because it is stated as an item separate and apart from the trade account. More importantly, however, the travel account had been showing a continuing deficit with little or no indication of significant improvement in the near future.

In October 1965, the Congress passed a joint resolution encouraging private industry in its efforts to attract foreign visitors to the United States, and authorizing the President to promote travel to and within the United States through use of appropriate departments and agencies of the Government.[12] The President subsequently appointed a Cabinet Task Force on Travel, which was chaired by the Vice President, for the purpose of assuring that the Government's contribution to the program was as effective as possible. The then Chairman of the Board actively participated as a member of the Task Force, along with representatives of other interested sectors of the Executive branch.

The deficit in the travel account continued to widen despite efforts of the Government and the private sector, reaching $2 billion for the year 1967. As a result, renewed and intensified emphasis was directed by the Administration toward closing the gap. In November 1967, the President appointed a successor

12/ P.L. 89-235, 89th Congress, S.J. Res. 98, (79 Stat. 910).

group known as the Industry-Government Special Task Force on Travel. This group brought together all efforts in the private and public sectors into a concerted program. The Task Force was directed by the President to formulate a specific program, encompassing the widest possible range of activity, to develop travel to the United States from abroad. The then Chairman of the Board was again designated as a member of the group, and actively participated in its work. Originally given some 6 months to accomplish its mandate, the Task Force accelerated its efforts when, on January 1, 1968, the President announced that the Administration was embarking upon an intensified program of the highest priority to reverse, or at least alleviate, the deteriorating trend in the balance of payments. The Task Force submitted its report to the President on February 15, 1968, and in July forwarded a follow-up summary of the progress which had been made in implementing the reports' recommendations.

The recommendations of the Task Force embraced the entire spectrum of activities connected with tourism. All, of course, are important to the success of the program. However, the very foundation of the program lay in the availability of transportation at an attractive price. Air transportation is the only practicable means of transocean travel. While it is one of several possible means of travel within the United States, air transport takes on a special usefulness for visitors as a result of the country's geographical size and the regional variety of its attractions for tourists. Clearly, therefore, the Board had a critical responsibility, and it exerted every effort to accomplish an expeditious program of reduced fares, despite the fact that it does not have statutory authority to direct a specific course of action in this area.

The Board convened a meeting in its offices on January 19, 1968, to brief the airline industry on the urgency which the Administration attached to the implementation of positive corrective measures, and to exchange views on possible courses of action. The meeting was attended by domestic trunkline, local service, and international carriers, as well as by representatives of the Task Force.

The U.S. flag international carriers subsequently met with the major operators on the transatlantic route. The European market was singled out for initial attention since it is currently the largest source of foreign visitors to the United States other than our contiguous neighbors, Canada and Mexico. The consensus of this meeting was circulated by mail to all IATA carriers eligible to vote and was formally adopted as an agreement, although with some reluctance on the part of some carriers.

The agreement provides special roundtrip family fares for westbound traveling originating in Europe and the Middle East. Specifically, with purchase of a ticket at the normal roundtrip fare by the head of the family, each accompanying member of the family may travel roundtrip at the price of a one-way economy-class fare. The fares are available for travel in first-class and economy-class service, and on the 21-day excursion and inclusive tour fares; however, in first-class service accompanying members pay the one-way first-class rather than economy fare. The agreement, although approved by the Board, fell materially short of its expectations and the carriers were urged to develop fares which would be more responsive to the program of attracting inbound travel at their meeting in September 1968.[13/]

13/ Order E-26688, April 19, 1968.

In the domestic area, the Board authorized discussions among the carriers for the purpose of arriving at a common fare proposal with the broadest applicability.14/ This authorization represented a rare departure from the Board's long established policy of prohibiting such concerted action on pricing as fundamentally in violation of the antitrust laws. For this reason, members of the staff attended all the meetings as observers.

The outcome of the carrier discussions was an agreement, approved by the Board in late February for effect April 28, to provide substantially reduced fares for foreign residents (other than the Western Hemisphere) traveling within the United States.15/ Roundtrip travel is offered at the applicable one-way fare, subject to a minimum of $79.00 for adults and $40.00 for children. Transportation must be within a 14 to 30 day span and three stopovers are required. These fares are offered by all trunkline and local service carriers, Pan American and Alaska Airlines. They are available on a joint interline basis throughout the continental United States and to and from Alaska.

While attractive air fares are a basic necessity to both the "Visit U.S.A." and "Discover America" campaigns, the fares must be adequately advertised. More importantly, the travel opportunities which they bring within reach must be properly merchandised. An important adjunct to the airline industry's sales force is the travel agent, and to do his job he must have a familiarity with the product he is seeking to sell. To this end, the Board embarked in 1966 upon a more liberal approach with regard to the provision of free (or reduced

14/ Order E-26265, January 23, 1968.
15/ Order E-26413, February 28, 1968.

fare) domestic transportation for agents. The Board had traditionally taken a rather restrictive view of such free transportation in the belief that it was of at least doubtful legality.

Since 1963, however, the Board has granted the carriers numerous individual exemptions to provide free transportation for groups of agents where the travel was demonstrated to be for domestic familiarization purposes. Some 24 thousand agents have participated in these programs, and in April 1968 the Board granted the carriers a blanket exemption for such transportation.16/ Additionally, in 1967 the Board approved an agreement of the domestic carriers which provides one free pass per year for each qualified travel agent.

The law is less stringent with respect to free travel privileges for agents in international transportation, and for many years the IATA regulations have been quite liberal in allowing the free carriage of travel agents. The two actions of the Board described above tended to equalize the agents' incentive to sell domestic as opposed to foreign destinations by bringing the opportunities for education and familiarizations into approximate parity.

Over and above this, the Board has cooperated during the past several years with the U.S. Travel Service in a stepped-up program to promote the United States as a vacation destination. The Board has authorized the domestic and international carriers to provide free transportation for foreign travel agents and journalists to and within the country whenever the Travel Service has stipulated that the program involved a reasonably productive schedule of

16/ ER-528, April 1, 1968.

familiarization and promotion. Since the President's special emphasis on the travel gap in his January 1, 1968 message, the Board has authorized free travel to the U.S. for up to 2,000 foreign agents and journalists over the next two years.

Rates for the Government

The Federal Government is the single largest purchaser of U.S. domestic and international air transportation, the principal procurers being the Department of Defense and the Post Office Department. Procurement of air services by the Department of Defense increased from approximately $185 million in Fiscal 1964 to $600 million in Fiscal 1967. While the use which the Post Office made of air service did not grow as dramatically, the total procurement in Fiscal 1967 stood at $258 million.

The Board has responsibility under the statute to fix the compensation paid the carriers for the carriage of mail.[17] While not legally required to set rates at which the military contracts for services of the civilian air carriers, the Board nevertheless has established minimum rates for this traffic since 1960 pursuant to an understanding with the military. This arrangement was arrived at after experience under competitive bidding procedures threatened to undermine the economic soundness of the carriers' services. The Board, therefore, has an opportunity to affect materially the Government's expenditures and to make a direct contribution in this area to the objective of alleviating inflationary pressures.

The Board sets minimum rates for international passenger and cargo charters, and domestic cargo charters performed for the military, as well as minimum rates at which the military procures scheduled passenger and cargo services in international transportation. In each of the 5 years under review the Board, after

17/ Federal Aviation Act of 1958, Section 406(a).

careful review and analysis, has effected reductions in some or all of these rates.[18/] The cumulative reduction amounted to some 20.4 percent, or a saving to the Government of about $442 million over the 5-year period. In other words, while total ton-miles procured increased by 284 percent, the increase in total expenditures by the Department of Defense for this airlift increased by only 214 percent.

Important reductions in the rate of compensation paid by the Post Office Department for the carriage of mail in both domestic and international transportation were also accomplished in the 1964-1968 period. In 1964, rates for securing transatlantic and transpacific air mail service were reduced approximately 25 percent, with a resulting saving to the Government estimated at $13.2 million annually.[19/] The issue of the level of these rates, as well as rates which should apply to military ordinary mail, was reopened effective January 1, 1967.[20/] This proceeding was handled through the conference procedure rather than by formal evidentiary hearing, and was concluded in August 1968. Rates for priority mail were reduced by 10 percent for the period from January 1, 1967 to

18/ EDR-60, November 11, 1963 and ER-401, effective March 1, 1964; EDR-67, March 13, 1964, and ER-403, effective July 1, 1964; EDR-79/PSDR-10, January 1965, ER-432, ER-436, PS-26, and PS-28, effective July 1, 1965; EDR-96/PSDR-15, January 1, 1966, ER-456 and PS-30, effective April 1, 1966; EDR-113/PSDR-18, March 15, 1967, EDR-113B/PSDR-18B, May 17, 1967, ER-494 and PS-33, effective June 1, 1967; ER-499, effective August 1, 1967; EDR-133/PSDR-20, February 20, 1968, ER-536 and PS-36, effective July 1, 1968; EDR-134, March 21, 1968, ER-537, effective July 1, 1968; EDR-127, November 16, 1967, ER-540, effective July 1, 1968.

19/ Order E-21458, October 28, 1964; Order E-21514, November 19, 1964.

20/ Order E-24579, December 29, 1966.

June 30, 1968, and 20 percent prospectively from the latter date.[21/] It is estimated that these reductions will result in a recapture of $20.6 million by the Government for the past period, and a future annual saving of about $32 million. In 1966, the Board also ordered a reduction in rates to be paid the carriers for transporting the mail to South America.[22/] The reduction amounted to 27.5 percent, which was estimated to accomplish an annual saving to the Government of $1 million.

In 1967, after a full evidentiary hearing, the Board ordered a reduction of about 8 percent in the rates paid the trunkline, local service, and all-cargo carriers for the carriage of domestic priority air mail.[23/] This reduction was estimated to produce an annual saving approximating $11 million in Fiscal 1968. This reduction, together with those ordered in international transportation, accomplished an overall saving to the Government on the order of $57 million annually. During the period here under review, the saving amounted to a total of $125 million.[24/]

21/
22/ Order E-23642, May 5, 1966; Order E-23753, May 31, 1966.
23/ Order E-25610, August 28, 1967.
24/ Includes other significant orders of the Board as well as those discussed above.