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# AIRCRAFT GUARANTEE LOAN PROGRAM

GOVERNMENT  
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## HEARINGS BEFORE THE AVIATION SUBCOMMITTEE OF THE COMMITTEE ON COMMERCE UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS SECOND SESSION

ON

### S. 2815

TO AMEND THE ACT OF SEPTEMBER 7, 1957, RELATING TO  
AIRCRAFT LOAN GUARANTEES:

#### S. 2815, Amendment

INTENDED TO BE PROPOSED BY MR. SMATHERS, TO THE  
BILL (S. 2815), DATED MARCH 8, 1962;  
AND

#### S. 2815, Amendment

INTENDED TO BE PROPOSED BY MR. HARTKE (BY RE-  
QUEST) TO THE BILL (S. 2815), DATED MAY 9, 1962

MAY 8, 10, 14, 29, 1962

WASHINGTON, D.C.

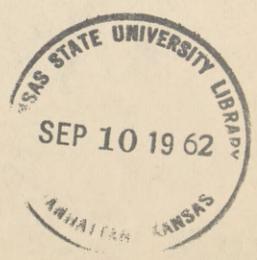
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## CONTENTS

### Statement of—

	Page
Adams, Joseph P., general counsel, Association of Local Transport Airlines, Wyatt Building, Washington, D.C.-----	40
Aero Space Industries, Shoreham Building, Washington, D.C.-----	119
Boyd, Hon. Alan S., Chairman, Civil Aeronautics Board, Washington, D.C.; accompanied by Ross I. Newman, Associate General Counsel; and Irving Roth, Director, Bureau of Economic Regulations-----	3
Chalk, O. Roy, president, Trans-Caribbean Airways, Transportation Corp. of America, 3600 M Street, NW., Washington, D.C.; accompanied by Theodore Seamon-----	59
Chicago Helicopter Airways, Inc., 5240 West 63d Street, Chicago, Ill.-----	57
Connelly, J. Bruce, vice president, assistant general manager, Boeing Co., Seattle, Wash.; accompanied by Clarence Wilde, manager, domestic sales-----	114
Dresher, James T., vice president-finance, and treasurer, Fairchild Stratos Corp., Hagerstown, Md.-----	97
Driscoll, Edward J., Deputy to the Assistant Secretary of the Air Force, Material for Transportation and Communications, Department of Defense, Washington, D.C.; accompanied by Col. L. R. Ferriss, Directorate of Transportation, Department of Defense-----	151
Fitzgerald, Richard A., vice president, Washington affairs, Seaboard World Airlines, 1001 Connecticut Avenue, NW., Washington, D.C.-----	88
Halaby, Hon. Najeeb E., Federal Aviation Agency, Washington, D.C.-----	163
Hewitt, R. M., president, Riddle Airlines, 1120 Connecticut Avenue, NW., Washington, D.C.-----	71
Mackey, Joseph C., president, Mackey Airlines, Inc., Broward County International Airport, Fort Lauderdale, Fla.-----	54
Martin, Clarence D., Jr., Under Secretary for Transportation, Department of Commerce, Washington, D.C.-----	28
McGowen, Jackson R., vice president, Aircraft Division, Douglas Aircraft, Washington, D.C.; accompanied by Lloyd Aschenbeck, manager of market research, Aircraft Division-----	102
Rentzel, Delos W., director and member of executive committee, Shoreham Building, Washington, D.C.-----	133
Tompkins, George W., president, National Air Carrier Association, Inc., Cafritz Building, Washington, D.C.-----	123
<b>Statement submitted by—</b>	
Arata, W. H., Jr., manager, market planning, Aircraft-Missiles Division, Fairchild Stratos Corp., Hagerstown, Md.-----	97
Chicago Helicopter Airways, Inc., O'Hare International Airport, Chicago, Ill.-----	57
Los Angeles International Airways, Los Angeles, Calif.-----	161
O'Grady, Gerald P., general counsel, Pacific Northern Airline, Inc.-----	183
Riddle Airlines, Inc., Connecticut Avenue NW., Washington, D.C.-----	184
<b>Letters from—</b>	
Gross, Courtland S., chairman Lockheed Aircraft Corp., Burbank Calif., dated May 4, 1962.-----	195
Martin, Clarence D., Jr., Under Secretary of Commerce for Transportation, Washington, D.C., dated June 26, 1962.-----	39

Reports from—	Page
Civil Aeronautics Board on S. 2815, dated May 24, 1962.....	194
Department of the Air Force on S. 2815, Hartke amendment, dated June 22, 1962.....	185
Department of the Air Force on S. 2815 and Smathers amendment, dated May 10, 1962.....	186
Department of Commerce on S. 2815 and Smathers amendment, dated May 8, 1962.....	187
Department of Commerce on Hartke amendment, dated June 12, 1962.....	190
Department of Justice on S. 2815, dated February 21, 1962.....	190
Department of Justice on S. 2815, Hartke amendment, dated May 17, 1962.....	191
Department of the Treasury on S. 2815, dated May 11, 1962.....	191
Department of the Treasury on S. 2815, Hartke amendment, dated June 18, 1962.....	192
General Accounting Office on S. 2815, dated March 14, 1962.....	192
General Accounting Office on S. 2815, Smathers amendment, dated April 2, 1962.....	193
General Accounting Office on S. 2815, Hartke amendment, dated May 21, 1962.....	193

# AIRCRAFT GUARANTEE LOAN PROGRAM

TUESDAY, MAY 8, 1962

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON AVIATION,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 5110, New Senate Office Building, Hon. A. S. Mike Monroney (chairman of the subcommittee) presiding.

Staff counsel for this hearing, William T. Beeks.

Senator MONRONEY. The Subcommittee on Aviation will be in session.

This morning the Aviation Subcommittee will commence hearings on the bill S. 2815 and certain amendments proposed thereto by Senator Smathers and Senator Hartke.

(The bill and proposed amendments follow:)

[S. 2815, 87th Cong., 2d sess.]

A BILL To amend the Act of September 7, 1957, relating to aircraft loan guarantees

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 8 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word "five" and inserting in lieu thereof the word "ten".

[S. 2815, 87th Cong., 2d sess.]

AMENDMENT Intended to be proposed by Mr. SMATHERS to the bill (S. 2815) to amend the Act of September 7, 1957, relating to aircraft loan guarantees, viz: At the end thereof add the following new sections:

SEC. 2. Section 1 of the Act of September 7, 1957 (71 Stat. 629), is amended by adding immediately after the words "development of" in the first sentence the following: "scheduled all-cargo and".

SEC. 3. Section 3 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking the period immediately following the word "service" at the end of the first sentence and adding the following: "or (g) for scheduled all-cargo service."

[S. 2815, 87th Cong., 2d sess.]

AMENDMENT Intended to be proposed by Mr. HARTKE (by request) to the bill (S. 2815) to amend the Act of September 7, 1957, relating to aircraft loan guarantees, viz: At the end thereof add the following new section:

SEC. 2. Section 3 of the Act of September 7, 1957, (71 Stat. 629), is amended by striking out the period at the end of subsection (f), inserting in lieu thereof a comma, and inserting thereafter "or (g) providing for operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico."

Staff counsel assigned to this hearing: William T. Beeks, Jr.

Senator MONRONEY. This bill extends the provisions of the act of September 7, 1957, relative to aircraft loan guarantees to local service feeder, helicopter, and certain other air carriers.

Existing law authorizes the Civil Aeronautics Board to guarantee any lender against loss of principal or interest on any aircraft purchase loan made by the lender to eligible air carriers. Such guarantees may extend so as to include unpaid interest and 90 percent of the unpaid principal of any loan. The terms of any loan must provide for full repayment within 10 years. The total amount of loans to any one carrier cannot exceed \$5 million.

In addition, the Board, in guaranteeing any loan, must find that the carrier would otherwise be unable to obtain necessary funds for the purchase of aircraft on reasonable terms. Further, guarantees would only be extended in those cases where the Board found that the loan was necessary to improve service and efficiency of operation.

The Government has incurred no loss in connection with this program. To date, over half of the loans which have been made have been repaid. In connection with cost to the Government, it might be well to point out that the Board is directed by statute to prescribe and collect from the lending institution a reasonable guarantee fee.

I think that no one would dispute that the aircraft loan guarantee program has made possible substantially improved air service between the smaller communities of this Nation. There is no question in my mind that improved equipment has markedly increased efficiency of these carriers and, consequently, has contributed importantly to lessening the subsidy needs of these carriers. Coupled with improved efficiency, reduced subsidy needs, this program has increased safety.

While a great majority have availed themselves of this program, most of them still have important reequipment plans which they are desirous of putting into effect. In this regard the Civil Aeronautics Board advises as of December 31, 1961, a total of \$30,349,503 has been borrowed on such loans, with \$23,379,152 still outstanding at that date. These funds have been used to purchase (1) 33 twin-turbine-engine F-27 aircraft, (2) 12 twin-engine (piston-type) Convair 340/440 aircraft, which can be converted to turbine power, (3) 3 twin-engine (piston-type) Martin 404 aircraft, (4) 5 single-engine (piston-type) Vertol 44B helicopters, and (5) 1 twin-turbine-engine helicopter. Applications have been approved for one jet aircraft and three additional twin-turbine helicopters, the delivery of which will take place in the near future. Applications are now pending for the guarantee of loans for the purchase of eight twin-turbine helicopters, four CV-240's and two DC-6's.

In view of the fact that many carriers have yet to fully complete their equipment modernization, S. 2815 would extend the loan-guarantee program for an additional 5 years.

The committee will also focus attention on an amendment to S. 2815, introduced by Senator Smathers. This amendment would extend the provisions of the loan-guarantee program so as to include all cargo carriers.

The first witness this morning will be Hon. Alan S. Boyd, Chairman of Civil Aeronautics Board.

Mr. Chairman, we are happy to have you here. I believe the committee has your prepared statement. You may proceed in your own way.

STATEMENT OF ALAN S. BOYD, CHAIRMAN OF THE CIVIL AERONAUTICS BOARD; ACCOMPANIED BY ROSS I. NEWMANN, ASSOCIATE GENERAL COUNSEL; AND IRVING ROTH, DIRECTOR OF BUREAU OF ECONOMICS REGULATION

Mr. BOYD. Mr. Chairman and members of the committee, the Board appreciates this opportunity to appear in support of S. 2815. This bill would extend for an additional period of 5 years the act of September 7, 1957, which authorizes the Board to provide Government guarantee of private loans to the local service and certain other air carriers for the purchase of commercial transport aircraft and spare parts. Unless renewed, this legislation will expire on September 7, 1962.

The existing loan guarantee law was originally sponsored by the Board in 1957. At that time new aircraft were being developed which it was felt would be more economical and efficient, and better adapted to the needs of the local service carriers than the DC-3 which was then commonly in use. It was apparent, however, that many of the carriers would have found it difficult or impossible to obtain new aircraft without some kind of Government assistance. The Board suggested, therefore, that legislation be enacted which would permit the Government, under appropriate conditions, to assist these air carriers in acquiring new equipment by guaranteeing private loans negotiated by the carriers for the purchase of such aircraft. Legislation to implement these recommendations was enacted on September 7, 1957, as Public Law 85-307.

The benefits of the act are limited to carriers holding a certificate of public convenience and necessity issued by the Board designating them for local or feeder service; for metropolitan helicopter service; for service within Alaska, Hawaii, or Puerto Rico; for service between the United States and Alaska or between Florida and the British West Indies.

The act authorizes the Board to guarantee loans up to \$5 million per air carrier; a guarantee may not exceed 90 percent of the face value of the loan and 100 percent of unpaid interest. The loan itself may not exceed either 90 percent of the purchase price or \$5 million. Loans must be repaid within 10 years. A guarantee may be made only if the Board finds that the air carrier would not otherwise be able to obtain funds for the purchase of aircraft upon reasonable terms and only if the aircraft purchased are needed to improve the service and efficiency of the air carrier. In general, the reasonableness of other terms and conditions of the loan is determined by the Board.

When the Board originally testified in support of this legislation in 1957, the local service carriers, the Alaskan carriers, and the Hawaiian carriers were operating approximately 220 DC-3 aircraft. As of September 30, 1961, the number of DC-3's being operated increased to about 250, despite the fact that during the 5 years that the Loan Guaranty Act has been in effect loans totaling nearly \$37 million have been made for the purchase of 33 twin-turbine-engine F-27 aircraft; 12 twin-engine Convair aircraft, which can be converted to turbine power; 3 twin-engine Martin aircraft; 5 single-engine Vertol helicopters; and 1 twin-turbine-engine helicopter.

It is our view that the continuation of the reequipment program of the smaller carriers is of the utmost important to their financial success and their prospects for long range subsidy improvement. Notwithstanding the progress which has already been made on the equipment front, many of the carriers will have requirements for further reequipment, particularly in connection with route modifications and extensions.

The Congress has indicated clearly its desire to foster and develop modern and efficient air transportation for the smaller communities. The Board has established a program to carry out this congressional intent, and at the same time to derive the maximum benefit from each subsidy dollar. Our objectives include reexamination and modification of route structures where appropriate, the development of more effective subsidy rate machinery designed to provide incentives to management to maximize revenues and to minimize costs, and the administration of the loan guarantee program to assist in the financing of more modern equipment.

The amendment to S. 2815 proposed by Senator Smathers would also make the certificated cargo carriers eligible for Government loan guarantees. The operations of the all-cargo carriers have not been profitable. It must be admitted that the development of transportation of cargo by aircraft has been disappointing, especially in the terms of the predictions made for this industry in the early postwar period. While there has been a remarkable growth in air transportation in the years since World War II, the vast market which is believed to exist for air cargo remains largely untapped. The all-cargo carriers have found it necessary to extend their operations to the military and passenger charter field in order to obtain additional revenues. Some have been forced to suspend their all-cargo services because of inability to sustain profitable operations.

The Board believes that the failure of the air transport industry to realize its potential in the movement of air cargo is attributable in part to the lack of modern specialized aircraft designed primarily to carry cargo profitably and at low rates. The Board feels that if the all-cargo carriers were able to acquire a fleet of modern, high speed, low cost cargo aircraft, there would result a material contribution to the national defense and an invaluable benefit to the postal service and to the commerce of the United States. In order to make sure that the requirements of the national defense are met, the bill should contain a provision to the effect that loan guarantees for cargo aircraft shall be made only for the purchase of turbine powered aircraft which would be made available to the Department of Defense in time of national emergency. With this qualification, the Board supports the amendment as proposed by Senator Smathers.

That concludes the statement of the Civil Aeronautics Board, Mr. Chairman.

With your permission, sir, I would like to present three exhibits bearing on the development and status of loan guarantees. One is a two-page legal-sized exhibit which gives a schedule of guaranteed loans completed and approved, with the name of the lenders appearing in the righthand column.

The second one is a two-page exhibit on one sheet of paper which makes a comparison of aircraft purchased by local service carriers with and without guaranteed loans since the inception of the program through April 30, 1962, exclusive of DC-3 aircraft.

The third is a five-page exhibit which refers to loans approved and aircraft operated by eligible carriers.

Thank you, sir.

Senator MONRONEY. Thank you very much, Mr. Chairman.

I note in your statement that you say that there has been no loss to the Federal Government. In the opening statement of the chairman I outlined the amounts loaned and the amounts still due. Have there been any defaults to date?

Mr. BOYD. No, sir.

Senator MONRONEY. In other words all of the interest and all of the principal have been met on the due dates?

Mr. BOYD. Yes, sir.

Senator MONRONEY. The rates appear to be between 5¼ up to 6 percent, I believe; is that correct?

Mr. BOYD. Yes, sir.

Senator MONRONEY. Do you feel that this program has had a considerable influence in holding this rate to a reasonable figure?

Mr. BOYD. I think there is no doubt of it, Mr. Chairman.

Senator MONRONEY. Is it not true that under the law, which this bill would extend, if financing is available at reasonable rates elsewhere, then the CAB would not guarantee the loan?

Mr. BOYD. That is right, sir.

Senator MONRONEY. It was mentioned in your statement, I believe, that there is a slight surcharge to cover the Government's cost of administering the guarantee program.

Mr. BOYD. That is correct, sir.

Senator MONRONEY. What percentage is that?

Mr. BOYD. Three-eighths of 1 percent, Mr. Chairman.

Senator MONRONEY. Nearly a half of 1 percent.

Mr. BOYD. Yes, sir.

Senator MONRONEY. That has been used by the CAB to cover the cost of examination and the administration of the program?

Mr. BOYD. Yes, sir, that is correct. It goes into general receipts, actually, but the amount of fees collected has been sufficient to cover the cost of administering the program.

Senator MONRONEY. This would be somewhat similar, in private industry, to a brokerage fee?

Mr. BOYD. This is an annual fee on the unamortized balance, Mr. Chairman. I think a brokerage fee would be probably on the total. This is more in the nature of a service charge, actually.

Senator MONRONEY. You show in your statement that even though we have purchased, as you state, some \$37 million worth of new aircraft, 33 twin-turbine F-27 aircraft, and 12 twin-engine Convair aircraft, and 3 twin-engine Martin 404 aircraft, that the number of DC-3's operated, which was 220 when the legislation was passed in 1957, that they are now operating 250 DC-3's.

Mr. BOYD. Yes, sir.

Senator MONRONEY. I will put the three charts which you submitted regarding the loan program in the record at this point.

(The three exhibits follow:)

## AIRCRAFT GUARANTEE LOAN PROGRAM

## Loan guarantee program—Loans approved and aircraft operated by eligible carriers

Carrier	Status of loans as of Mar. 31, 1962			Aircraft operated Dec. 31, 1961		
	Loans approved	Amount drawn down	Balance outstanding	Other aircraft		Leased
				Purchased with guaranteed loan	Owned	
LOCAL SERVICE CARRIERS (13)						
Allegheny Airlines, Inc.....					8 DC-3 15 M-202	
Bonanza Air Lines, Inc., 1st loan.....	\$4,324,500	\$4,324,500	\$3,244,661	6 F-27	8 CV-3/440	
Bonanza Air Lines, Inc., 2d loan.....	1,125,000	1,125,000	1,003,511	2 F-27	5 CV-540 1 F-27	
Subtotal, Bonanza Central Airlines, Inc.....	5,449,500	5,449,500	4,248,162		15 DC-3 4 CV-240	3 DC-3,
Frontier Airlines, Inc., 1st loan.....	2,250,000	2,250,000	1,472,882	5 CV-340	23 DC-3	1 CV-340.
Frontier Airlines, Inc., 2d loan.....	900,000	900,000	770,400	2 CV-340		
Subtotal, Frontier Lake Central Airlines, Inc.....	3,150,000	3,150,000	2,243,282		20 DC-3 5 CV-340	
Mohawk Airlines, Inc.....					7 DC-3 14 CV-240	
					5 CV-440 9 M-404	
					1	
North Central Airlines, Inc. <sup>2</sup> .....	2,340,000	2,340,000		5 CV-3/440	28 DC-3	3 DC-3.
Ozark Air Lines, Inc.....	2,118,996	2,118,996	1,631,459	3 F-27	5 CV-3/440 21 DC-3	2 DC-3.
Pacific Air Lines, Inc., 1st loan.....	4,531,000	4,531,000	3,258,850	6 F-27	5 DC-3	
Pacific Air Lines, Inc., 2d loan.....	469,000	469,000	357,353	3 M-404	2 M-202	
Subtotal, Pacific Piedmont Airlines, Inc.....	5,000,000	5,000,000	3,616,183		5 M-404	
Southern Airways, Inc.....	4,850,000	4,850,000	3,953,000	8 F-27	14 DC-3 26 DC-3	
Trans-Texas Airways, Inc.....					5 M-404 23 DC-3	
West Coast Airlines, Inc.....					8 CV-240 7 F-27	
					14 DC-3	



## AIRCRAFT GUARANTEE LOAN PROGRAM

## SUMMARY

	Aircraft operated Dec. 31, 1961			
	Purchased with guaranteed loan	Other aircraft		Leased
		Owned		
DC-3.....		230		10
C-46.....		6		2
M-202.....		17		
M-404.....		17		
CV-240.....	3			
CV-3/440.....	12			
CV-540.....	33			1
F-27.....		11		
DC-4.....		16		
DC-6 type.....		2		1
L-749.....		9		5
CV-880.....		5		2
B-720.....		1		
S-55.....	1			
S-58C.....		5		
B-47J.....		7		
V-44B.....	5		1	
S-61L.....	4			
V-107.....	4			
Miscellaneous.....	4			
		67		16
Total.....	62	437		37

<sup>1</sup> Miscellaneous; all aircraft smaller than DC-3.

<sup>2</sup> This loan was repaid on Mar. 20, 1962.

<sup>3</sup> Bristol Bay and Munz are no longer operating under certificate authorizations.

<sup>4</sup> Alaska Coastal and Ellis were merged on Apr. 1, 1962.

<sup>5</sup> Aircraft delivered to Pacific Northern on Mar. 23, 1962. Aircraft placed in service Apr. 27, 1962. PNA has purchased a 2d B-720 without a guaranteed loan which was also placed in service Apr. 27, 1962.

<sup>6</sup> 2 S-61L's placed in service Mar. 1, 1962; 2 more yet to be delivered. The S-61L's will replace the S-55's.

<sup>7</sup> 1st aircraft delivery due Apr. 30, 1962, remainder in calendar year 1962. 1st loan to be repaid before drawdown on 2d loan. The V-107's will replace the V-44B's.

NOTE.—The following aircraft were purchased without guaranteed loans since Dec. 31, 1961, and have come to our attention: Bonanza, 2 F-27's; Piedmont, 14 M-404's.

AIRCRAFT GUARANTEE LOAN PROGRAM

*Aircraft purchased by local service carriers with and without guaranteed loans since inception of loan guarantee program through Apr. 30, 1962 (exclusive of DC-3 aircraft)*

Carrier	Purchased with guaranteed loans		Purchased without guaranteed loans	
	Aircraft	Amount of loan <sup>1</sup>	Aircraft	Cost of aircraft and engines <sup>2</sup>
Allegheny.....			9 M-202's.....	\$1,454,534
			8 CV-340's.....	2,531,948
Bonanza.....	8 F-27's.....	\$5,449,500	5 CV-540's.....	10,508,517
Central.....			3 F-27's.....	2,339,000
Frontier.....	7 CV-340's.....	3,150,000	4 CV-240's.....	601,722
Lake Central.....			5 CV-340's.....	2,225,684
Mohawk.....			7 CV-240's.....	1,106,019
			5 CV-440's.....	3,663,318
North Central.....	5 CV-3/440's.....	2,340,000	9 M-404's.....	581,523
Ozark.....	3 F-27's.....	2,118,966	5 CV-3/440's.....	2,057,008
Pacific.....	6 F-27's.....	4,531,000		
	3 M-404's.....	469,000		
Piedmont.....	8 F-27's.....	4,850,000	17 M-404's.....	3,250,000
Southern.....			5 M-404's.....	650,809
Trans-Texas.....			8 CV-240's.....	1,199,605
West Coast.....			7 F-27's.....	4,159,520
Summary.....	25 F-27's.....		10 F-27's.....	
	12 CV-3/440's.....		23 CV-3/440's.....	
	3 M-404's.....		6 M-404's.....	
			19 CV-240's.....	
			5 CV-540's.....	
			9 M-202's.....	
Total, all aircraft types.....	40	22,908,496	102	37,344,207

<sup>1</sup> All loans were for no more than 90 percent of purchase price which included spares.

<sup>2</sup> Does not include any spares other than engines.

CIVIL AERONAUTICS BOARD  
*Schedule of guaranteed loans*  
 COMPLETED AND APPROVED

Carrier	Amount of equipment purchased	Amount of loan	Amount guaranteed	Interest rate	Duration of	Equipment	Date docketed	Date guarantee agreement executed	Lender
New York Airways	\$2,053,342	\$1,000,000	\$900,000	Percent 5.25	Years 5	5 V-44B Helicopters	Apr. 22, 1958	May 15, 1958	Manufacturers Hanover Trust Co., the United States Trust Co. of New York, and Federation Bank & Trust Co.
Bonanza	4,805,003	4,324,500	3,892,050	5.50	10	6 F-27's	Feb. 3, 1958	June 19, 1958	First National Bank of Nevada, First Western Bank Trust Co., Walter Bank & Trust Co., and First National Bank of Arizona.
Piedmont	5,732,636	4,850,000	4,365,000	5.50	10	8 F-27's	Apr. 14, 1958	Oct. 6, 1958	Prudential Insurance Co. of America, the Bank of New York, The United States Life Insurance Co. in the City of New York, and the Gulf Life Insurance Co.
Pacific	5,145,565	4,531,000	4,077,900	5.25	10	6 F-27's	Aug. 27, 1958	Dec. 1, 1958	Bank of America National Trust & Savings Association.
North Central	2,600,000	2,340,000	2,105,000	5.50	7	5 CV-340's	Dec. 3, 1958	Jan. 9, 1959	Northwestern National Bank of Minneapolis, and Irving Trust National Bank of Minneapolis, and Continental Assurance Co. and the United States Life Insurance Co. in the City of New York.
Aloha	2,545,000	2,290,000	2,061,000	5.55	10	3 F-27's	Jan. 8, 1959	Mar. 31, 1959	The Bank of New York and Teachers Insurance & Annuity Association of America.
Wien Alaska	1,450,300	1,305,270	1,174,743	6.00	10	2 F-27's	Mar. 27, 1959	May 19, 1959	The Central Bank & Trust Co. Irving Trust Co. and Bank of America National Trust & Savings Association.
Frontier	2,500,000	2,250,000	2,025,000	5.50	7	5 CV-340's	May 25, 1959	July 22, 1959	Bank of America National Trust & Savings Association.
Ozark	2,354,440	2,118,996	1,907,096	5.50	10	3 F-27's	May 5, 1959	Aug. 14, 1959	The City National Bank & Trust of Kansas City, Mo. (participating with Mercantile Trust Co. of St. Louis, Mo.)
Pacific (2d loan)	620,000	469,000	422,100	6.00	7	3 M-404's	Dec. 3, 1959	May 9, 1960	Bank of America National Trust & Savings Association
Aloha (2d loan)	2,450,153	2,200,000	1,980,000	6.00	10	3 F-27's	Dec. 11, 1959	May 24, 1960	Teachers Insurance & Annuity Association of America, Continental Assurance Co., and Kansas City Life Insurance Co.
Bonanza (2d loan)	1,605,637	1,125,000	1,012,500	6.00	10	2 F-27's	June 2, 1960	Oct. 3, 1960	Girard Trust Corn Exchange Bank.
Frontier (2d loan)	1,000,000	900,000	810,000	5.50	7	2 CV-340's	Mar. 10, 1961	May 17, 1961	The Central Bank & Trust Co., Irving Trust Co., and Bank of America National Trust & Savings Association.
Pacific Northern	4,701,248	4,231,123	3,808,011	5.50	10	1 B-730	Apr. 28, 1961	Nov. 7, 1961	Bank of America National Trust & Savings Association.

Los Angeles.....	3,212,930	2,891,637	2,602,473	5.50	10	4 S-61..... Helicopters.	Sept. 2, 1960	Nov. 22, 1961	Do.
New York (2d loan)	3,800,000	3,200,000	2,880,000	5.34	7	4 V-107..... Helicopters.	May 6, 1960	Mar. 30, 1962	Manufacturers Hanover Trust Co., The United States Trust Co. of New York, and Empire Trust Co.
Total.....	46,576,254	40,026,526	36,023,873						

APPLICATIONS IN PROCESS

Chicago.....	\$3,250,000	\$2,925,000	\$2,632,500	6.00	10	4 S-61..... Helicopters.	Aug. 15, 1960		Harris Trust & Savings Bank, The First National City Bank of New York, Continental Assurance Co., and Country Life Insurance Co.
Ozark (2d loan)	1,295,000	1,125,000	1,012,500	5.50	7	4 CV-240's.....	Dec. 13, 1961		Bank of St. Louis.
Mackey.....	920,000	820,000	738,000	5.7126	7	2 DC-6's.....	Jan. 24, 1962		First National Bank in Fort Lauderdale and First National Bank of New York.
Total.....	5,435,000	4,870,000	4,383,000						

<sup>1</sup> Amount guaranteed is 90 percent of loan in all cases.

Senator MONRONEY. You state that we have increased our fleet materially. There have been 30 DC-3's added, 33 F-27's, and 12 twin-engine Convairs, and 3 twin-engine Martins. Do you have available now, or for submission for the record, a comparison between the total mileage and total passenger-miles flown in calendar year 1957, when the original bill was enacted, and 1961?

Mr. BOYD. I don't have 1957. We can give you 1961. With your permission we will submit it for the record.

Senator MONRONEY. I think that such a comparison would show a vast increase in the number of miles flown and the number of revenue-passenger-miles. I believe General Adams, who will testify in behalf of ALTA, has that 1957 figure and will probably present it later in the day.

Mr. BOYD. I believe I may have this in terms of referring to several exhibits here.

For 1956 the schedule, revenue-plane-miles flown, was 46,278,367. For the 12 months ended June 30, 1961, the comparable figure is 97,723,724. The route mileage I do not have for 1957.

Senator MONRONEY. Wouldn't that be comparable? In other words this is the total miles flown.

Mr. BOYD. Yes, sir.

Senator MONRONEY. Related generally to the route mileage flown?

Mr. BOYD. The average route miles in operation for 1956, calendar year, were 20,000; for 1961, 52,084.

Senator MONRONEY. In other words the length of the scheduled routes—

Mr. BOYD. I am sorry, sir. That is 34,545 instead of 52,000.

Senator MONRONEY. In other words the length of the routes flown daily, approximately daily, has increased from 20,000 miles per day, you might say, to 34,535 miles per day?

Mr. BOYD. Yes, sir.

Senator MONRONEY. And the annual total of the mileage flown for 1956 has more than doubled, from 46,278,000, total mileage, to 97,723,000?

Mr. BOYD. Yes, sir.

Senator MONRONEY. It was the hope, of course, in passing this guarantee loan bill, that we would be able to work our way out of subsidy with improved planes contributing materially to greater efficiency in operations. The subsidy has remained rather constant since that time, has it not?

Mr. BOYD. This is a very difficult question to answer, Mr. Chairman. It all depends on where you start. The absolute amount of subsidy has increased very naturally because of the increase in route mileage and communities served. The plane-mile cost of aircraft has increased, but the sea-mile cost has gone down.

Senator MONRONEY. The total amount of the subsidy—do you have that? It has jumped from what figure, excluding the helicopter subsidies?

Mr. BOYD. The local-service carriers have gone up from approximately \$28 million in 1956 to \$71 million for fiscal 1963.

Senator MONRONEY. That is the fixed-wing plane?

Mr. BOYD. Yes, sir; that is the local service

Senator MONRONEY. At the same time the total plane mileage has doubled. Do you have the revenue-passenger-miles flown?

Mr. BOYD. Yes, sir. Revenue-passenger-miles for 1956 the figure was 448,036,000. For the 12 months ended June 30, 1961, the figure was 1,233,876,000.

Senator MONRONEY. That is approaching three times the passenger-miles—

Mr. BOYD. Yes, sir.

Senator MONRONEY (continuing). Formerly flown.

Mr. BOYD. Would you be interested, sir, in the number of passengers carried?

Senator MONRONEY. Yes.

Mr. BOYD. For calendar 1956 the number of passengers carried was 2,451,155. The comparable figure for the year ended June 30, 1961, was 5,966,911.

Senator MONRONEY. So you have more than doubled the number of passengers carried and tripled the revenue-passenger-miles flown—

Mr. BOYD. That is correct.

Senator MONRONEY (continuing). As you have doubled the total mileage flown per year, and increased by about 80 percent your route miles?

Mr. BOYD. Yes, sir.

Senator MONRONEY. How many communities were served in 1956 versus 1961?

Mr. BOYD. For the year ended calendar 1956 the weighted figure is 311½ airports. This is based on compilations which take into effect the fact that some of the airports were not served the entire year. The comparable figure for the year ended June 1961 was 517.6.

Senator MONRONEY. That is better than a 50-percent increase in the number of airports served.

Mr. BOYD. Yes, sir.

Senator MONRONEY. Do you have any figure that would show the increase in number of scheduled flights into these airports?

Mr. BOYD. We can give you the number of plane departures.

Senator MONRONEY. Per day?

Mr. BOYD. This is on an annual basis.

Senator MONRONEY. All right.

Mr. BOYD. For 1956 the number was 587,420; for June 30, 1961, the figure was 1,071,873—roughly double.

Senator MONRONEY. Almost double the number of departures. So this holds pretty well true with overall service being practically doubled?

Mr. BOYD. Yes, sir.

Senator MONRONEY. In the operations, the additional equipment that the loan guarantee has provided for, have you noticed any improvement in the ratio of costs to revenue? Do you have any figure showing on those lines which modernized or improved beyond the C-3 days to indicate that this modernized equipment has aided in improving the financial condition of these feeder lines?

Mr. BOYD. Let me give you one comparison, Mr. Chairman. In 1957, with the local service carriers operating all together DC-3 equipment, the break-even load factor was approximately 80 percent. Today the break-even load factor is approximately 62 percent.

Senator MONRONEY. That includes the whole fleet?

Mr. BOYD. Yes, sir.

Senator MONRONEY. Including the DC-3's?

Mr. BOYD. Yes, sir.

Senator MONRONEY. Do you have any explanation as to the earning power of the modernized equipment? In other words, it was speculation at the time the committee passed this bill in 1957 that this would at least aid the feeder lines in the hope of breaking even, and the fact that we have modernized only a small percentage of the fleet I think it would be quite important to try, if we could, to show which runs are considered profitable with the new equipment.

Mr. BOYD. We don't have a breakdown of that type, Mr. Chairman. I can give you a figure which might be to some extent suspect because it is very difficult to relate improvement altogether to type of equipment. Fares have a bearing on this which cannot be overlooked.

However, in December 1960, Bonanza Airline became the first local service carrier to operate with all-turbine equipment—F-27's. So for the calendar year 1961 it had nothing but F-27's throughout the entire year. Bonanza's load factor—system load factor—increased by 10 percentage points during 1961. It is true that Bonanza undertook a very vigorous advertising campaign and had an excursion fare which I think everyone will agree certainly helped to develop that traffic. We can cite instances, though, where new equipment has gone on to a run in replacing the DC-3, and the load factors have gone up substantially and have held. I will be glad to furnish you with some examples of that.

Senator MONRONEY. We would like to have that for the record.

In the available types of planes the F-27 is still one of the favorites in the local service lines. I notice 33 have been purchased under the program.

Mr. BOYD. Yes, sir. Five of the local service carriers have F-27's, which is more carriers than own any other single type of aircraft, with the exception of the DC-3.

Senator MONRONEY. This plane today is in the neighborhood of a million dollars I believe, is it not? That is delivered cost with spares?

Mr. BOYD. That is a little high. I think \$850,000 would be closer.

Senator MONRONEY. You have been also under an amendment to the act which allowed them to buy more modern planes than the DC-3 the Convair in particular, of which I believe they purchased 12, and 3 twin-engine Martin aircraft. Considering those planes as the same type of aircraft as piston engine, convertible perhaps to turbine power, what is the going price of those?

Mr. BOYD. You have me out of my depth now, Mr. Chairman, I don't know.

Senator MONRONEY. Would you supply that for the record? You have insured some of these loans.

Mr. BOYD. Mr. Roth, Director of our Bureau of Economic Regulation, advises me that the going price for a Convair today would be in the neighborhood of \$300,000.

Senator MONRONEY. That is unconverted cost?

Mr. BOYD. That is for the 340-440 series.

Senator MONRONEY. I believe a new turbine-powered Convair with zero time would be approximately a million dollars.

Mr. BOYD. Yes, sir; that is my understanding.

Senator MONRONEY. Are there any other planes besides the fixed-wing mentioned here, F-27, Convair, and twin Martin that are available today for the market, off the shelf, aircraft that the CAB would approve?

Mr. BOYD. Those are the only aircraft available at the moment to the local service carriers that we know anything about. I should say that there is a French plane, the Potez 840, a 4-engine turboprop with 24 seats, which the distributor in this country is trying diligently to sell. We have done some preliminary studies on this, based on the information we have available, and are not yet in a position to say whether we think it is an economical operation.

But I know of no other aircraft that would be in the local service category at the present time.

Senator MONRONEY. In other words, we have the great American airframe industry which pioneered this whole business, we have the F-27 that is at least 5 years old, I mean from the time it went on the line; the Convair is at least 10 years old from the time it went on the line; and the Martin about the same age, and this part of the spectrum of civil aviation has not yet found a manufacturer who is willing to risk his money in the development of a replacement for the great workhorse of aviation, the DC-3.

Mr. BOYD. I am not privy to the thinking of all the manufacturers, Mr. Chairman.

Senator MONRONEY. I mean on the market at least.

Mr. BOYD. There are none on the market.

I am advised by the Boeing Aircraft Co. that they are attempting to develop something. I anticipate discussing the matter with the Boeing engineers within the next 30 days. This is a long way from having an aircraft built.

Senator MONRONEY. That is true, and I know Douglas is studying plans for a short-range aircraft that has been designed by Aerojet. They hope it will be a workhorse type of short-range aircraft.

Mr. BOYD. We have had a presentation at the Board from Aerojet General and are currently running some economic analyses of the Aerojet design.

Senator MONRONEY. But so far as you know, no one has been willing to develop this plane?

Mr. BOYD. No, sir.

Senator MONRONEY. It is my information that a small investment of \$5 million for five prototype aircraft would start the work on this DC-3 replacement program. The DC-3 hasn't been made since the end of World War II.

Mr. BOYD. That is correct. I believe the line was closed down in 1946.

Senator MONRONEY. I understand from the local service carriers that it is almost impossible to buy zero time motors or if a few come on the market that the price is held almost to a speculative level. Are you familiar with the replacement cost of DC-3 parts?

Mr. BOYD. I am not specifically familiar with them at the moment. I do know that the carriers have had an increasingly difficult time acquiring parts. The price has gone up. Furthermore, they have been plagued with counterfeit parts.

Senator MONRONEY. Is there any figure that you can relate in added cost to local service operators for maintenance per mile, per plane, or any other factor, of the older DC-3 aircraft to their maintenance cost on the new turbine-powered or even the more modern Convair?

Mr. BOYD. I can give you some figures that relate the direct operating cost of the DC-3 with that of the F-27.

Senator MONRONEY. That would include, however, your pilot and crew, would it not?

Mr. BOYD. Yes, sir.

Senator MONRONEY. And your gasoline?

Mr. BOYD. Yes, sir.

Senator MONRONEY. Let's have that figure.

Mr. BOYD. On a plane-mile it is 59.32 for the DC-3, and 90.5 cents for the F-27, which, on a seat-mile basis, works out to 2.47 cents for the DC-3, 2.22 cents for the F-27.

I can give you here some total aircraft operating and allocated indirect operating costs per available seat-mile for the calendar year 1960, which would give you on a seat-mile basis 5.53 cents for the DC-3, 4.89 for the F-27, 3.92 for the Convair 540—that is the Napier-Eland turboprop, 5.68 for the Convair 240, which is the earliest series of the Convairs, 4.57 for the Convair 340, 3.84 for the Convair 440, 5.28 for the Martin 202, which is the early series of the Martin twin engine, and 4.81 for the Martin 404, which would indicate that all of these aircraft are cheaper to operate on a seat-mile basis than the DC-3 except for the Convair.

Senator MONRONEY. Your Board has done some studying on a replacement, has it not, for the DC-3?

Mr. BOYD. Yes, sir.

Senator MONRONEY. Do you have any rough calculations of what type of plane is actually needed?

Mr. BOYD. If you will permit me, with pardonable modesty, Mr. Chairman, I will refer you to a talk I made recently in which I set forth an outline of what our planning brains say this airplane should be. If I may read, very briefly.

A plane with not more than 24 passenger seats and adequate capacity for baggage and 1,000 pounds of cargo, preferably in space that cannot be converted for additional passengers, to carry adequate fuel to operate over a 500-mile route with 4 intermediate stops with only 1 refueling, require not more than 4,000 feet of runway, but if possible scale this down to any capability, including vertical take-off. The price tag, fully equipped, with essential electronics to be something less than \$500,000, and hopefully under \$400,000. The selection of the powerplant is important as is the speed, but the direct operating cost including depreciation must be under 60 cents per plane-mile at an average stage length of 80 statute miles. When the cost curves are drawn they need not show costs above 200 miles stage length. It is the area between 50 and 150 miles that is important for this plane.

Senator MONRONEY. I would like to say "Amen" to that, because some are fearful that maybe some of these loans might be used for jet aircraft of long-range capability to convert the feeder lines into junior trunklines as opposed to the historical purpose for they were certificated—that is, augmenting the trunk carriers by providing service to the small communities of the country.

Mr. BOYD. Mr. Chairman, it is possible that the Board can be accused of looking backward rather than being progressive, but actually our concept is that progress requires just exactly what I outlined. And I must say that I was quite pleased after making this talk to have Dr. John Stack, of NASA, tell me that I wasn't a complete idiot, that this was capable of accomplishment.

Senator MONRONEY. It seems to me that if we can make capsules that can orbit, and if we can fly nonstop practically halfway around the world at speeds approaching the speed of sound or now beyond the speed of sound, with our jet aircraft, that somebody could, out of our great American airframe industry, come up with an answer which we are looking for—for a replacement of the backbone of worldwide aviation, which is still the old DC-3.

You have emphasized the short-haul characteristics of the plane of the future which you say they need, and I believe every one familiar with the economics of the feeder lines recognizes that as well. Is there anything being done to your knowledge by Government in other than the studies which your CAB economic people have made to encourage the development of such a plane?

Mr. BOYD. Mr. Chairman, the FAA is conducting studies in this area. I certainly cannot speak for the FAA, so I don't know the extent of these studies. But I do know that Mr. Halaby has established a group for the purpose of looking into this matter.

Senator MONRONEY. He will be testifying next week, so we will hear his story.

I view with certain alarm the fact that the only plane today that we know of that would be available would be the Potez, made in France. The only other plane that I have found that is likely to be produced with any degree of certainty is the Heinkel, which will be made in Germany, a so-called short-haul aircraft and so-called DC-3 replacement. The Electra line is shut down for the longer trunkline stops and will no longer be available. So that the only plane which will fill that route mileage, in that type of service, is the Viscount, which is made in England, and the short-haul jet Caravelle, made in France, is the only one which will fill the pure jet intermediate-range circuit. So we have ourselves fenced out in aircraft development where we have only one small niche, the long-legged super-duper jet.

From your standpoint the economics of true air service for the country as a whole would certainly demand a replacement for the type of plane that you have described, or one that would fill in the gap as the 250 presently operating DC-3 eventually must be retired; is that correct?

Mr. BOYD. Yes, sir. I think an aircraft of this type is essential if we are going to have a nationwide system of commercial air transports.

Senator MONRONEY. Therefore, the enactment of this loan bill continuation would give some degree of impetus at least for American manufacturers to look forward to a market of considerable size if a plane was able to meet the required specifications for this type of service.

Mr. BOYD. We would certainly hope so.

Senator MONRONEY. Senator Cotton?

Senator COTTON. Mr. Boyd, have subsidy requirements been lowered for any carrier which has reequipped through use of guaranteed loans?

Mr. BOYD. I can speak with assurance on one, yes, sir. Pacific Northern Airlines took an immediate reduction in subsidy upon acquiring a Boeing 720. This is not a local service carrier, however. Pacific Northern is a States-Alaska carrier.

We have a situation which makes comparisons again rather difficult, Senator Cotton, because all of these local service carriers have been acquiring additional route mileage at the same time they have been acquiring new equipment. So it is very difficult to isolate theses.

Senator COTTON. I am not asking the question because of any hostility to the bill, but I wonder what the record indicates. From such recollection as you have—and I understand this is not an exact answer—has there been some reduction of subsidy in some cases in which the guaranteed loan has been made use, other than the one you mentioned?

Mr. BOYD. That is the only one I can tell you about. As an absolute proposition, the subsidy of all of the local service carriers has been increasing.

Senator COTTON. Because of the increase in the service in their territory?

Mr. BOYD. Yes, sir. And also because of the increase in the plane-mile cost of the new equipment. There is no question about that. However, this has got to be related to the unit cost, the seat-mile cost, which is cheaper. This is where we see the long-range beneficial implications.

Senator COTTON. I was going to say, even if they didn't have an increased territory, there would be a delayed reaction to the effect of these guaranteed loans as regards subsidy because they put in the new equipment and it takes time to pay for them and pay them back; is that right?

Mr. BOYD. That is very true, Senator Cotton. I would say the only thing the Board gets in a hurry is criticism.

Senator COTTON. You said something about seat-miles.

Mr. BOYD. Yes, sir.

Senator COTTON. The original act that is under consideration for renewal had to do with both cargo and passenger traffic, did it not?

Mr. BOYD. Well, it didn't have anything to do with cargo as we understood it. The emphasis was on local service rather than on passenger or cargo, and historically our local service operation has been predominantly a passenger operation.

Senator COTTON. Mostly combination?

Mr. BOYD. They all have combination certificates. Each of the local service carriers, each of the carriers involved in the loan guarantee program has the right to move cargo as well as passengers. In the short-haul operations of the local service carriers the movement is and has been predominantly passengers.

Senator COTTON. The so-called Smathers amendment, which you approve, with one reservation, I believe, on page 5 of your statement, puts the cargo carrier into the picture predominantly, doesn't it?

Mr. BOYD. It certainly puts the cargo carriers in the picture as a separate and distinct class; yes, sir. The all-cargo carriers who have no passenger authority.

Senator COTTON. All-cargo?

Mr. BOYD. Yes, sir.

Senator COTTON. Your recommendation of an amendment to the Smathers' amendment, that the bill should contain a provision to the effect that loan guarantees for cargo aircraft should be made only for the purchase of turbine-powered aircraft, to be made available to the Department of Defense in case of national emergency, relates of course to the all-cargo feature of the guarantee loan program?

Mr. BOYD. Yes, sir.

Senator COTTON. And would not be intended by you to in any way change the availability of these guaranteed loans for local passenger service and/or cargo service and mixed service?

Mr. BOYD. No, sir. You are correct in your interpretation.

Senator COTTON. What has been the record so far as defaults have been concerned on either principal or interest?

Mr. BOYD. To my knowledge there have been no defaults.

Senator COTTON. Would you have someone verify that for the record?

Mr. BOYD. Yes, sir.

Senator COTTON. In the President's message on a transportation system, the President said, among other things, on page 7 of that printed message:

I recommend that the railroad loan guarantee authority and the aviation loan guarantee authority, if it is extended, be transferred to the Department of Commerce.

What would be your feeling about that recommendation, if you are at liberty to indicate it?

Mr. BOYD. I feel some constraint about indicating because this is a matter that the Board has not focused on. I don't think it would be proper for me to express something without having discussed it with the Board.

Senator COTTON. In the report of the task force on national aviation goals, on page 190, I was rather interested in the first full paragraph on the page which is as follows:

While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of air cargo transport vehicle development, the expanded use of air cargo services for mail and military cargo, and guaranteed loan legislation subject to the most detailed scrutiny by the Civil Aeronautics Board of the characteristics of the aircraft as an economic vehicle before approval for such loans is granted.

It goes on to say:

And the matter of direct subsidy requires immediate analysis not only in view of the obvious notional interest of expanding the development of this branch of air transportation but in terms of its relation to military airlift capability.

Reference is made in this recommendation to three methods of aiding the cargo-carrying industry. One is in the form of Government support by vehicle development. I assume that is assisting the companies to develop these new types of vehicles. Is that right?

Mr. BOYD. Yes, sir. I think the Lockheed C-141 is an example of an effort in that direction.

Senator COTTON. Is that sort of thing, aid by the Government, encouragement and aid in the development of perfecting new types of cargo aircraft, being carried on rather extensively now?

Mr. BOYD. I cannot give you any categorical answer to that, Mr. Cotton. The Government has undertaken this rather substantial program to develop an all-cargo aircraft through a contract with Lockheed, the C-141. As I understand it the interests of the commercial operators in an all-cargo vehicle are alleged to have been considered in the development of this military cargo aircraft.

Senator COTTON. Is that, so far as you know, all of the actual activity and Government expenditures in this particular endeavor? I mean in this kind of endeavor?

Mr. BOYD. Yes, sir. That is all that I know about. But I don't hold myself out as any authority in this field.

Senator COTTON. Do you have any suggestion or recommendation, perhaps even as an individual rather than Chairman of your Board, on the advisability, the need, or need of expanding such Government assistance or experiments in developing this sort of aircraft?

Mr. BOYD. I have nothing concrete to offer. I think, speaking purely personally, that one of the real difficult problems involved here is the size and extent of a potential market for cargo. I think this is rather an inhibiting factor, both among the manufacturers and the operators. There is no consensus that I found which is satisfactory to everyone about the size of this potential market. Without having some assurance on what is available, it is very difficult to develop a vehicle and all of the things that go with it, either through private enterprise or Government sponsor. We are committed to the belief that there is a very major cargo market available for air carriers. But I must say we don't know how to get it today.

Senator COTTON. When it becomes apparent, the industry is likely to develop the kind of vehicle necessary to meet it, isn't it?

Mr. BOYD. I would imagine that sometime in the far off future, if we have an air transport industry, manufacturing industry, that is possible. It seems to me, however, that right now, except for this Government activity on the Lockheed C-141, the efforts that are being made are primarily in the area of making do with obsolete piston equipment for which the operators can find no market, and they are putting piston aircraft into service I presume on the theory that it doesn't cost them much more to fly these planes and they may make some contribution to overhead.

Senator COTTON. If, so far as is consistent with defense policy and military secrecy, the information gained in the production of military transport cargo craft can be immediately utilized, isn't that about as far as it is necessary for the Government to go in spending taxpayers' money in experimentation?

Is that a leading question?

Mr. BOYD. Mr. Cotton, that is your problem and not mine. I don't have any answer to that, sir. I do want to correct one thing I just said. Two manufacturers in this country are definitely operating—trying to develop some sort of a cargo configuration. Douglas has spent a lot of its own money developing what it calls the Trader, DC-8-F, and Boeing has a cargo configuration, the 707-302 and 321. They have a cargo version and convertible version. I understand that has been done by the manufacturer at its own expense.

Mr. COTTON. I don't want to take too much time.

The second recommendation was the expanded use of air cargo services for mail and military cargo. That opens up an old controversy about whether civilian craft should be carrying military cargo or they should do it themselves. Have you any comment on that recommendation of the aviation task force?

Mr. Boyd. Yes, sir. We support that 100 percent.

Senator Cotton. That is, you feel very strongly that the emphasis should be on development of civilian planes to take care of military needs?

Mr. Boyd. If I can state it in this way: We favor the movement of general commodities for the military in civil aircraft. We have no belief that the commercial air carriers should be moving outsized cargo or dangerous cargo, in the field of nuclear weapons and things of that type. This is clearly military business and it should be handled by the military.

But if they are moving blankets and uniforms and kitchen equipment and stuff like that, by air, we feel that where it is feasible this should be done by commercial airlift. I am happy to say the Department of Defense has the same attitude.

This has, we think, a longrun benefit for commercial airlift in the development of an all-cargo operation. We are trying, in conjunction with the Air Force and MATS, and some of the cargo operators, to develop a means whereby the commercial air carriers, operating under contract to the military, can also utilize the unused portion of their space for common carriage over the routes on which they have common-carriage authority. We expect to see, hope to see, a situation which you might consider a parallel to the transition in passengers between first class and coach. You may recall that when the coach traffic came in, all movement was first class. Since 1953 there has been a steady movement of passengers into the coach compartment. Today the bulk of this cargo movement is military, with the larger equipment, the more efficient equipment, with excess space available, we hope to see in the beginning small quantities of commercial cargo and large quantities of military, and over a period of time to see this whole thing shift.

Senator Cotton. A question I am most interested in, which has been in a sense covered by the chairman, but I want to point it up a bit: In the experience up to the present in the use of the guaranteed loan, has there been great emphasis placed on the replacing of DC-3's by a more economical means of transportation in the marginal territories such as I represent and where you are well aware we have great problems? I know it hasn't been done in northern New England. I know reasons why there hasn't been an opportunity to do it. On the other hand I have long hoped that the time would come when the carrier of sufficient stability and financial condition could use something like the F-27 or some other means to give us better service. But in other parts of the country, in somewhat similar marginal territories, has that begun to be done or not?

Mr. Boyd. Yes, sir. I would like to refer back specifically to Bonanza Airlines because here is a company whose entire operation is with F-27's, both its good routes, if I may characterize them that way, its heavy routes, and its marginal routes. The whole kit and kaboodle is being operated with the new equipment.

Senator COTTON. And they made use of this guaranteed loan?

Mr. BOYD. Yes, sir; they sure did.

Senator COTTON. And the result appears to be from a commercial standpoint, for them, a profitable venture?

Mr. BOYD. Yes, indeed.

Senator COTTON. I have been impressed myself with the F-27 and have vainly hoped that you would be able to get them into Maine, New Hampshire, and Vermont where we never probably will have services either satisfactory to the public or to the carrier as long as it depends on DC-3's. I note your smile and I realize that this opens up a wide field which we shouldn't go into today.

Do you feel that there are other carriers besides Bonanza that seem to be looking toward the F-27 for these short-haul operations?

Mr. BOYD. As I believe I mentioned, sir, five of the local service carriers do have F-27's. The F-27's have a wider distribution among companies than any of the other aircraft that have been purchased to replace the DC-3. I think that I can say, yes, there is a great deal of interest in this, in further acquisitions of aircraft either of the F-27 or other similar aircraft.

I do understand that the F-27 as such is no longer being manufactured.

Senator COTTON. I was about to say——

Mr. BOYD. Not in the United States. It is being manufactured in Holland, a slightly different version, but I don't think that the differences are really significant.

Senator COTTON. Off the record.

(Discussion off the record.)

Senator MONRONEY. On the record.

Senator COTTON. It means making use of this guaranteed loan method to buy foreign aircraft, whether that is desirable or not. That is what you are up against. Rather than the carriage of aid to local American industry.

Mr. BOYD. I think that may be a possibility. However I would like to also point out that there are a number of F-27's privately owned in this country which might be purchased.

Senator COTTON. You mean that are already in use?

Mr. BOYD. Yes, sir. A number of large manufacturers, large businesses, own F-27's and a number of them are more or less reequipping with the Lockheed Jetstar and other pure jet equipment.

Senator COTTON. I wish I could afford to buy them and start them in New Hampshire. Thank you.

Senator MONRONEY. You touched on a very important point when Senator Cotton was asking whether any governmental support in design or development of cargo aircraft should be encouraged. The fact remains, does it not, that the only true cargo aircraft today flying, uncompromised cargo planes, is the CL-44 made in Canada, which sells for around \$6 million and on which the tariff alone is approximately \$750,000; that the only short-haul uncompromised cargo plane is the Argosy, made in England, which also requires a 12½-percent tariff, and that if any of our all-cargo carriers desire to fly modern uncompromised cargo aircraft, they must not only go abroad and patronize foreign makers but must pay a 12½-percent premium for the privilege of doing it, which, of course, is just that much deadweight on the air-

plane. It is \$750,000 less airplane in the CL-44 as against a plane built in this country.

Senator ENGLE. Would the Chairman yield?

Senator COTTON. Yes.

Senator ENGLE. Flying Tiger bought in Canada. Do I understand they had to pay a tariff to bring them in?

Senator MONRONEY. They had to pay 12½-percent tariff. We tried to encourage the Ways and Means Committee to waive the tariff because of our good neighbor policy and the fact that almost all the passenger fleet of Canada is bought from American airframe manufacturers on which there is no duty, to my understanding. Yet, in spite of this fact, it was an exclusive item not available to the United States; they had to pay this, the same as did Riddle, which bought a fleet of Argosies in England.

Senator ENGLE. Do I understand that Canada did have a guaranteed loan program?

Senator MONRONEY. That is correct.

Senator ENGLE. And Flying Tiger did get the benefit of that?

Senator MONRONEY. That is correct. It is not as good, I don't believe, or the interest rates are not as low, and the payout period is faster. So not only were they penalized in having to acquire the plane abroad, but they also had to pay at a faster amortized rate and a greater percentage of interest. So this is the picture, whether we consider aircargo as a matter of concern for the U.S. Government to develop the cargo planes the same as we tried to develop a merchant marine or whether we leave it to be filled by foreign manufacturers. The same thing is true of the short-haul aircraft which we are talking about as replacement for DC-3's. Nothing is on the drawing boards or under serious consideration to my knowledge by any American airframe manufacturer. So we will either have to, I think, have some means of trying to encourage cargo development because of its great potential to the military airlift as a standby, which costs the Government nothing for this added capacity, at whatever risk might be entailed in a guaranteed loan for this type of plane.

Senator COTTON. Mr. Chairman, what I was trying to get at and didn't express myself very well—it is a little vague in my mind as to what Mr. Boyd's answer was—I understood Mr. Boyd to say that in the case of this Lockheed project that the plans developed in the military were being used to develop a civilian carrier. Perhaps I misunderstood you. I was trying to get into the question of whether or not that sort of policy could be pursued further so that some of the developments in the Defense Department we could get the benefit of in developing civilian cargo carriers which at the same time would militate to the advantage of the Defense Department as being useful to them in time of emergency.

Mr. BOYD. As I understand the situation, Mr. Cotton, an effort was made to take into consideration the requirements of commercial operators in the design of the C-141, which is a military all-cargo aircraft. It is my further understanding, however, that the vast majority of the commercial operators, combination and cargo, do not feel (a), that they were given sufficient consideration, and (b), that it is possible to develop an uncompromised cargo aircraft which can be utilized economically for commercial purposes.

Senator COTTON. Do you mean they weren't given sufficient consideration? By whom—the military?

Mr. BOYD. This—I am sorry I have to leave you here because I don't know how this was set up. I don't know who had charge of the design.

Senator COTTON. I don't know so much who made the decision. You mean they weren't given sufficient information about the military plane? Is that what you had in mind?

Mr. BOYD. No, I think they were given sufficient information. My impression, from talking to the operators, is that they do not feel they were given sufficient opportunity to suggest, nor was the aircraft, the design finally established, one which was satisfactory to the requirements of the commercial operators. And this raises a very great question, as to whether you can have one airplane to accomplish both purposes.

Senator MONRONEY. This committee pioneered in this field of adequate military airlift and sought very diligently, through several months of hearings, to encourage a joint-use airplane, a standard-use airplane that would serve the military for its needs and the civilian cargo operators for their needs. You remember this long struggle that we had as a part of the previous cargo loan guarantee bill.

Finally, when the chips were down, although they listened to the civil authorities and to the then Administrator of the FAA, when the chips were down it was nine-tenths military and one-tenth civilian. So the cargo plane of the future will allow a civilian operator to make an airdrop over Paris of its cargo, perhaps by parachute, and other built-in military facilities that are not only unneeded but unwanted by the civilian operator. So whether the Lockheed C-141 develops as a usable commercial cargo transport is still problematic. It will depend on the operators themselves after they have an opportunity to evaluate the plane and determine whether it will be usable. The price ticket will be probably much higher than had it been developed commercially for joint use of the aircraft, and the modification will run the plane even higher. Therefore the goal that we set for a workhorse cargo plane in the hearings I don't think has quite been achieved. Now we face the fact that this plane will not be operational for the military and therefore the followon of the line will not be available for commercial purchases until about 1966 or 1967, at which time the rest of the world will have cargo planes of their own manufacture and we will be paying a 12½-percent penalty if we go abroad and import them and run the risk of service problems, parts problems, and things of that kind that always accompany the supply and maintenance of foreign-made aircraft.

In addition, we will be out of the sky worldwide during this period while we wait, unless some encouragement can be given for its development. As the chairman said, Douglas, with its DC-8-F, I believe it is called, has developed a modification which they claim will load as fast and be as flexible for commercial operators as CL-44 in Canada, a turboprop, and the adoption of the 707-321 would be available within perhaps a year, and would furnish about the same ton-mile operating cost as has been the target of the uncompromised aircraft that we talked about when we were trying to encourage the military and commercial users to go to one single-type cargo plane.

Therefore, I think the amendment proposed by Senator Smathers should be of interest to the committee because without a loan guaranty it is unlikely that there will be many of these new jets with their turbo fans developed for giving us a place in the spectrum of cargo operation.

It is quite interesting. I just had the CAB officials run down how well we are doing in cargo. It is interesting to note that for the calendar year 1960 the total transportation revenue of all domestic operations of certificated route carriers totaled \$2,100,000, and the cargo totaled \$95,188,000, and express \$23,685,000, which makes only about a 5 percent and a fraction of the total earnings of our scheduled airlines in cargo. This is a distinct peculiarity in all other forms of transportation. I believe in rails the earnings are approximately 80 percent in cargo and 20 percent otherwise. In motor carriers it is even higher. Yet, while the domestic carriers lost \$36 million last year, having as many people they feel reached a plateau in passenger growth for the time being at least, that the place for development of a sound financial position would be in the development of aircargo. But you can't develop aircargo if you are just using wornout, obsolete, piston-type equipment where the rate on aircargo must be perhaps nearly double what it would be with modern turboprop planes—turbojet or turboprop planes. So we meet the situation of which comes first, the hen or the egg. Can you get aircargo development without the modern plane or can you afford the planes or help procure the planes to make possible the fabulous step forward in the development of aircargo?

This is the situation I think that gives rise to Senator Smathers introduction of the amendment that would provide that the all-cargo carriers be allowed to participate in the aircraft loan guaranty program.

Senator, do you have some questions at this time? You depend almost exclusively, I believe, Senator Bartlett, in Alaska, on air transportation, both of passengers and to a general extent much of your cargo.

Senator BARTLETT. This is true, more so than of any other area under the American flag.

There is one question, which I would like to ask Chairman Boyd. As he knows, practically all travel within southeastern Alaska, as in other sections of Alaska—but my question will concentrate on the southeastern section—is by air. There is no American passenger vessel service up there any more. I suppose 99.9 percent of the people who travel from community to community within that area do so by air. The Grumman amphibious plane has been used almost exclusively there for years and still is. There are I believe a couple of PBY's. Outside of that it is the Grumman Goose which, as we all know, has been a wonderful plane but not the most economic in terms of present-day operations. They haven't even an Albatross on that southeastern run—it is too expensive to buy in the first place and I suppose the operating costs will be fairly high.

In light of the fact that air travel will continue to dominate in that area, and in light of the fact that the construction of landing fields is so very, very expensive, I would like to ask you, Mr. Chairman, if you know of any replacement program, planned or in effect, for a more modern amphibious carrier to succeed the Grumman type of aircraft.

Mr. BOYD. No, sir. I am sorry to say we have no knowledge of any aircraft of an amphibious type to replace the current Grumman series.

Senator BARTLETT. If there were such an aircraft in being, or built within the foreseeable future, this would most likely serve to reduce the subsidy requirements of the southeastern Alaska certificated operator, would it not?

Mr. BOYD. Yes, sir, I would think so.

Senator BARTLETT. The two operators there recently merged, did they not?

Mr. BOYD. Yes, sir.

Senator BARTLETT. Alaska Coastal and Ellis.

Mr. BOYD. Yes, sir.

Senator BARTLETT. Have you given this situation any thought, Mr. Chairman: Would you estimate what might occur there in the next 10 years? Do you think that there will be a necessity to go to land-based aircraft?

Mr. BOYD. I don't hold myself out as much of a prophet, Mr. Bartlett. I think we anticipated a substantial growth in population throughout that area. We are in a position where it is really difficult to prophesy. Because the matter of comparison keeps coming up.

The cost versus the value of continuing amphibian operations as opposed to the cost of building airports. Of course the airport construction cost is not something with which the Board is primarily interested. I can only say that so far as we are concerned at the Board, we feel that it is imperative that a sound system of public transport be available and willing to the extent that we are permitted or instructed by the Congress in carrying out this policy which we understand to be current congressional policy.

Senator BARTLETT. To your knowledge the military has no plans, either of them, for a more modern type of amphibious aircraft?

Mr. BOYD. No, sir. I have no knowledge of anything at all in that area. I have a belief that the only amphibians being operated today are the air rescue squadrons, Coast Guard, and some very large Navy amphibians. But nothing that I would think would be suitable for the type of operation to which you refer in southeast Alaska.

Senator BARTLETT. There is no other commercial operation within the United States, to your knowledge, that compares with this?

Mr. BOYD. No, sir; not under those same circumstances. The only other situation I can think of, offhand, involves air transport between the coast of California and Catalina island. And of course there is a vessel plying back and forth there.

Senator BARTLETT. What do they use on that run?

Mr. BOYD. I believe they use land planes. They do have an airport at Catalina. I think they also use some amphibians, but there is an airport available.

Senator BARTLETT. It isn't that the Grumman Goose isn't a good plane so far as carrying passengers are concerned, but I imagine it is not the most economic craft, as it carries only nine passengers.

Mr. BOYD. Yes, sir.

Senator BARTLETT. Thank you, Mr. Chairman.

Senator MONRONEY. Mr. Chairman, I want to compliment the CAB for the very active part they have taken in the development of air cargo, particularly to try to prevent the contracting of military cargo

at loss rates which resulted in constant bankruptcies for the carriers who were taking these bids at fantastic prices, hoping that good luck or good fortune or fantastic management would give them a break-even or small profit. Your work in trying to establish a minimum cost rate I think has helped materially to stabilize those carriers and even bidders on contract carriage that were destroying rather than building the capability for airlift. I think CAB is deserving of a great deal of credit in strengthening this vital arm of development of air cargo.

One further question. Is the Board ready at this time to give the committee any testimony as to whether or not the cargo-insured provisions might, under proper safeguards to insure that the plan was used primarily for cargo development, to extend the advantages of the guaranteed loan bill under the Smathers amendment to the certificated route carriers on their scheduled operations?

Mr. BOYD. No, sir; I couldn't give you any answers on that at the present time because the Board as presently constituted has not considered this matter. We will be happy to do so, however.

Senator MONRONEY. In the light of the \$34 million total deficit of the scheduled airlines, and in the lack of any immediate solution being apparent that this situation will improve this year or perhaps next year, and in the light of the fact that on cargo itself they carried less than 5 percent of their gross revenue in cargo, as differentiated between the \$23 million that they did in express, I wonder if before the hearings are over if the Board would care to comment on whether this should be broadened to include your certificated scheduled airlines to make a real great forward step in cargo transport?

Mr. BOYD. I will take this up with the Board and ascertain their desires.

Senator MONRONEY. Thank you very much. We do appreciate your and your staff's assistance on this bill. We appreciate your attendance.

One further question. Since the Smathers amendment particularly would require a plane that would be immediately available to fit into our military cargo airlift in the case of emergency, would you favor restrictions on this to apply to American-made aircraft? Most of the other countries have their own guaranteed-loan programs. England has one; Canada has one; and I suspect perhaps France and Germany might have one.

Mr. BOYD. I don't think we can overlook the requirements of our own manufacturers in dealing with this problem, Mr. Chairman. It seems to me that we should make every effort to maintain and strengthen our own manufacturing facilities.

Senator MONRONEY. The Board would have no objection if the committee saw fit to make at least the Smathers amendment, which provides for supplemental military lift, applicable to American-made aircraft?

Mr. BOYD. I am sure the Board would have no objection.

Senator MONRONEY. Would you have any feeling as to the local-service aircraft in this regard?

Mr. BOYD. I am not at all sure of myself in that area, Mr. Chairman. I prefer to submit this to the Board.

Senator MONRONEY. In other words, if American airframe manufacturers show no interest in meeting this need, then the feeder lines perhaps would have no other recourse?

Mr. BOYD. That is a definite possibility.

Senator MONRONEY. Thank you very much for your testimony.

Our next witness is Mr. Clarence D. Martin, Jr., Under Secretary for Transportation, Department of Commerce.

We are happy to have you before the committee, Mr. Martin.

#### STATEMENT OF CLARENCE D. MARTIN, JR., UNDER SECRETARY FOR TRANSPORTATION, DEPARTMENT OF COMMERCE

Mr. MARTIN. My name is Clarence D. Martin, Jr. I am Under Secretary for Transportation in the Department of Commerce.

Mr. Chairman and members of the committee, I appreciate this opportunity of expressing the views of the Department on S. 2815 and the amendment intended to be proposed by Senator Smathers with respect thereto.

We favor enactment of S. 2815. We are of the opinion that the extension for another 5-year period of the act of September 7, 1957, now due to expire on September 7, 1962, would allow those carriers eligible to obtain loan guarantees for the purchase of aircraft to improve their service and efficiency.

A review of the program since its inception in 1957 will clearly demonstrate that the public and the aviation industry have materially gained by this program. The public has had the benefit of modern, comfortable aircraft, the industry has been able to take advantage of more efficient equipment. Tables Nos. 1 and 2 which are attached to my statement show the number and type of equipment that has been obtained and the number of carriers by class that have taken advantage of the guarantee loan program. Under this program aircraft equipment has been guaranteed to the amount of \$36 million, which represents 90 percent of the total loans of some \$40 million. At the present time, the Board has applications pending which would guarantee additional equipment to the amount of \$4,383,000, making a grand total of about \$40.5 million guaranteed under this program since 1957. All this has been achieved without any cost to the Government.

The amendment which Senator Smathers intends to propose would make the scheduled all-cargo carriers eligible to participate in the aircraft equipment loan-guarantee program. Such an extension would make certificated scheduled aircargo carriers, such as Riddle Airline, Slick Airways, Flying Tiger Line, and Seaboard World Airlines, eligible for the guarantee loan program. This Department favors the extension of this program to include the scheduled all-cargo carriers.

The need for additional incentive to increase civil aircargo capacity is clearly evident by applying the Joint Chiefs of Staff civil cargo aircraft requirements against current capability. These exact figures which are classified point up a serious deficit for both total and limited military emergencies. The lack of capacity to meet Joint Chiefs of Staff requirements for limited war is a prime reason for urgent action to provide incentives to increase the aircargo capability by the civil air transportation industry.

The Civil Aeronautics Board report, dated October 1961, entitled "Commercial Air Transportation Capabilities and Requirements Under Partial Mobilization and Limited War," which used as an ex-

perience factor the increased transportation requirements of the Korean war, indicates a deficit of 14 DC-7F equivalents to meet essential civil aircargo needs without regard to the military requirements.

The most recent CAB report, dated February 1962, "Minimum Civil Requirements for U.S. Air Transportation in Time of War—Fiscal Year 1962-63," reveals under the most favorable conditions of assumption a civil aircargo requirement, not counting the military requirement, in excess of available capability by some 44 DC-7F equivalents in the last month of fiscal 1962, and 64 DC-7F equivalents in the last month of fiscal 1963. We must bear in mind that these projected requirements are for only essential civil aircargo traffic needed to maintain the economic capability of national defense production during an emergency.

An important part of this Department's responsibility is to recommend programs to beneficially improve in peacetime the structure and capability of the total transportation system for use in an emergency.

The Department feels that the guarantee loan program could be of assistance in financing the equipment so necessary to the Nation in time of emergency as well as in time of peace.

However, to fully accomplish this objective, we suggest an additional amendment to S. 2815. Under the act of September 7, 1957, the maximum allowable amount that can be guaranteed to any one carrier is \$5 million. We recommend that the maximum allowable amount to any one carrier should be increased to \$15 million. This would allow for the higher costs of an aircraft suitable for use in all cargo operations.

As you know the President in his recent message on transportation recommended that the loan guarantee function be transferred from the Civil Aeronautics Board to the Secretary of Commerce. The President listed a number of ways in which he hoped "to achieve a better balance of Federal promotional programs." No. 5 stated:

Last year the Congress extended until June 30, 1963, the authority by which the Interstate Commerce Commission has been guaranteeing interest and principal payments on emergency loans to the railroads for operations, maintenance, and capital improvements for which the carriers cannot otherwise obtain funds on reasonable terms. A similar law by which the Government guarantees loans for aircraft and parts being purchased by certain certificated air carriers will expire this year. Since the Department of Commerce is already a focal point for Government transportation activities and since, in the interest of program coordination and consistency of policy these activities should be further consolidated, I recommend that the railroad loan guarantee authority, and the aviation loan guarantee authority, if it is extended, be transferred to the Department of Commerce. These programs are not regulatory in nature and are clearly separable from the chief functions of the Interstate Commerce Commission and the Civil Aeronautics Board, and can be acted upon more expeditiously by an executive agency.

The promotional aspects of a guaranty loan program are clearly dissimilar to the regulatory authority which is the primary responsibility of the Board. Under its regulatory responsibility the Board, among other things, is concerned with certification of carriers, rate levels and subsidies. Applications under a guarantee loan program can be related to, and bear directly upon all of the above areas of responsibility, thereby centering in one organization the power to both promote and regulate an industry.

I would like to emphasize that part of the President's transportation message which requested the transferral of the guaranteed loan authority to Commerce:

Since the Department of Commerce is already a focal point for Government transportation activities and since, in the interest of program coordination and consistency of policy \* \* \* I recommend that \* \* \* the aviation loan guarantee authority, if it is extended, be transferred to the Department of Commerce.

I have attached to my statement proposed amendments to S. 2815 which would (1) extend the act of September 7, 1957, for another 5-year period, (2) extend its coverage to include scheduled all-cargo carriers, (3) increase the maximum allowable amount that can be guaranteed to any one carrier to \$15 million, and (4) provide for the transfer of the loan guarantee function from the Civil Aeronautics Board to the Department of Commerce.

(The proposed amendments and related documents follows:)

TABLE I.—*Number and type of aircraft obtained to date under guaranteed loan program*

F-27.....	33
CV-340.....	12
M-404.....	3
B-720.....	1
V-44B helicopter.....	5
S-61 helicopter.....	4
V-107 helicopter.....	4
<b>Total.....</b>	<b>62</b>

*Number and type of aircraft for which guaranteed loan applications have been made but have not yet been approved*

CV-240.....	4
DC-6.....	2
S-61 helicopters.....	4
<b>Total.....</b>	<b>10</b>

TABLE II.—*Carriers that have had loans approved or have loans pending before the Civil Aeronautics Board—By class of carrier*

Class of carrier:	Number
Local service.....	6
Helicopter.....	3
Intra-Hawaiian.....	1
Alaskan.....	2
International/territorial.....	1
<b>Total.....</b>	<b>13</b>

NOTE.—Of the carriers listed above 4 local service, 1 helicopter, 1 intra-Hawaiian have either received or have an application for a second loan under this program.

Hon. WARREN G. MAGNUSON,  
*Chairman, Committee on Commerce,*  
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter requesting the views of the Department on S. 2815, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees and an amendment to S. 2815 intended to be proposed by Senator Smathers.

The act of September 7, 1957, authorized Government guarantee of private loans to certificated short-haul air carriers for purchase of aircraft. By terms of the act, this authority expires 5 years from the date of enactment. The purpose of S. 2815 is to extend the authority contained in section 3 of the act for another 5 years from the present expiration date of September 7, 1962. The

proposed amendment to S. 2815 would make "scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guarantee program."

S. 2815 was introduced at the request of the Civil Aeronautics Board. The Board, in proposing the bill, noted that although much use had been made of the act, not all of the eligible carriers had reequipped, and, in many cases, these carriers must acquire modern equipment if their subsidy needs are to be reduced in the long run. Extension of the authority under section 3 of this act for another 5-year period would provide a means by which the smaller carriers who have not as yet taken sufficient advantage of the act could obtain loan guarantees for the purchase of aircraft to improve their service and efficiency.

The benefits accruing from the loan guarantee program since its inception in 1957, have been measurable both to the carriers receiving the loans and to the traveling public. Under the act of September 7, 1957, no guarantee shall be made unless it is found that the air carriers cannot otherwise obtain funds needed on reasonable terms, and that the aircraft purchased are required for improvement of the service and efficiency of the operations of the air carrier. By reequipping, the carriers are in a position to improve their operations by using aircraft that are efficient and can be operated at a lower cost per passenger mile. The traveling public benefits directly from the operation of modern equipment that would not otherwise be operated.

If subsidy-free status is to be achieved passengers must be attracted to the airlines. Yet without the proper equipment a service that will attract passengers and thereby broaden the passenger base cannot be achieved. The carriers, in many cases, do not have the resources to break out of this circle and achieve self-sufficiency. It is recognized that loan guarantees are not a panacea, but they can be used as a tool by the carriers and the Government to improve the problem of subsidy. Without a doubt, subsidy cannot be reduced unless the carriers have a product to sell—namely service. However, synonymous with the word service is the type of equipment that produces the service. The public has become sophisticated in its demands, and unless a type of equipment is used that will attract the traveling public they will not use air travel to the extent that will make air carrier operations self-sufficient.

The proposed amendment to S. 2815 according to its sponsor, would "render scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guaranty program." The Department is of the opinion that the addition of four certificated scheduled air-cargo carriers, such as Riddle Airline, Slick Airways, Flying Tiger Line and Seaboard World Airlines, to those carriers presently covered by the loan guaranty program would be in the national interest. Such a program could afford the scheduled all-cargo carriers the opportunity of obtaining aircraft designed for their special need. The Task Force on National Aviation Goals (Project Horizon) in its report stated, "While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of air-cargo transport vehicle development, the expanded use of air-cargo service for mail and military cargo \* \* \*, and guaranteed loan legislation, subject to the most detailed scrutiny \* \* \* of the characteristics of the aircraft as an economic vehicle, before approval for such loans is granted."

The requirements channeled into this Department, as a result of its responsibility in the field of civil mobilization planning, indicate the need for increased cargo capability. A suitable aircraft that could be developed or purchased for the use of the scheduled all-cargo carriers would aid the U.S. air-cargo capability to meet the civil and defense needs during an emergency.

In order to make it possible for the carriers to purchase the higher cost aircraft that are suitable for use in all-cargo operations, it is believed that the present limitation of \$5 million to any one carrier should be increased to \$15 million.

As the President pointed out in his message of April 5, 1962, on the Transportation System of Our Nation, if the loan guarantee program is extended it should be transferred to the Department of Commerce. This recommendation was based on the fact that this Department is a focal point for Government transportation activities and in the interest of program coordination these activities should be further consolidated. The Department in transmitting its legislative recommendations to implement the President's message, which was transmitted to the Congress on May 1, contained language which would transfer the loan guarantee programs presently administered by the Civil Aeronautics

Board and the Interstate Commerce Commission to the Department of Commerce.

We are enclosing proposed amendments to S. 2815 which would extend the act of September 7, 1957, for another 5-year period, extend its coverage to include scheduled all-cargo carriers, increase the maximum allowable amount that can be guaranteed to any one carrier to \$15 million and provide for transfer of the loan guarantee function from the Civil Aeronautics Board to the Department of Commerce.

The Department supports enactment of this legislation if it is amended as we have recommended.

The Bureau of the Budget advises there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

\_\_\_\_\_  
Secretary of Commerce.

PROPOSED AMENDMENTS TO S. 2815, 87th CONGRESS

Amend S. 2815 by adding the following new sections at the end thereof:

"SEC. 2. Section 1 of the Act of September 7, 1957 (71 Stat. 629), is amended by adding immediately after the words 'development of' in the first sentence the following: 'scheduled all-cargo and'.

"SEC. 3. Subsection (a) of section 2 of the Act of September 7, 1957 (72 Stat. 629), is amended by striking out the words 'Board' and 'Civil Aeronautics Board,' and inserting in lieu thereof the words 'Secretary' and 'Secretary of Commerce,' respectively.

"SEC. 4. Section 3 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the word "Board" where it appears the first and third times therein, and inserting in lieu thereof the word "Secretary;" and

"(2) Inserting the words "Civil Aeronautics" immediately before the word "Board" where it appears the second time therein; and

"(3) Striking the period immediately following the word "service" at the end of the first sentence and adding the following: "or (g) for scheduled all-cargo service."

"SEC. 5. Section 4 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the amount "\$5,000,000" in subsection (d), and inserting in lieu thereof the amount "\$15,000,000"; and

"(2) Striking out the word "Board" in subsections (e) and (f), and inserting in lieu thereof the word "Secretary".

"SEC. 6. Section 5 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board,' and inserting in lieu thereof the word 'Secretary'.

"SEC. 7. Subsection (a) of section 6 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the word "it" where it appears the first time therein, and inserting in lieu thereof the word "him;" and

"(2) Striking out the word "it" where it appears the second time therein, and inserting in lieu thereof the word "he;" and

"(3) Striking out the word "Board," and inserting in lieu thereof the word "Secretary".

"SEC. 8. Section 7 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board' wherever it appears therein, and inserting in lieu thereof the words 'Department of Commerce'.

"SEC. 9. Section 410 of the Federal Aviation Act of 1958 (49 U.S.C. 1389) is amended by replacing the period at the end of the last sentence with a colon, and adding the following: 'Provided, however, That the provisions of this section shall not be applicable to the guaranty of loans by the Secretary of Commerce under the provisions of the Act of September 7, 1957 (71 Stat. 629), as amended, but the Secretary of Commerce shall consult with and consider the views and recommendations of the Board in making such guaranties'.

"SEC. 10. (a) All orders, determinations, rules, regulations, permissions, approvals, agreements, rulings, directives, and privileges which have been issued, made, or granted, or allowed to become effective, by the Civil Aeronautics Board, or any court of competent jurisdiction, under any provision of law amended by this Act, or in the exercise of duties, powers, or functions which, under this Act,

are vested in the Secretary of Commerce, and which are in effect at the time this Act takes effect, shall continue in effect according to their terms until modified, terminated, superseded, set aside, or repealed by the Secretary of Commerce or by any court of competent jurisdiction, or by operation of law.

“(b) The provisions of this Act shall not affect any proceedings pending at the time this Act takes effect before the Civil Aeronautics Board; but any such proceedings shall be continued before the Secretary of Commerce, orders issued therein, and payments made pursuant to such orders, as if this Act had not been enacted; and orders issued in any such proceedings shall continue in effect until modified, terminated, superseded or repealed by the Secretary of Commerce, or by operation of law.

“(c) The provisions of this Act shall not affect suits commenced prior to the date on which it takes effect; and all such suits shall be continued by the Secretary of Commerce, proceedings therein had, appeals therein taken, and judgments therein rendered, in the same manner and with the same effect as if this Act had not been enacted. No suit, action or other proceeding lawfully commenced by or against the Civil Aeronautics Board or officer of the United States, in relation to the discharge of official duties, shall abate by reason of any transfer of authority, power or duties from the Board or Commission or officer to the Secretary of Commerce under the provisions of this Act, but the court upon a motion or a supplemental petition filed at any time within twelve months, after such transfer, showing the necessity for a survival of such suit, action or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the Secretary of Commerce.

“Sec. 11. (a) The officers, employees, and property (including office equipment and official records) of the Civil Aeronautics Board which the Bureau of the Budget, after consultation with the Board, shall determine to have been employed by the Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify: *Provided*, That the transfer of such personnel shall be without reduction in classification or compensation, except that this requirement shall not operate after the end of the fiscal year during which such transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned.

“(b) Such of the unexpended balances of appropriations available for use by the Civil Aeronautics Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify, and shall be available for use in connection with the exercise and performance of the powers and duties vested in and imposed upon the Secretary of Commerce by this Act.

“(c) All records transferred to the Secretary of Commerce under this Act shall be available for use by him to the same extent as if such records were originally records of the Secretary.”

Senator MONRONEY. Thank you very much, Mr. Martin, for your helpful statement.

You mentioned the increase to any one carrier of \$15 million. Does this apply to the Smathers' amendment on the all-cargo aircraft?

Mr. MARTIN. Yes, sir.

Senator MONRONEY. But not to the feeders?

Mr. MARTIN. No, sir. I think it applies to the whole bill. It would apply to both parties, not just to the Smathers' amendment. I think the reason on that, Senator, is that in the case of these large all-cargo craft, jet craft or prop-jet craft two airplanes with spares will cost in the area of \$15 million.

Senator MONRONEY. In other words, unless it were \$15 million particularly for the long range all-cargo fanjets, you couldn't buy more than one under a \$10 million limitation?

Mr. MARTIN. Yes, sir.

Senator MONRONEY. To get at least two in the fleet it would require the \$15 million.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. That would buy a good many feeder line planes, would it not, if that were the limit. I wonder if you want the same limit, since the type of plane that the feeder lines would buy, excepting for the service to Alaska, and maybe other extremely long hauls, would require a much less expensive short-haul aircraft.

Mr. MARTIN. Yes, sir; that is correct. Of course I think that would be a matter of administration of the program. I would think that you would have to leave that to administrative discretion.

Senator MONRONEY. In this development you recommend and base the thrust of your testimony on the military needs for the all-cargo plane. You very cogently, I think, set out the deficiency that did exist and does exist in meeting even a limited emergency with adequate planes capable of overocean flight without intermediate stops, which we do not have in the piston-driven portion of the fleet today. You do not mention the condition of the airframe industry. It is my impression that the airframe industry in its civilian work has probably delivered or is about to deliver its entire backlog of jet passenger planes that have been ordered in the modernization of the passenger fleet. Is that correct?

Mr. MARTIN. Yes, sir.

Senator MONRONEY. That they have developed no other planes other than the long-range jets, so that the great airframe industry that was the marvel of the world and furnished the aircraft that brought about the margin of victory in World War II, will either fold up or diversify into missiles or space work and leave this great reservoir of competent design, manufacture, and development in a state of vacuum, and it would be very difficult to reestablish the American supremacy in this field, would it not?

Mr. MARTIN. I assume, Senator, that you are very familiar with the supersonic work that is talked about.

Senator MONRONEY. This is in 1970. That is a long time to starve. Most of the men are now working in competent positions of developing and building aircraft as such will be either too old to work or will have lost their competence if they have to go into other fields between now and the production date of anything resembling the B-70.

Mr. MARTIN. There certainly is decline. No question about that.

Senator MONRONEY. The prognostication of the military fighter and bomber aircraft is not good. Looking at the industry as a whole it was and is a great industry, but the workloads and the prospects for utilizing the great planes that were built both during the war and after the war look like there is probably a tremendous unemployment load that will be built up there unless there is some type of plane that can be used that will follow on when present lines shut down. This is of concern also, I am sure, to the Department of Commerce.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. You don't have a projection of our airframe industry?

Mr. MARTIN. No, sir; I don't have any of that information with me. I will be happy to get it.

(The information referred to may be found on p. 39 at the end of the testimony.)

Senator MONRONEY. I think it should be submitted for the record. I am very fearful for certain companies that I am aware of that are delivering their last orders of their long-range jets, and the followon of military orders, excepting for space and missile work, is almost nil in new orders for planes or anything behind it. In other words, the Electra line is shut down. No more Electras will be built. There is little likelihood that there will be any resurgence of orders for passenger jets by the three great companies that produce them. And there is no small replacement plane for the DC-3 or for an intermediate-range passenger or cargo plane. Yet a competent national system of transportation will demand, will it not, planes that are suitable for short hauls as well as those that are suitable for the long-haul operations.

Mr. MARTIN. I would hope that some answer will be found to this short-range aircraft for the feeder airlines. As you know, the President suggested and recommended that the Chairman of the Civil Aeronautics Board should develop by June 30 of next year, a plan setting forth a program for diminishing, phasing out subsidy support for the feeder transports. Obviously this can't be done without new technology and new equipment coming into the picture which would allow the feeders to operate economically.

I am a little familiar with the statement you made earlier about the aircraft on which some engineering and design work has been done by Aerojet, which I understand Douglas is collaborating with at the moment. We hope that somebody in this area will come up with equipment which will be the salvation of the feeder airline industry.

Senator MONRONEY. One further point. I note particularly your testimony about the President's message to Congress on the concentration of all lending activities for transport in the Department of Commerce. While we do not suspect the present head of the Department of Commerce, I would like to insert at this point in the record testimony of the Honorable John J. Allen, Jr., Under Secretary of Commerce for Transportation, before this committee on the Government-guaranteed loan bill when we were having hearings on February 17, 1960, in which Mr. Allen testified that he supported the objectives for accelerating the development of production and placing in certain of modern, efficient aircraft, cargo-designed aircraft, and related equipment before materials handling of U.S. manufacture, but said:

The Department of Commerce supports these objectives. However, we do not believe that the guaranteed-loan legislation is presently the most appropriate method of achieving these objectives. Accordingly, we do not support enactment of S. 2774.

And in a letter to Senator Magnuson, the chairman of the full committee, signed by Mr. Philip A. Ray, Under Secretary of Commerce, he offered us a do-it-yourself kit, that in the natural evolution that these planes would be supplied. I think it would be wise to incorporate at least the letter of the then Under Secretary of Commerce Philip Ray and of Mr. Allen to show that we do have some distrust of the Department of Commerce under changing administrations.

This bill, while we hope it would not occur, might allow a different Department of Commerce to negate the purposes of the bill even if it were enacted.

The CAB is an independent arm of Congress and for that reason it has been left to them to administer the loans, which I think on the record shows that they have done a very good job.

(The above-mentioned material follows:)

#### GOVERNMENT GUARANTEE OF LOANS TO CERTAIN AIR CARRIERS

U.S. SENATE,  
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
SUBCOMMITTEE ON AVIATION,  
*Washington, D.C., Wednesday, February 17, 1960.*

The subcommittee met at 10:10 a.m. in room 6200, New Senate Office Building, Hon. A. S. Mike Monroney presiding.

Senator MONRONEY. The Subcommittee on Aviation will resume its hearings.

We are honored today to have a former colleague of ours, in the House of Representatives, now Under Secretary of Commerce for Transportation, Hon. John J. Allen, Jr. We are happy to have you here, Mr. Allen, and we appreciate your testifying on bill S. 2774.

Mr. ALLEN. Thank you.

Senator MONRONEY. Do you have a prepared statement?

Mr. ALLEN. Yes, sir; I do.

Senator MONRONEY. You may proceed in your own way, Mr. Secretary.

#### STATEMENT OF JOHN J. ALLEN, JR., UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION

Mr. ALLEN. If I may, I will read the statement.

Mr. Chairman, I appreciate the opportunity to present the views of the Department of Commerce with respect to S. 2774, a bill designed to accelerate the development, production, and placement in service, of modern efficient cargo-designed aircraft and related equipment for materials handling of U.S. manufacture.

The Department of Commerce supports these objectives. However, we do not believe that guaranteed loan legislation is presently the most appropriate method of achieving these objectives. Accordingly, we do not support enactment of S. 2774. (I would like to insert into the record, at this point, the comments of the Secretary of Commerce on S. 2774, dated February 8, 1960.)

THE SECRETARY OF COMMERCE,  
*Washington, D.C., February 8, 1960.*

HON. WARREN G. MAGNUSON,  
*Chairman, Committee on Interstate and Foreign Commerce,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request of January 14, 1960, for the views of this Department on S. 2774, a bill to foster the national defense, the postal service, the development of civil aeronautics, air commerce in the United States and abroad, and for other purposes, by providing for Government guarantee of loans to certain air carriers for purchase of efficient, newly developed, modern cargo aircraft and components of a cargo airlift system.

The bill, would, among other things, authorize the Civil Aeronautics Board to guarantee the repayment of loans for the purchase only of approved modern cargo aircraft. The loan could not exceed 75 percent of the purchase price of the aircraft and would have to be repaid within 10 years. Ninety percent of the unpaid balance would be guaranteed and repossession of the aircraft would be the sole recourse of the Government in the event of default. Loans to any one carrier could not exceed \$75 million.

One purpose of the bill is to develop and encourage the civil air carriers to procure modern cargo airlift in order to provide the logistic capacity required by the military in peacetime and to meet the increasing civilian cargo requirements.

This Department believes that there should be an adequate air cargo capacity to meet the needs of national defense, postal service, and the development of civil aeronautics and air commerce in the United States and abroad. It is not

convinced, however, that enactment of the proposed legislation of this nature is necessary at this time in order to accomplish these objectives.

Other measures can be taken by the Federal Government which will, in our opinion, encourage the civil air industry to procure modern cargo aircraft required for meeting the needs of commerce, the postal service, and the national defense. One such measure would be to provide for an orderly transfer of the routine logistics function from the MATS fleet to the civil air carriers to the extent of their present capacity to perform it. Another measure, already underway, is the transportation by air of a large volume of mail not classed as airmail.

Aside from these measures, there are certain economic changes which should provide an incentive to civil air carriers for the procurement of modern cargo aircraft. These are, a continued increase in our population, the increasing reduction in rail freight and passenger services, and the growing preference of shippers for air transportation of all types of commodities.

We believe that these actions, the economic changes which are occurring, and the further exploitation of air cargo potentialities will insure at least to a point, the development of an adequate modern air cargo fleet. Whether or not additional incentives will be needed to assure an adequate fleet development involves further economic considerations.

In the event that your committee concludes that favorable consideration should be given to S. 2774, we believe that the bill should be modified in order to assure that its objectives will be achieved.

The definition of cargo aircraft in section 2(d), insofar as it refers to "specialized components" and "newly developed modern" is vague and should be clarified in order that there will be a clearer understanding as to the type of development sought to be encouraged.

The definition of "cargo aircraft purchase loan" in section 2(e) includes, in addition to loans to certificated air carriers, loans to "any other person engaged in flight line cargo handling." This language also should be clarified so as to assure a clearer understanding of the scope of the proposed program.

Section 3(b)(4) limits to \$75 million the total amount of loans which may be guaranteed for a single air carrier. However, there is no limitation on the aggregate amount of the loans which may be guaranteed under this program. In this respect the proposal is similar to the loan guarantee program approved by Congress in 1957 to aid in the purchase of equipment by local or feeder air carriers. In that case, however, the limited number of carriers involved served as a presumptive limitation on the total size of the program. In the case of the loan guarantee program to aid the railroads, contained in the Transportation Act of 1958, Congress enacted an overall limitation of \$500 million. We believe that the bill is more similar to the railroad program in this respect, and that a limitation ought to be imposed on the aggregate amount of the loans which may be guaranteed.

Section 3(b)(5) and (6) of the bill require that the Administrator of the Federal Aviation Agency and the Secretary of Defense separately certify as to the adequacy of design and performance of aircraft to be purchased. We believe that this responsibility should be given to a single agency with the requirement that such agency consult with and obtain the views of the other interested Government departments. Accordingly, we recommend that this responsibility be given to the Administrator of the Federal Aviation Agency, subject to the requirement that he consult with and obtain the views of the Secretary of Defense and, because of his responsibility in connection with planning for mobilization of our civil air resources in time of national emergency, the Secretary of Commerce.

Section 3(b)(7) requires that the borrower agree in advance to allow the Secretary of Defense to take over use of the aircraft in time of war, national emergency or whenever the military situation requires as determined by the Secretary of Defense. At present, the allocation of civilian-owned aircraft to military support is a responsibility of the Secretary of Commerce, and is being carried out by the Defense Air Transport Administration in the Civil Reserve Air Fleet (CRAF) program. The allocation of civilian airlift capability to military support should not be broken into segments under the direction of more than one department. This provision gives the Department of Defense allocation authority over airlift capability for which it will also be a claimant. The Department recommends that the proposed bill be modified to indicate clearly that aircraft procured under Government guaranteed loans may be allocated to the Civil Reserve Air Fleet by the Secretary of Commerce.

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MANHATTAN, KANSAS

Section 4 of the bill would limit the recourse of the Government, in case of default by the borrower, to repossession of the aircraft for which the loan was obtained, together with assignment of any insurance claims. A similar limitation is contained in the Federal Ship Mortgage Insurance Act, but the provision in that act gives the Government discretionary authority to limit its security rather than making the limitation mandatory. We believe that to assure more adequate protection to the Government's interest, it would be better if the provision limiting recourse were discretionary as in the Federal Ship Mortgage Insurance Act rather than mandatory as it proposed.

The Federal ship mortgage insurance program also contains a provision requiring that a borrower to be eligible for insurance of a loan must possess " \* \* \* the ability, experience, financial resources and other qualifications necessary to the adequate operation and maintenance of the property." We believe that some similar requirement as to the integrity and ability of the prospective borrower to insure carrying out the purpose of the program ought to be imposed.

The Bureau of the Budget has advised that it would interpose no objection to the submission of this report to your committee.

Sincerely yours,

PHILIP A. RAY,

*Under Secretary of Commerce.*

Senator MONRONEY. Do you have any comments?

Mr. MARTIN. No sir, I wouldn't presume to comment on what the previous Under Secretary said. We have additional responsibilities in the Department that have been given to us by the President since that time, particularly in the area of emergency transportation requirements, mobilization requirements. I think we are more sensitive in this area than perhaps they were prior to that. On the other hand, I am sure you are well aware that there has been a change of administrations. What they might have thought once before wouldn't necessarily be binding on our thinking.

Senator MONRONEY. I bring this up because, having had every bill for every item of aviation, including Federal aid to airports and adequate funds for modernization of airways for electronic equipment and radar, opposed by the Department of Commerce for nearly 8 solid years under the previous administration, we are a little worried whether or not, in the light of history, whether it would not be better to keep the loan program with an independent agency of the Government which does not have conflicting interests and favored modes of transportation such as we found in the previous administration.

Mr. MARTIN. We have no favorites. I don't offer any apologies for our thinking on this. I think that the transportation message of 1962 speaks for itself. That is the first all-inclusive transport message that was ever sent to Congress I think in the last 75 years. So I think that the Department is aware of its responsibilities in this area and is attempting to do a good job.

Senator MONRONEY. I note that the language of your suggested amendment to the bill provides that the Secretary of Commerce in making loans shall consult with and consider the advice and recommendations of the Board.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. That would bring in under your theory that they would still have some competence in this field to testify as to the economic needs and economic feasibility of these loans.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. It would not necessarily set up a new agency or new overhead that would have to be met.

Mr. MARTIN. That is correct.

Senator MONRONEY. Thank you very much, Mr. Martin, for your contribution.

Would you advocate an amendment that these loans be available only to planes of American manufacture?

Mr. MARTIN. I didn't address myself to that.

Senator MONRONEY. Do you have authority to testify on that?

Mr. MARTIN. No, sir.

Senator MONRONEY. Would you submit for the record, if you do have, so we would know the views of the Department on insuring these loans only for American-made aircraft?

(The views of the Department may be found at the end of the testimony.)

Mr. MARTIN. Is there a suggested amendment to that effect?

Senator MONRONEY. We have to report a bill. It seems to me that it is of some concern of ours in that if we insure foreign-made aircraft we would be developing an industrial potential that should be met locally if possible, and that other countries do have their own loan-guaranteed programs in which they do guarantee those loans for sale within the United States.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. Therefore, should we duplicate an already existing loan program similar to ours, that is advocated in these bills—

Mr. MARTIN. Senator, we will be happy to take that up in the Department. I just say in a general way we are primarily charged with the responsibility of promoting the commerce of the United States and the industry of the United States.

Senator MONRONEY. I think that is the true mission of the Department of Commerce.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. While we sell planes abroad, we, through our Export-Import Bank and otherwise guarantee the loans of those planes which go to foreign airlines today. We would only be granting to ourselves and to our own manufacturers the right to have it internally as well as externally.

Mr. MARTIN. Yes, sir.

Senator MONRONEY. Thank you very much for your testimony.

The next witness is Joseph P. Adams.

We are happy to have you here as always, to ably represent this very important segment of our aviation industry.

THE UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION,  
*Washington, D.C., June 26, 1962.*

HON. A. S. MIKE MONRONEY,  
*Chairman, Subcommittee on Aviation, Senate Committee on Commerce,  
Washington, D.C.*

DEAR MR. CHAIRMAN: During my testimony before the Aviation Subcommittee, May 8, 1962, you requested that there be submitted for the record a projection of the present condition of our airframe industry, and our position concerning an amendment to S. 2815 prescribing that guaranteed loans be available only for aircraft of American manufacture.

First, the Department of Commerce would support an amendment to S. 2815, requiring that any aircraft procured under the provision of this bill be manufactured in the United States by an American airframe manufacturing company.

As I stated in my testimony, "the Department of Commerce is primarily charged with the responsibility for promoting the commerce of the United States

and the industry of the United States." Through such legislation, the airframe manufacturing base would be enhanced and strengthened by aircraft orders which might otherwise go to foreign competitors, and it would be a considerable help in stabilizing the fluctuations that have been experienced by U.S. manufacturers.

Also, such legislation would provide material benefit to the problems that beset us in the international balance-of-payments situation.

Moreover, in the event that domestic carriers decide to purchase their requirements from foreign airframe manufacturers, the exporting country will often make adequate provision for financing assistance; e.g., loan guarantees by the Canadian Government with respect to purchases of CL-44 cargo aircraft. It does not, therefore, appear to be necessary for this country to provide loan guarantees under such circumstances.

In view of the activity in some foreign countries in the manufacture of all-cargo planes and the desirability of strengthening our own U.S. capability in this regard, it would be preferable that planes purchased with funds guaranteed by the Federal Government be built by U.S. manufacturers.

It is my understanding that other witnesses subsequently appearing before the Aviation Subcommittee of the Senate Commerce Committee have supported this proposed amendment, including the Department of Defense witnesses.

As to the question concerning the current condition of the U.S. airframe manufacturers, we submit the following information. Aircraft deliveries by American manufacturers were 113 in 1955, a peak of 262 in 1959, and declined to 206 in 1961. The large trunk carriers have reequipped from piston to jet aircraft. The local service carriers have not reequipped. Therefore, this legislation would be useful in additional orders for jet cargo aircraft, of which Boeing estimates 75 aircraft orders, and the possibility for the local service carriers to reequip and modernize their fleets with suitable short-range aircraft. The pattern is dim for long-range jet aircraft orders and production. The hope to maintain the economic capability of defense production in our airframe industry at a high level is for the purchase of short-range aircraft by the local service carriers, and the incentive provided for jet aircraft procurement through the guaranteed loan legislation. The figures showing the production of aircraft show the same employment and payroll decline. The aircraft production was down 27 percent. The employment and payroll factors have come down on approximately the same scale. The number of employees engaged in air carrier aircraft manufacture in 1960 are estimated to be 73,600. The total salaries were \$570 million. In 1961 the number of employees engaged in this activity declined to 49,500. The salaries and wages declined to \$390 million.

The condition of our airframe manufacturing industry can best be judged by the deliveries of aircraft. The dollar volume of total sales and employment factors do not reflect a true picture of the fiscal condition of these corporations because of the fluctuations created by the missile production programs in which most of the airframe manufacturers are engaged. However, these figures also show that the airframe manufacturers are approaching the tag-end production in jets ordered by the air carriers to modernize their fleets.

I trust this information will be helpful to you and to members of the subcommittee. If we can assist further in any way, please let me know.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

CLARENCE D. MARTIN, JR.

**STATEMENT OF JOSEPH P. ADAMS, GENERAL COUNSEL, ASSOCIATION OF LOCAL TRANSPORT AIRLINES, WASHINGTON, D.C.**

Mr. ADAMS. Thank you, Chairman Monroney.

Chairman Monroney and distinguished members of the Aviation Subcommittee of the Commerce Committee, it is a great pleasure and a privilege to appear before you advocating the extension and increased loan limits of the act of September 7, 1957, being Public Law 85-307.

It is appropriate to pause here and extend the heartiest congratulations and appreciation of the members of the Association of Local Transport Airlines<sup>1</sup> for the wonders you gentlemen wrought just 5 years ago when you actively participated in the enactment of S. 2229. The legislation approved by your subcommittee 5 years ago has been a triumphant success. It has brought financial stability to the operations of the short-haul air transport industry and it has made it possible for the industry to mark up giant strides in revenue passenger-miles each year since the passage of the legislation while the trunkline industry has been marking time in the same statistical field of passenger service.

Your foresight and aviation transportation expertise has made it possible for the member carriers of ALTA, alone, to purchase 33 postwar piston-powered airplanes, 19 postwar piston-powered aircraft and all with Government-guaranteed loans of some \$35 million. Not one cent of this loan amount is in default.

Your responsiveness to the public convenience and necessity needs of the smaller communities represented in your constituencies has resulted in literally millions of these passengers receiving service in postwar pressurized, larger, and more comfortable riding equipment. This new and improved service to the public has been made possible in 295 communities and in 31 States.<sup>2</sup>

Not one of these cities or States could reasonably have expected to have received this improved air service without the benefits and the enactment of the Guaranteed Loan Act of 1957. This flat statement is unequivocally supported by reason of your wisdom in writing section 4 of the act of 1957, which reads:

SEC. 4. No guaranty shall be made:

(e) Unless the Board finds that, without such guaranty, in the amount thereof, the air carrier would be unable to obtain necessary funds for the purchase of needed aircraft on reasonable terms.

The Civil Aeronautics Board in administering the act and carrying out the intent of Congress prepared Form CAB-411-A for the application for loan guarantee and question 8 reads:

Would the lender grant this loan, or a comparable loan, without guaranty by the Civil Aeronautics Board?

No more specific or even legal evidence need be introduced to support the position that these millions of "Americans with a suitcase" were and are completely dependent on you distinguished members of this subcommittee and of course your colleagues for their ever-increasing aviation transportation needs and requirements.

The unqualified success of this public-interest legislation marks a historic example of the "arm of Congress" concept, as applied to administrative agencies of the Government. This legislation was origi-

<sup>1</sup> Alaska Airlines, Alaska Coastal-Ellys Airlines, Allegheny Airlines, Aloha Airlines, Bonanza Air Lines, Central Airlines, Cordova Airlines, Lake Central Airlines, North Central Airlines, Northern Consolidated Airlines, Ozark Air Lines, Pacific Airlines, Piedmont Airlines, Reeve Aleutian Airways, Southern Airways, West Coast Airlines, Wien Alaska Airlines.

<sup>2</sup> Alaska, Arizona, California, Colorado, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wisconsin, Wyoming, and the District of Columbia.

nally sponsored by the Civil Aeronautics Board, an "arm of Congress" and then studied, amended, and passed by Congress.

In the case of the present membership of this distinguished subcommittee, the Association of Local Transport Airlines wishes to express its specific appreciation to you and does so here by referring to the Congressional Record of August 12, 1957, page 13119, which relates the support given the legislation by the distinguished chairman of the Commerce Committee, Senator Warren G. Magnuson, the distinguished chairman of the subcommittee, Senator A. S. Mike Monroney, and his present subcommittee colleagues, Senators George A. Smathers, Strom Thurmond, Norris Cotton, and Thruston B. Morton. To complete the honor roll of the present subcommittee membership. The Congressional Record of August 19, 1957, page 13887, indicates the support of the legislation in the House of Representatives by former Congressman Clair Engle, now of this committee.

The same issue, on page 13885, carries the strong supporting language of the only member of the present Senate subcommittee who didn't vote for the legislation and then only because he didn't have a vote as the distinguished former Delegate from Alaska, the Honorable E. L. Bob Bartlett. That completes the hundred-percent record of the splendid support given this legislation 5 years ago by members of this committee.

The purpose of the legislation in 1957 was to enable the feeder- and short-haul-type carrier to purchase equipment that would result in an economical and profitable operation, that would provide pressurized aircraft for passenger comfort, improve the attractiveness of the service to the public and to generate increased traffic.

That these objectives have been attained in the fullest sense is beyond dispute.

The purpose of the legislation proposed in 1962, S. 2815, is the same as that of 1957 and there is every reason to believe that its success when extended will match that of the past 5 years.

The Civil Aeronautics Board has made available to this committee a two-page detailed "Schedule of Guaranteed Loans," dated April 5, 1962, which is a complete up-to-date report of each loan made since the passage of the act in 1957. It would be repetitious to reoffer this document on behalf of ALTA although it is relied on to support most references to the success of the program made earlier in this statement or to follow.

Renewal of the act through its extension is necessary because the new equipment procured only through the operation of the act has been a major factor in enabling local service carriers to realize substantial traffic growth in a 5-year period when air traffic generally was realizing only restrictive growth. Between 1957 and the year ended June 30, 1961, local service commercial revenues doubled. The ability to acquire new equipment under the Guaranteed Loan Act was a significant if not the most important feature in this unusual growth record.

Senate Report No. 782, July 8, 1957, stressed as one purpose of the legislation the necessity of making it possible for a carrier to obtain the funds for the purchase of aircraft on reasonable terms.

The words "on reasonable terms" are as significant today as they were 5 years ago. An example of the assistance given carriers in

realizing such terms is best illustrated by the example of Bonanza Air Lines, an ALTA member carrier.

Bonanza Air Lines financed its original acquisition of F-27 turboprop equipment on a 10-year basis with interest rates of  $5\frac{1}{4}$  and 6 percent. Having exhausted the \$5 million guarantee available under the Guaranteed Loan Act of 1957 by reason of the \$5 million ceiling, the airline was required in 1961 to finance its ninth F-27 without the benefits of the act. In so doing, it was required to write off this latest loan in 5 years at a  $6\frac{1}{2}$ -percent rate. While an airline may be able to finance one-ninth of its equipment on a short-term basis with high interest rates, it cannot conduct an overall fleet modernization program on such unsatisfactory financial terms.

Renewal and extension of the terms of the Guaranteed Loan Act of 1957 is vitally important to provide the additional equipment that will be needed to carry the passengers now in sight. Aloha Airlines, Inc., an ALTA member carrier operating in the State of Hawaii, has prepared a study of its aircraft needs to include 1965 and it is indicative of the growing requirements of this dynamic industry.

Aloha has determined that the available seat-miles required by the carrier in 1965 will be approximately 143,200,000. The existing fleet of six F-27 aircraft can produce a capacity of 86,580,000 seat-miles, leaving an apparent deficiency of approximately 56,620,000 seat-miles. These are conservative figures and based on six aircraft with current utilization of 1,850 annual hours, current speed of 195 mph and 40 available seats. The fact that Aloha Airlines had a system load factor of 64 percent in 1961, the highest load factor achieved by any scheduled certificated U.S. airline, lends credence to the accuracy of the carrier's predictions.

Aloha Airlines' study could be duplicated and supported by the growth requirements reasonably to be anticipated by the 10 local-service ALTA members and the 6 Alaskan carrier members.

The seat-miles required by Aloha Airlines in the immediate 5-year period cannot be provided without the extension and renewal of the Guaranteed Loan Act of 1957.

The Association of Local Transport Airlines takes this opportunity to not only unqualifiedly recommend the renewal and extension of the Guaranteed Loan Act through the passage of S. 2815, but respectfully requests that Public Law 85-307, section 4(d) be amended to increase the present loan limitation ceiling from \$5 million to \$10 million.

Extension of the act, with a dollar limit sufficient to embrace future technological improvements, will insure the ability of this industry to obtain the amount and type of equipment needed to meet its public service requirements on reasonable terms.

The following statistics descriptive of all phases of short-haul air transport operations which dictate aircraft needs of the local service carriers are purposefully offered for the exact 5-year period during which the Guaranteed Loan Act of 1957 has been in full force and effect.

Now, Mr. Chairman, I recall that this morning with an earlier witness you asked for statistics that I believe are completely supplied through exhibits A, B, and C, on pages 7 and 8 of this paper. I call your attention to what at least for me is a new way of expressing it,

by this ratio concept. It is probably a little more dramatic in some respects. The Chairman will observe that practically all of the measures of the activity of this industry indicate that in the exact 5-year period of the act that you passed in 1957 all the measurements of this industry have doubled and in some cases, in exhibit C, have tripled and almost quadrupled.

In other words, the total fleet costs on a depreciated value are 3.98, whereas the total fleet costs are 2.89.

My hope is, Mr. Chairman, that you and your committee will find in these figures full support for the increase of the loan ceiling. In other words, it is the contention of the association that these figures indicate that if the act is to be extended with the same measure of support that your committee and Congress intended in 1957, it would follow that the limit be \$10 million. I believe the statement is not clear on this one point, Mr. Chairman. It is not our thought that this \$10 million is to be in addition to amounts presently on loan by the member carriers, but, as I will indicate later in my statement, unless it is made \$10 million, the present commitments will preclude most of the eligible carriers from making another loan.

(The above-mentioned exhibits follow:)

EXHIBIT A.—Local carrier operating data indexes

	3d quarter 1957	3d quarter 1961	Ratio 1957=1
Revenue miles.....	18,492,000	27,571,000	1.49
Enplaned passengers.....	1,196,813	1,849,864,000	1.55
Revenue passenger-miles.....	216,388,000	364,729,000	1.69
Available ton-miles.....	22,128,000	38,004,900	1.72
Available seat-miles.....	57,200,000	87,687,900	1.75
Available seat-miles.....	457,230,000	869,102,900	1.90
Number of employees.....	8,597	13,493	1.58

EXHIBIT B.—Local carrier revenue and expense indexes

	3d quarter 1957	3d quarter 1961	Ratio 1957=1
Total passenger revenue.....	\$13,476,970	\$27,750,211	2.06
Total nonmail revenue.....	14,523,617	29,864,907	2.06
Total operating expenses.....	21,898,942	43,134,829	2.01
Break-even need.....	6,875,326	13,269,922	1.93

EXHIBIT C.—Local carrier fleet cost indexes

	3d quarter 1957	3d quarter 1961	Ratio 1957=1
Number of aircraft.....	223	338	1.52
Total fleet costs.....	\$31,780,000	\$91,793,000	2.89
Depreciated value.....	\$15,663,000	\$62,330,000	3.98
Total ground equipment costs.....	\$6,356,000	\$13,012,000	2.05
Depreciated value.....	\$2,899,000	\$6,371,000	2.20

Mr. ADAMS. The individual managements of the ALTA member carriers believe, and I state to you with my fullest faith in their position, that this requested increase in the loan ceiling is a development inherent in the continued successful operation of the Guaranteed Loan Act. The figures provided in the foregoing exhibits all indicate that in the 5-year period since the passage of the act, the requirement of

the public for seats has doubled, needing more aircraft at almost tripled fleet costs.

ALTA requests your support for extended guaranteed loan legislation that will serve the same purpose as the 1957 act, operate in the same efficient manner as the 1957 act, and provide the millions of short-haul transport passengers the same improvement in service as made possible under the 1957 act. To accomplish this same continued public benefit, the act need be amended only in the matter of the dollar amount of the loan ceiling, with no additional cost to the U.S. Government.

The Civil Aeronautics Board, in testifying in support of the Guaranteed Loan Act of 1957, estimated that on the basis of \$60 million of guaranteed loans amortized over a 10-year period, its expenses would be \$450,000 as against income from fees of \$1,500,000 a net return to the Government of approximately \$1 million.

Further, a failure to amend the 1957 act to increase the loan ceiling would find most of the presently qualified carriers under the Guaranteed Loan Act of 1957 ineligible to receive a loan under the extended act during its lifetime. This unsatisfactory situation is determined by an analysis of the current CAB loan schedule which indicates that 10 of the loans are presently for 10 years, 5 are for 7 years, and 1 of 5 years. Applying this loan schedule to an extension of the act for 5 years at the present \$5 million ceiling would make it impossible for the majority of the carriers presently included in the legislation to contract for a loan in addition to their present commitment, regardless of the passengers who may be waiting at the gates at several hundred small city airports.

The Guaranteed Loan Act of 1957 has proven an unqualified success.

The Association of Local Transport Airlines respectfully requests its extension by the passage of S. 2815, amended to increase the debt ceiling from \$5 million to \$10 million for the reasons offered at this hearing. The opportunity to participate in this hearing is sincerely appreciated.

Senator MONRONEY. Thank you very much, General Adams.

May I ask, in your figures on page 7 where you indicated total passenger revenue for the third quarter 1961 of \$72 million, that would be only for one quarter, would it not? That is not an annual rate?

Mr. ADAMS. That is correct. These are in quarters. I picked the quarters because the act was passed in the third quarter of 1957, and I wanted these figures to completely envelop the period we are discussing.

Senator MONRONEY. So your total then for the year on the basis of that third quarter would be roughly dollars taken in on passenger ticket sales, which would total roughly around \$111 million a year?

Mr. ADAMS. Yes, sir.

Senator MONRONEY. And you pay a 10-percent tax on that revenue; the ticket tax is 10 percent of that?

Mr. ADAMS. That is correct.

Senator MONRONEY. Which goes to the Federal Government. That would make an income then off of that of approximately \$11,100,000 a year that the Government takes in because of this service being rendered?

Mr. ADAMS. Yes, sir. It would be 10 percent of the total revenue.

Senator MONRONEY. Ten percent of the total I roughly get as an annual income in the third quarter is typical of 1961 of \$111 million?

Mr. ADAMS. Yes, sir.

Senator MONRONEY. Ten percent tax, which would come to the Government, which would not otherwise have been earned, is \$11 million a year earned by the Government because we are able to render this service which would otherwise perhaps be filled by private automobiles?

Mr. ADAMS. That is correct, Mr. Chairman.

Senator MONRONEY. Most of this revenue is not competitive with your scheduled trunklines?

Mr. ADAMS. That is correct.

Senator MONRONEY. What percent of your passengers does ALTA estimate are traveling to board trunklines or returning from a trunkline flight.

Mr. ADAMS. I believe it is above 50 percent. I will attempt to submit something more recent on that.

Senator MONRONEY. I think it is quite important. I have noticed a change over the years from an attitude somewhat of suspicion of the feeder lines to one where they now recognize that the feeder lines really feed into the trunkline system and bring nationwide or international transportation to the smaller towns and cities of the country which otherwise would not have the advantage of air traffic.

Mr. ADAMS. Yes, sir.

Senator MONRONEY. I think this is an important figure to have.

You mentioned the great growth of the Aloha Airlines. Are they now the only airline feeder line serving Hawaii?

Mr. ADAMS. No, sir. There is another carrier by the name of Hawaiian.

Senator MONRONEY. Is it a certificated feeder line as well?

Mr. ADAMS. Yes, sir.

Senator MONRONEY. You don't have their projection?

Mr. ADAMS. No, sir; I do not. They are not members of this association.

Senator MONRONEY. You mentioned Hawaii particularly. Is it not a fact that the only available transportation between the islands is by air.

Mr. ADAMS. That is true, Senator. Prior to the certification of Aloha Airlines, which occurred in approximately 1951, the last steamers operating between the islands carrying passengers had ceased to operate. I believe that there is some type of a barge system presently which carries freight, but no passengers.

Senator MONRONEY. So the entire passenger service for this State depends upon the airlines' service that is furnished by the two certificated carriers?

Mr. ADAMS. That is correct.

Senator MONRONEY. The same is generally true, is it not, of Alaska? Both the transportation to and from Alaska, which is shared by the trunk carriers and a feeder line or two, and the internal transportation of Alaska also is dependent entirely on air?

Mr. ADAMS. Yes, sir. I believe that it can be said to be entirely, with the exception of tourists that might wish to drive up over the

Alcan Highway, I believe that all business passenger traffic is by air, of necessity.

Senator MONRONEY. There is no deluxe bus service on the Alcan Highway?

Mr. ADAMS. No, sir.

Senator MONRONEY. If you want to travel under common carriage then the only way that you can reach it is by air?

Mr. ADAMS. That is correct.

Senator MONRONEY. Do you have a breakdown or could you furnish it for the record of the number of cities that you serve that are not served by rail passenger service?

Mr. ADAMS. I will attempt to secure that.

Senator MONRONEY. If it is obtainable it should be quite interesting. In my State most all of the rail passenger service to cities other than the terminal points like Oklahoma City and Tulsa, have, generally speaking, lost their rail passenger service. So that you are picking up not only some of the points that have proven uneconomical as the trunklines have tried to fly greater distances and to get rid of the so-called "milk runs," you have picked those up and continued air service into many parts of the country that would have lost completely their air service.

Mr. ADAMS. That is correct. In 1960 I believe there were 163 towns that lost their train service during that 1 year. That has been somewhat speeded up through the passage of the Transportation Act of 1958, where authority was granted these railroads to proceed to drop points if they were interstate points without concurrence of the State utility groups.

Senator MONRONEY. Would you supply also for the record—I doubt if you have it—the revenue earned from the carriage of first-class mail, not the airmail but the first-class mail?

Mr. ADAMS. Yes, sir; I will be glad to do that.

Senator MONRONEY. My understanding is that it is a very minor figure, and that the greater use that we can make of these feeder lines in the carriage of first-class mail, which could speed up delivery to these points and carry the mail out of the central dispatching points to the smaller points served by the feeder lines, would, of course, if this revenue, being in addition to that which you are now earning, decreases your subsidy needs.

Mr. ADAMS. That is correct. It is a great field, Senator, for exploration and use of the service by the Post Office Department.

Senator MONRONEY. This committee has long advocated the greater use of the feeder lines as being a method not only of cutting down the subsidy but of also speeding up the delivery of mail. And for all of the additional first-class mail that would be put on as it would eliminate subsidy needs would be that much gain and profit to the Government.

Mr. ADAMS. That is correct, Mr. Chairman. In that area, as in all others, you have been the leader in supporting this entire growth of short-haul air transportation and we certainly, as an association, are not only appreciative but we are aware of your continuing interest. And in the case of this first-class mail we would like to be in a position to further the activity on the part of the Government to give more of this service to our carriers.

Senator MONRONEY. We have tried desperately to improve this both for the trunks and for the local-service lines, but it seems to be frozen on the plateau that existed in a few trial areas and not generally accepted. Is that not true?

Mr. ADAMS. That is right.

Senator MONRONEY. I think the figure of money earned, if it would be obtainable in the carriage of first-class mail, might be revealing in this.

Have your local-service lines done very much in the development of aircargo, other than some small amounts of air express?

Mr. ADAMS. Yes, Senator, to this extent: Within the past 18 months the last of the 13 local-service carriers filed aircargo tariffs. These had not previously been filed by reason of the restrictions on the carriage capacity of the DC-3. But as the carriers changed their equipment they have now exerted a new force, you might say, in the market for the carriage of aircargo, and the statistics on the part of three of these carriers in particular are quite amazing insofar as the growth from 1961 over 1960.

Senator MONRONEY. With the evidence that we had this morning of the expansion of the DC-3 branch of the fleet growing from 220 planes in 1957 when the act was passed, to 250 today, there would still appear to exist a need for short-haul aircraft replacement for the DC-3.

Mr. ADAMS. That is correct, Mr. Chairman. And I would like at this time to refer to an ALTA policy statement which leads to this very point. I would like to read it and have it placed in the record.

Senator MONRONEY. Proceed.

Mr. ADAMS (reading):

The problem of continued scheduled airline service to smaller intermediate cities over relatively low density routes has been ably noted by Senator A. S. Mike Monroney, chairman, Aviation Subcommittee, Senate Commerce Committee, Congressman John Bell Williams, chairman, Subcommittee on Transportation and Aeronautics, House Interstate and Foreign Commerce Committee, and other congressional aviation leaders. Continued service to such cities is at issue as is an expansion of scheduled airline services to other deserving cities not now being served. In this regard, the construction of a new, more economic short-haul aircraft has been advocated in order to provide continued and expanded service to such affected communities at a minimum cost and at a minimum level of Federal support.

The members of ALTA have carefully considered this problem and have concluded that full exploration of this matter should be made by the industry, and ALTA will work cooperatively on this problem with all interested parties in the Congress, the CAB and the FAA.

We anticipate, however, that in order to meet this objective, the following matters must be reviewed among others:

(1) The sound economic development of an aircraft adaptable to low density routes and the small volume of commercial use anticipated at the smaller cities.

(2) Adaptation of civil air regulations now applicable to nonairline operators to airline operation of such aircraft by presently certificated scheduled carriers.

(3) Promulgation of Civil Aeronautics Board rules and regulations adapted to the type of operation here contemplated.

The question is an intricate one and vital to the public interest. To the end that all influencing factors may be brought together and considered by the Congress, the Civil Aeronautics Board, the Federal Aviation Agency, and the industry in the development of an effective and equitable plan, we have formed a committee of ALTA under the chairmanship of Leslie O. Barnes. This committee is directed to expedite its review and study, to confer with appropriate congressional leaders and pertinent Government agencies and to

contact the aircraft manufacturers, and to draw upon such resources of its members as may be necessary to complete its study and report at the earliest possible date.

This policy, Mr. Chairman, was adopted at the ALTA spring regional meeting held at Atlanta, Ga., April 26 and 27, 1962.

Senator MONRONEY. Which was only a few days ago.

Mr. ADAMS. That is correct, Mr. Chairman.

Senator MONRONEY. When would you expect this committee to come up with a set of basic requirements for such a plane?

Mr. ADAMS. Mr. Barnes is also president of Alleghany Airlines and is acting as chairman of this. He advised me over the weekend that he is pulling together committee members and is active on this. I would hesitate to indicate the time needed for that particular answer. But conceivably it could be done from 60 to 90 days, Mr. Chairman.

Senator MONRONEY. I would think that in the light of the consideration of this bill, that we would hope that there would be something beyond the planes that are now available. I mean the testimony had been that the F-27 is a very fine and serviceable aircraft and is one choice and perhaps suitable for one type of route operation with its 40 passenger capacity.

But that there is another type plane, somewhere between 18 and 24 perhaps, as Chairman Boyd has mentioned, and at a price of around a half million dollars, with low cost operation per ton-mile and short field performance, perhaps STOL that would be desirable.

We would like to consider, I believe, when appropriations are made for the FAA and/or the CAB, to move, if possible, on the development of prototypes as early as possible.

This, I think, is probably a most urgent need for filling in the gaps of our air transportation system with a replacement for the DC-3 in modern dress and modern configuration and modern mechanical perfection. For that reason, any information which develops it would be most helpful to bring to the Committee on Appropriations as to their requirements in this field. I personally can't understand why it is more important to spend \$50 million for a supersonic transportation study which will buy only blueprints and perhaps lead to a later request for \$300 million for one prototype for a supersonic transport, while we ignore the workhorse type for which no leading airframe manufacturer has yet met the needs for American production.

This seems to me to be a vital gap. We see other nations moving into this short-haul field with a Potez from France and a projected Heinkel from Germany, and perhaps many other countries which plan to develop such a plane.

But, as earlier testimony has pointed out, the buyers of that plane in America will have to pay a 12½ percent import duty to buy a plane for which no counterpart is available by American manufacturers.

Mr. ADAMS. Mr. Chairman, it is my personal opinion that if anything is going to happen in this area, it will be because of your statement today and your work in this committee, and that is why ALTA appointed this committee to make itself available to assist you because you are the person who has taken up the cudgels for this.

I believe that you are the one that has the most direct future motivation, let's say, for the industry. I thank you on behalf of our industry for this interest.

Senator MONRONEY. I appreciate the compliments, but I have long since learned that the way of the chairman of this committee is not the way the aviation industry goes. I think this is a matter of gravest urgency.

In other words, the economic health of the feeder lines depends, I think, on replacing your 250 DC-3's. We all know that a good motor today has to be brought off the black market. It is submitted not often on a price, but a bid basis where the buyers bid the highest price in order to get a zero-time or recently rebuilt motor for the plane. Parts have to be hand tooled. There is no disposition on the part of the military to disgorge whatever parts and equipment it may have beyond its immediate needs for its own DC-3's.

And yet, I have the feeling that for a mere \$5 million we could find, if we have the design that meets the specifications for this DC-3 replacement, we can have five—not blueprints, but five prototypes built that you and your airlines could fly and determine whether they would wish to buy it or not. I think it is time to get on. We have been warming up on the end of the runway ever since the end of World War II for such a plane, and here some nearly 15 years later no one has yet been able to perfect the type of plane that would meet this need. Yet the worldwide need is there.

Germany's interest in it must recognize a great need for export market. Many of the new developing nations that today find only one plane they can buy to start an international airline to fly the seven seas can't get 25 miles from the Nation's Capital by any means of transportation. To develop roads in these countries would cost, through hundred-mile swamps or jungles, hundreds of millions of dollars. Yet an airport on one end and an airport at the other that would probably take up a little over a mile of concrete could span that jungle with the instrumentality of a low-cost, all-purpose work-horse plane, one that could carry maybe 10 passengers and 4,000 or 5,000 pounds of cargo.

Yet, we are going to be frozen out of this market. We will be the last in producing such a plane, unless somebody starts to work and tries to figure out how to meet a demonstrable need for the modern DC-3.

Mr. ADAMS. On the encouraging side, Mr. Chairman, I refer again to these statistics on pages 7 and 8. I believe they are your greatest supporter. These statistics are continuing so far as the dynamic growth of the local industry is concerned. When we get these people stacked up at these airports, at the gates, and they can't get on, you are going to have more general public interest in your proposal.

Senator MONRONEY. You have here a megapolis, I believe they call it, which runs a hundred miles outside of New York where people commute back and forth. You have the sprawling area of Los Angeles, you have Texas cities like Houston growing out into hundred-mile radius of the downtown area, and yet we have experimented for years with helicopters. We don't find that they have proven economic enough to meet the suburban type of service, although they do very well on airport interchange and mail delivery. But an STOL, or

perhaps a VTOL aircraft, which is completely within the range of science today in the state of the art, could offer a brand new field for your feeder lines to run your early schedules out of New York City, a downtown airport perhaps at one of the islands, like just across the river, Miller Airport, for example, where a VTOL or STOL fixed-wing aircraft could have its terminus and reach clear out to Providence, R.I., and upstate to Albany for commuter service into the area, starting your regular interstate service after the commuter load has passed, and back again to the commuter service perhaps 5 or 6 in the evening.

There are tens of millions of people living in these areas that are willing to pay for rapid commuter service. A plane that could take off from a thousand-foot runway, perfectly safe with the state of the art, could land with a rolloff of 400 feet and could meet this vital need.

Yet we are sitting here and not doing one thing about it while we are studying supersonic transports and all of these things for the year 1970. I am interested in the year 1962. Either aviation is here to stay, and is adaptable enough to meet the needs of everybody, or we are going to follow a ridiculous pattern, thinking that only those who wish to fly 500 to 1,000 to 5,000 miles are of interest to the aviation industry.

Feeder lines are our only hope of serving these people. I sincerely feel that there is a way in the state of the art for a machine that can do it.

Mr. ADAMS. I am sure that the words you are speaking here today will be heard or read by the witnesses for the various airframe companies that are going to appear later in the week, and I trust that they will prove somewhat of a stimulus to them.

Senator MONRONEY. I only wish it would, but I know that their principal testimony will be that they have a nice 5,000-mile turbofan job that can carry 75,000 pounds of cargo over all the oceans. That is important. We are interested in that phase, too. But not for the solution of serving the people of America and on the short-haul routes.

When we lose sight of that, then we have lost sight of the great field of aviation. Your interest in appointing this committee would be a big help. If they could expedite the basic needs it would be very persuasive.

Here is a market already existing of 250 DC-3 replacements. If the price of the new plane is right, this would enable the replacement of the full 250, and that is a nice package of aircraft.

The Army, Air Force, and various military branches of service have nothing to replace the DC-3, yet it is a workhorse of those services. Yet they have never asked nor sought a replacement of that type.

We are flying DC-4's and DC-6's with a passenger load which could well be accommodated in a plane the size, if modernized to bring in the new developments of turboprop or pure jet, to offer a market even greater than perhaps that of the feeder line requirements.

On top of that you have your executive aircraft for which only a very few people can afford a modern turbo-powered aircraft. The price ticket on a Convair is a million dollars. On the Jetstar it is around \$1,200,000. Yet we are ignoring this field completely in our aviation manufacture. Maybe you hold the key with your ready mar-

ket of 250 planes if you can determine what the ideal operating machine is for the purposes that you would like to buy.

Mr. ADAMS. Thank you, Mr. Chairman. With you as a salesman, I am sure that if we can come up with the requirements we will between us—

Senator MONRONEY. But you are the buyer. The salesman has no chance of selling unless you have a prospect. If we can put the buyer that needs the plane together with the manufacturer, and in between maybe find someplace in the hundreds of millions of dollars that are being spent on the development of long-legged transportation of jets and all of these things, and even into outer space, we would still like to be able to communicate in air transportation between the outlying parts of each of our 50 States with its State capital by air.

Mr. ADAMS. Thank you, Mr. Chairman. We will proceed with diligence and dispatch.

Senator MONRONEY. I might suggest, you might have some frequent conferences with the FAA and perhaps they might become less reluctant in looking at short-haul aircraft than their present performance would indicate.

Does ALTA favor or oppose the transfer of the loan guaranteed program to the Department of Commerce?

Mr. ADAMS. The Civil Aeronautics Board's administration of the program during the past 5 years has been most efficient and has been most successful, in our opinion. Knowing the present staff and the competency of the people in the transportation section of the Department of Commerce, it is reasonable to believe that this same efficiency would be rendered.

I feel, however, that it is not appropriate for our association, as the recipients of this service, to advise in the matter. I believe that is more completely in your jurisdiction, Mr. Chairman.

Senator MONRONEY. If you are expecting to make a loan, you don't want to fire your banker.

Do you have any comment on extending it to include all-purpose carriers?

Mr. ADAMS. Only that if the Guaranteed Loan Act as amended by Senator Smathers would prove to be as helpful to the cargo carriers as it has been to us, we would hope that they might enjoy this benefit.

Senator MONRONEY. Would you feel it might logically be expanded, if the plane were for cargo purposes, to our trunklines?

Mr. ADAMS. I would think so, yes, Mr. Chairman. If this is as good a thing as it has proven to be for our industry, there is no reason that everyone shouldn't benefit by it. To the extent that it increases the potential for new type of aircraft, the public interest is better served.

Senator MONRONEY. And it might improve the cargo carriage of your feeder lines in picking up at the central terminal points to connect with your feeder line routes for a greater investment of air cargo to the final delivery at point of destination on your routes?

Mr. ADAMS. Yes, sir. To the extent that air cargo is emphasized or increased or made more available by the trunk carriers, just to the same extent will the local service industry benefit by it at our connections.

Senator MONRONEY. Should the ceiling per carrier be raised to \$15 million if the Smathers amendment is adopted?

Mr. ADAMS. Again, Mr. Chairman, we have given you what we believe are facts which support the logical increase to \$10 million. From what I have heard of their needs and the relative disparity in the costs of their aircraft, it would appear reasonable that their \$15 million ceiling is proper.

Senator MONRONEY. In other words, it would be very difficult, you could not buy two jetplanes per carrier if the \$10 million figure were kept in the bill because the planes will run more than \$5 million per copy with the spares, therefore, to have a maximum of two planes that you could finance per air carrier you would almost be required to go to the \$15 million ceiling, would you not?

Mr. ADAMS. Mr. Chairman, it is my thought and suggestion that if \$15 million is appropriate for the segment of the aircraft considered under the amendment, that might well be the ceiling for all aircraft, because I wish to point out to the chairman, on page 2 of my statement, that guarantee that this money will be well spent, and it is in your present act. It is section 4, subparagraph (e), and it says:

No guarantee shall be made unless the Board finds that without such guarantee in the amount thereof the air carrier would be unable to obtain necessary funds for the purchase of needed aircraft on reasonable terms.

So this is one of the most foolproof sections of an act that I have ever read. I mean at any time that a banker learns of one of these loans being made—and he will learn of it, it is a public record proposition, the Board is petitioned—any banker in the United States can step forward, write a letter to the Board and say, "Gentlemen, we will be glad to loan that money to that carrier under those terms," and immediately the Guaranteed Loan Act is not used. So we have a situation here where the public interest cannot be abused.

I would say that \$15 million, if it is adopted, would be a good limit for anyone eligible under the act for an aircraft loan.

Senator MONRONEY. Thank you very much for your great help in this bill, and for pointing out, I think, one thing that needs to be spotlighted, the experience in one of your very fine feeder lines, the Bonanza Airlines, when they exhausted their allowable loans under the ceiling of \$5 million that they had to move from financing under the guaranteed loan that ranged from  $5\frac{1}{4}$  to 6 percent and they had to buy their additional plane at a rate of  $6\frac{1}{2}$  percent, but more importantly, for only 5 years' duration, which doubled the cost of amortizing of that loan. This, I think, is probably the key to what the guaranteed loan bill has done—to enable a 10-year amortization for which the plane is ample security under good maintenance, to have this 10-year payout made possible.

Mr. ADAMS. Thank you, Mr. Chairman.

Senator MONRONEY. I think that needs to be emphasized. This is a competitive rate that would be available and would have to be used in the absence of this guaranteed loan bill. Is that correct?

Mr. ADAMS. That is correct.

Senator MONRONEY. Thank you very much for your courtesy and your very great help to this committee.

We will not be able to take anyone else today, although we have listed Mr. O. Roy Chalk—is he in the room?

Mr. SEAMANS. He could not be here this morning, sir. My name is Seamans, counsel for Trans-Caribbean. We will do whatever you suggest.

Senator MONRONEY. Are you located in Washington?

Mr. SEAMANS. Yes, sir.

Senator MONRONEY. We will take you at a later date.

Mr. Joseph C. Mackey, president of Mackey Airlines. Are you located in Washington or would you have to remain over?

Mr. MACKEY. No, sir; Fort Lauderdale, Fla.

Senator MONRONEY. How long is your statement?

Mr. MACKEY. I will stay until I can be heard.

Senator MONRONEY. If your statement is of 10 or 15 minutes' duration, we can hear you now and not require you to come back from Fort Lauderdale.

Mr. MACKEY. Yes, sir; I will say my statement without question is less than 5 minutes.

Senator MONRONEY. Come forward, then. We will be glad to accommodate you. We would like to build up traffic, but not unnecessarily so by requiring you to come back from Fort Lauderdale.

#### STATEMENT OF JOSEPH C. MACKEY, PRESIDENT AND CHAIRMAN OF THE BOARD OF MACKEY AIRLINES, INC.

Mr. MACKEY. Mr. Chairman and other distinguished members of this committee, I am Joseph Mackey, president and chairman of the board of Mackey Airlines, a Florida corporation. It is our belief that the importance of this public law to our industry as a whole will be adequately covered by other witnesses. In the interest of conservation of your time, we will therefore limit our testimony to our specific concern.

Our company has conducted scheduled operations for 10 years and operates a regular daily passenger service between Tampa, Fort Lauderdale, Palm Beach, Miami, Nassau, and other islands of the Bahamas. We are also authorized to serve Cuba. This service has been suspended—we hope, temporarily.

I wish to express my sincere appreciation for the opportunity you have given me to appear before you in regard to bill S. 2815. I represent our company in support of this bill. We are included in the present law and we would hope that our participation would continue.

Our company is in a somewhat different position from most of those affected by this bill. While the local service carriers are faced with a controlled competitive position, we are not. Within the past 2 years we have been subjected to multiple foreign competition far beyond what the economics of our route system could be expected to stand. In our opinion, this situation is brought about by pressure of the State Department on the Civil Aeronautics Board. I am not here to discuss the right or wrong of this subject, but I merely point out that fact exists. We are living in the only country in the world where a small business could even have the opportunity to compete for international air traffic. We are proud of the fact that we have been able to retain 70 percent of the total market on our route system in spite of the fact that we find ourselves in a competitive position with Bahamas Airways, a branch of British Overseas Airways Corp. which, in effect, is the British Government. Our competitive problem is also compounded by competing at the moment in secondary markets with Cunard Eagle Airways. These problems are mentioned for the

purpose of showing the importance to our company of the bill here being considered.

I foresee the strong probability that by 1965 it will be necessary for us to acquire compact jet equipment similar to the Douglas model 2086 presently on the drawing boards. We feel that this development is inevitable whether or not such aircraft makes complete economic sense on our route system because of the competitive problems involved. Unfortunately, nothing has to make economic sense to our competitors. All present indications are that this aircraft will fit our route system admirably. Primarily, I am pointing out that the competitive situation may require this move whether or not we normally would be entirely ready for it. Our one and only chance to acquire such aircraft when needed is through the relief provided by this bill.

Since the unit price of these aircraft will probably approach \$3 million, which would mean in the neighborhood of \$7 million for two units and associated spares, we strongly urge that the limits in this bill be increased to \$10 million as opposed to the \$5 million limitation of Public Law 85-307. We feel that any other carrier making a move in this direction would necessarily move with two or more units, which would make the \$5 million limitation inadequate.

Our company has recently been granted relief under the present public law which allowed us to purchase two DC-6's which are adequate for us to retain our proper competitive position at the moment. This action could not have been taken without benefit of the present law. Although the total amount of this loan was only \$820,000, it could not have been arranged without benefit of the present law. Without this help and, therefore, our ability to retain the major portion of the market, our continued existence would have been questionable. Thus, our 150 employees and 2,000 stockholders directly benefited while there was essentially no financial risk to the Government.

The most important advantage to flow from this bill may be overlooked. It is the fact that the law itself is a statement of confidence by the U.S. Government in the future of the aviation industry.

That is my prepared statement.

Senator MONRONEY. I like that last paragraph very, very much. I think it is the question at issue, whether we expect to stay in business or cash in our chips and get out of business.

What else do you fly besides the DC-6?

Mr. MACKEY. We have two DC-3's, three DC-4's and two DC-6's.

Senator MONRONEY. You would be in the market for what type of aircraft?

Mr. MACKEY. The Douglas 2086 looks like our next move.

Senator MONRONEY. That is for the Jamaica run?

Mr. MACKEY. Actually, we are on file for Jamaica. If we had our Cuba market back, the 2086 would fit. At the moment, without the Cuba market, our average haul is a little short for it. But there again I point out—

Senator MONRONEY. It is over water, most of it.

Mr. MACKEY. Entirely over water, or essentially over water. I might touch on this. A question was brought up about the problems of the people in Alaska and Hawaii. I should like to point out that in the outer islands of the Bahamas the only possible transportation

method is by air. The deepest harbor outside of Nassau and Freeport in the entire 700-island chain is less than 7 feet. To get to the area one must cross the Gulf Stream, which is 50 miles of probably the roughest water in the world. So any boat drawing less than 12 to 20 feet of water cannot adequately schedule across there, and if they draw more they cannot get into the Bahamas. So we also fit into the area where air transportation is an absolute must.

Senator MONRONEY. Would you be able to serve places like the Dominican Republic and Haiti and other places?

Mr. MACKEY. Under our present certification our present authorizations are into the Bahamas only, with the exception of Cuba.

Senator MONRONEY. Some of those islands have only one airline service, Haiti in particular—

Mr. MACKEY. At the moment.

Senator MONRONEY. Which Haiti considers to be a very poor service and is desperately affecting their economy because other islands have jet service.

Mr. MACKEY. Yes, sir. We feel that those areas are within the future sphere of our operation. But at the moment we are not certificated into those places.

Senator MONRONEY. I also understand that the market down the keys is now being very inadequately served, and practically not at all by National Airlines. Since they have their Southern Transcontinental they have suffered deterioration of service. Have you ever considered an extension of service down there? I don't believe there is any scheduled line flying that excepting National.

Mr. MACKEY. No, sir, we have never run the economics on that. We did, I might say, 5 years ago. We operated by telegraphic exemption from the Civil Aeronautics Board into Key West during the National strike. But we have never actually run the economics of whether we should serve that area or not. Our operation is basically at this point international.

Senator MONRONEY. And you are competing with Caravelles and what else?

Mr. MACKEY. Actually at the moment we have no jet competition on our primary routes. There is jet competition out of Miami which we merely consider to be our secondary route system. Our direct competition at the moment is Viscount.

Senator MONRONEY. Are you certificated to fly out of Miami to Nassau?

Mr. MACKEY. Indirectly, via North Lauderdale.

Senator MONRONEY. Do you originate at Miami and land at Fort Lauderdale?

Mr. MACKEY. And then to Nassau. Our primary route system is Fort Lauderdale, Palm Beach, and Tampa, to Nassau. We have a route system from Miami, Fort Lauderdale, West End, which would let us fly Miami-Nassau via Fort Lauderdale.

Senator MONRONEY. This area is growing rapidly.

Mr. MACKEY. Yes, sir.

Senator MONRONEY. An all-year-round vacation resort.

Mr. MACKEY. Our last full year of operation we carried 120,000 passengers.

Senator MONRONEY. You would primarily be interested in a jet model?

Mr. MACKEY. Yes, sir.

Senator MONRONEY. Also, a short-haul plane might also be a valuable plane?

Mr. MACKEY. Yes, sir. Actually we have no problems in our basic Nassau, and, we hope, our future Havana market we would fly that the compact jet would be essential. However, we do have interisland operations of 50 and 75 miles where an aircraft such as has been discussed today would be very advantageous.

Senator MONRONEY. Thank you very much, Mr. Mackey, for your helpful testimony on this bill.

Mr. MACKEY. Thank you very much, Senator.

Senator MONRONEY. At this point in the record will be a statement by Chicago Helicopter Airways, Inc.

(The statement follows:)

STATEMENT OF CHICAGO HELICOPTER AIRWAYS, INC.

Chicago Helicopter Airways, Inc., supports the enactment of S. 2815 which would extend for another 5 years the existing Public Law 85-307 which provides for Government guarantee of private loans to certain air carriers (including the helicopter carriers) for purchase of modern aircraft and equipment.

The need for extension of this legislation is demonstrated by the many guarantees which the Civil Aeronautics Board has been called upon to grant under Public Law 85-307.

The renewal of this legislation is of special interest to Chicago Helicopter Airways, Inc. This is because it is the only one of the three certificated helicopter carriers which has not yet started the conversion from piston-powered to turbine-powered helicopters.

Chicago Helicopter Airways ordered turbine-powered equipment and filed an application with the Civil Aeronautics Board for a Government guarantee under the provision of Public Law 85-307. However, the filling of the order and action on the guarantee application has been deferred in order to reappraise the number of new helicopters to be required in Chicago in view of the changing situation at Midway Airport in Chicago and to await clarification of the operating rules for the new turbine helicopters being established by the FAA.

Public Law 85-307 expires on September 7, 1962, and the reequipment program of Chicago Helicopter Airways may not be implemented in time to obtain a guarantee under the existing statute prior to its expiration on September 7.

Consequently, Chicago Helicopter Airways is in the posture where it may not be able to act in time to obtain a guarantee under the existing law, and is therefore vitally interested in this legislation being extended for an additional 5 years.

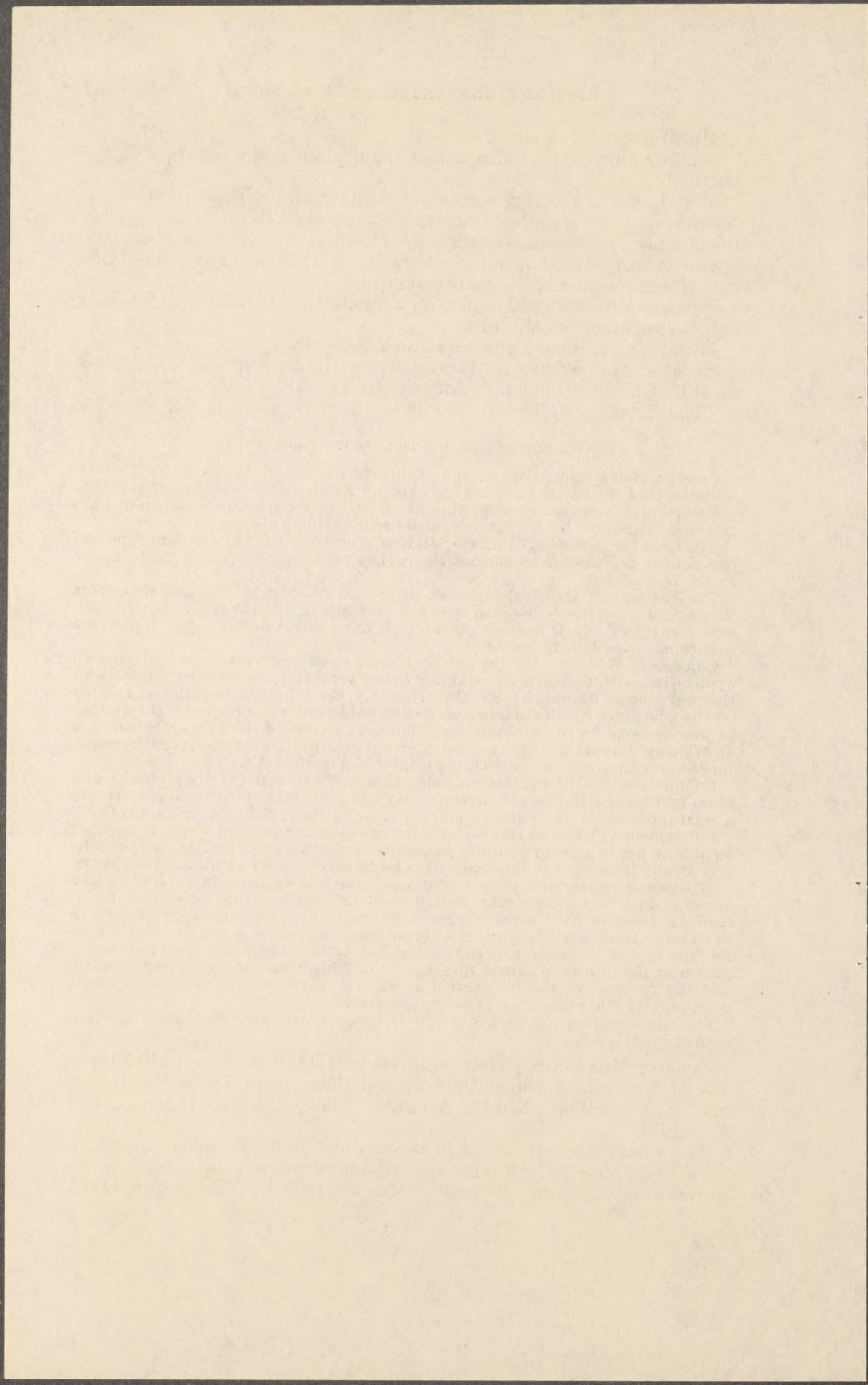
Whether a conversion to new and more efficient turbine helicopters can be accomplished in Chicago may well depend on whether this legislation is extended. Lenders have already agreed to make the necessary equipment loans to Chicago Helicopter Airways if a Government guarantee is granted under Public Law 85-307. However, if the availability of this guarantee were to be withdrawn by the failure to extend this legislation, this financing would be precluded, and the reversal of policy inherent in failing to renew this legislation might preclude any other financing at reasonable terms.

For the foregoing reasons, Chicago Helicopter Airways, Inc., urges the passage of S. 2815.

Senator MONRONEY. The committee will stand in recess until Thursday at 10 a.m., at which time we will hear from Trans Caribbean, Seaboard Airlines, Riddle Airways, Slick, Boeing, Douglas, and Fairchild.

The committee will stand in recess until 10:30 Thursday morning.

(Whereupon, at 1:23 p.m., the subcommittee was adjourned, to reconvene at 10:30 a.m., Thursday, May 10, 1962, in Washington, D.C.)



## AIRCRAFT GUARANTEE LOAN PROGRAM

THURSDAY, MAY 10, 1962

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON AVIATION,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 5110, New Senate Office Building, Hon. A. S. Mike Monroney (chairman of the subcommittee) presiding.

Staff counsel for this hearing: William T. Beeks.

Senator MONRONEY. The Aviation Subcommittee will resume its hearings on bill S. 2815, guarantee loan bill, continuing the feeder airline guaranteed loan and including Senator Smather's amendment for all cargo carriers.

(The amendment follows:)

[S. 2815, 87th Cong., 2d sess.]

AMENDMENT Intended to be proposed by Mr. HARTKE (by request) to the bill (S. 2815) to amend the Act of September 7, 1957, relating to aircraft loan guarantees, viz: At the end thereof add the following new section:

SEC. 2. Section 3 of the Act of September 7, 1957, (71 Stat. 629), is amended by striking out the period at the end of subsection (f), inserting in lieu thereof a comma, and inserting thereafter "or (g) providing for operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico."

Senator MONRONEY. Is Mr. O. Roy Chalk present, Trans Caribbean Airways?

Mr. CHALK. Yes sir.

Senator MONRONEY. Welcome to the committee, and we are happy to have you. We are glad you were able to make it.

You may proceed in your own way, sir.

### STATEMENT OF O. ROY CHALK, PRESIDENT OF TRANS CARIBBEAN AIRWAYS, ACCOMPANIED BY THEODORE SEAMON

Mr. CHALK. Mr. Chairman, and other distinguished members of this committee, my name is O. Roy Chalk, and I am president of Trans Caribbean Airways, a certificated airline holding authority from the Civil Aeronautics Board to perform scheduled operations between New York City, San Juan, Puerto Rico, and Aruba, The Netherlands Antilles. I am most grateful for this opportunity to appear before you in support of S. 2815, which would extend the aircraft loan guarantee program for an additional 5 years, and to request your favorable consideration of an amendment to that bill which would extend the benefits of the loan guarantee program to Trans Caribbean Airways.

As you know, Public Law 85-307, commonly called the aircraft loan guarantee act, has, for the last 5 years, permitted the local service, Hawaiian, intra-Alaska, mainland-Alaska, intra-Puerto Rico, Florida-British West Indies and helicopter carriers successfully to obtain financing for aircraft reequipment otherwise unavailable to them on reasonable terms by placing the credit of the United States behind loans to such carriers for the purchase of aircraft which are found by the Civil Aeronautics Board to meet the standards set forth in that act. Before this committee at the present time is S. 2815, which would extend the authority conferred by this act for another 5 years; a measure which Trans Caribbean Airways wholeheartedly endorses as a carrier currently experiencing the same problems which initially persuaded the Congress to enact the loan guarantee program—that of obtaining capital for the purchase of aircraft on reasonable terms.

At the time Public Law 85-307 was approved by Congress in September of 1957, however, Trans Caribbean Airways had not yet become a certificated, scheduled air carrier, and was therefore not included as a carrier eligible for a Government guarantee. S. 2815, in extending the authority conferred by this act, contains no provision for including within the scope of the guarantee program carriers certificated subsequent to the passage of Public Law 85-307. It is thus to remedy this anachronism that my remarks today are directed requesting your favorable consideration of an amendment in the form attached hereto which would permit the grant of loan guarantees to Trans Caribbean Airways.

#### HISTORY OF TRANS CARIBBEAN AIRWAYS' OPERATIONS

Although not certificated as a regularly scheduled air carrier until November of 1957, Trans Caribbean Airways conducted extensive operations as a nonscheduled carrier from the time of its organization in 1945.

From that time until it commenced certificated scheduled operations in March 1958, Trans Caribbean Airways operated flights carrying more than 175,000 passengers a total of more than 324 million passenger miles. Prior to November 1955, Trans Caribbean carried passenger and cargo between points within the United States, its possessions and territories, and between the United States and foreign points, on a nonscheduled basis in charter and individually ticketed and waybilled services, and operated flights in domestic and foreign air transportation under contracts with the Armed Forces and various civilian organizations. Thereafter, until commencement of certificated scheduled passenger and cargo operations between New York City and San Juan, in March 1958, Trans Caribbean also operated as a "supplemental" air carrier in limited scheduled service, primarily confined to the New York-Puerto Rico route.

In November of 1957, subsequent to the passage of the loan guarantee act, with the approval of the President, the Civil Aeronautics Board awarded a certificate of public convenience and necessity to Trans Caribbean to carry persons and property between New York City and San Juan, on an unlimited, regularly scheduled basis. Service under this certificate was commenced in March 1958. Subse-

quently, in January 1960, the CAB also granted temporary authority to Trans Caribbean to extend its routes from San Juan, P.R., to Aruba, the Netherlands Antilles. Since the commencement of certificated service in March 1958, through 1961, Trans Caribbean carried more than 400,000 passengers in its scheduled low-cost services.

As a result of its early experience in the New York-San Juan market, Trans Caribbean became aware of the extraordinary demand for low-cost air transportation in this market and the need for specialized service specifically tailored to this demand. It was on the basis of this need and the concentrated attention which Trans Caribbean would provide this market that the Civil Aeronautics Board and the President authorized the entry of Trans Caribbean on this route, an action noted by the Civil Aeronautics Board in its release of the decision as—

an historic step in U.S. commercial aviation marking the first transition of a supplemental carrier to certificated passenger-carrying status in a major market.

To fulfill the unique requirements of this market, Trans Caribbean pioneered the development of low-cost thrift fares which, on a per-mile basis, became the lowest in the scheduled air transportation industry. The entry of Trans Caribbean's specialized certificated service in the New York-San Juan market, in competition with the well-established Pan American World Airways and Eastern Air Lines, produced the expected benefits to the public, and a very sharp increase in traffic resulted, together with even sharper impact on availability of low-fare service.

Until late in 1961, Trans Caribbean operated its New York-San Juan service exclusively with DC-6B piston aircraft. It presently utilizes a DC-8 fan-jet in high-capacity configuration, and a DC-6B. A second DC-8 is on order, and is expected to be available for operations in early summer of this year.

#### NEED FOR PROPOSED LEGISLATION

From this brief description of Trans Caribbean's history of operations and present status, it is apparent that this airline is not a large company; and yet it is in competition for traffic with two of the largest carriers in the industry. Competitive circumstances and the unusual characteristics of Trans Caribbean's specialized routes have made imperative its provision of jet service between New York and San Juan, be effected immediately, for it is only by operating large-capacity, high-density jet aircraft that Trans Caribbean can continue to provide the low-fare thrift service which it pioneered and which the traveling public requires, in the face of ever-rising costs. But jet aircraft of the type needed by Trans Caribbean have an acquisition cost considerably in excess of \$6 million apiece. And Trans Caribbean must seek financing for such aircraft in the same market with air carriers many times its economic size and with carriers of comparable size with Trans Caribbean that can offer financing institutions the security of Government guarantees for their loans.

In recently seeking financing for the first of its DC-8 jet-fan aircraft, these economic facts were forcefully made evident to Trans Caribbean. Because of its limited route structure, specialized operations, and the competition which exists for financing by other carriers

in a position to offer greater security for borrowed funds, Trans Caribbean found that the only arrangement for financing available to it at the time was a lease-purchase arrangement providing for high-rate payments, well above the going market interest rate available to carriers eligible for Government-guaranteed loans.

This disparity of financing costs is best illustrated by citing the example of Pacific Northern Airlines, a carrier obtaining financing for the acquisition of two jet aircraft at approximately the same time as Trans Caribbean's purchase of one DC-8. In most respects, Pacific Northern's operation is similar to that of Trans Caribbean, except geographically. It also is a comparatively small carrier; and it provides service predominantly over a nonstop route between Portland and Seattle, on the one hand, and Anchorage, Alaska, on the other, quite similar in length to Trans Caribbean's New York-San Juan route. Pacific Northern, furthermore, was also taking its first step toward obtaining jet equipment. However, whereas Trans Caribbean found it necessary to pay high carrying charges for its unassisted aircraft financing, Pacific Northern, under the aegis of the loan guarantee program was able to obtain financing at an interest rate of 5.5 percent per annum; a striking disparity. I think that the terms of these two financing arrangements—comparable in most respects as to carrier characteristics, aircraft, and time of financing—speak with much more persuasion than I possibly could with regard to the effectiveness of the guaranteed loan program, and the reasonableness of the financing terms available to Trans Caribbean without eligibility for a guaranteed loan.

And Pacific Northern's financing under the loan guarantee program is not unique. In no instance has a carrier obtaining a loan guarantee had to pay in excess of 6 percent interest per annum; and this rate of interest has been the exception rather than the rule. In most cases guaranteed loans have carried a rate of 5.5 percent or less.

Now that Trans Caribbean approaches the time it must obtain financing for its acquisition of a second jet aircraft, the seriousness of its inability to offer Government support for a purchase loan has become even more acute.

Incidentally, Trans Caribbean is most anxious to support the U.S. Government's military program with the acquisition of jet cargo craft as an addition to its present fleet.

While discussions we have had with various financing institutions have indicated that adequate money is available to Trans Caribbean, the terms required to obtain such financing are clearly not reasonable when viewed in relation to the terms available to comparable carriers which are in a position to offer the security of a Government guarantee. And as additional aircraft are required for Trans Caribbean's operations in the future, the terms for necessary financing will move further and further from the zone of reasonableness, and from that available to carriers eligible to obtain Government-guaranteed loans.

The necessity of incurring higher interest rates and more restrictive credit terms than other carriers with whom Trans Caribbean must compete for available capital inevitably places our company in an unfair position. Not only is Trans Caribbean's earnings position thereby weakened, but the service it performs for the public becomes adversely affected. And the possibility that fares in its principal New

York-San Juan market will ultimately have to be increased cannot be overlooked, a market so unusually dependent upon low-level thrift fares.

It is thus on the basis of correcting a historical circumstance of timing that Trans Caribbean today requests this committee to consider inclusion of Trans Caribbean as a carrier eligible for Government guarantee of aircraft purchase loans, now that the basic legislative authority for this program is up for review. It is our belief that had Trans Caribbean already received its certificate for regularly scheduled service at the time Public Law 85-307 was enacted, it, too, would have been included among the eligible carriers just as Pacific Northern Airlines and Alaska Airlines, which conduct predominantly long-haul operations over similarly situated nonstop routes in competition with major trunklines, were made eligible in the basic legislation.

Senator MONRONEY. Pardon me, Mr. Chalk. I have had an emergency call from the Appropriations Committee that they have to have a quorum present and I am going to recess the hearings for about 3 minutes while I make an appearance.

Mr. CHALK. Yes, sir.

(A short recess was taken.)

Senator MONRONEY. The committee will resume its hearings.

(Discussion off the record.)

Mr. CHALK. Lacking this initial eligibility, Trans Caribbean has keenly felt the inequity of being obliged to compete for available capital with carriers of comparable means and route structures which have the ability to obtain the benefits of Government-guaranteed loans. The difference in eligibility has in the past caused Trans Caribbean to suffer substantially as indicated above, and with future capital requirements only months away, this disparity of financing costs will continue to grow, to the detriment of Trans Caribbean and the valuable pioneer thrift service it provides for the public in the unique New York-San Juan market.

While it is true that Trans Caribbean's service is provided without Government subsidy support, a status not common to most of the carriers initially made eligible for guaranteed loans, this obvious attribute should not be held against it. Trans Caribbean's responsibilities to the public are the same as those of all other eligible certificated carriers, and the fact that subsidy support is not available to it only compounds its difficulty in obtaining financing on reasonable terms. Moreover, Mackey Airlines, which similarly conducts subsidy ineligible operations, is one of the carriers already authorized to receive Government loan guarantees. Mackey, in fact, presently has an application for guarantee pending before the Civil Aeronautics Board.

It similarly cannot be said that the fact that Trans Caribbean operates under a temporary certificate of public convenience and necessity precludes its eligibility for loan guarantees. This again is a major factor increasing this carrier's difficulty in obtaining financing on reasonable terms without a guarantee, and the Congress has previously authorized the three helicopter operators and Mackey Airlines, each also holding only temporary certificates, to receive loan guarantees. New York Airways, Chicago Helicopter Airways, and Los Angeles Airways each has been granted guarantees by the Board

under this authority, and Mackey's application, as indicated above, is currently pending.

Trans Caribbean, moreover, offers an advantage which few of the other guarantee-eligible carriers can provide—that of making available to the national defense the jet aircraft it acquires through the Civil Reserve Air Fleet program (CRAF). Trans Caribbean's presently operated DC-8 jet has been designated as a CRAF program aircraft which in time of emergency will be available for military defense operations. The second DC-8 soon to be acquired similarly will be included in CRAF. And to the extent that Trans Caribbean's eligibility for loan guarantees will enable it to acquire additional jet aircraft more easily on reasonable terms, these too will be available through CRAF for the defense of our Nation.

The Congress has given a mandate to the Civil Aeronautics Board to promote air transportation by all feasible means in the interest of the national defense and commerce of the United States, and toward this end has made available Government loan guarantees to the smaller certificated carriers who are otherwise unable to obtain necessary financing for the purchase of needed aircraft on reasonable terms. The loan guarantee program during its first 5 years of operations has been eminently successful in fostering this goal without the expenditure of a single taxpayer's dollar.

Trans Caribbean believes that the program should be extended for an additional period of 5 years in accordance with S. 2815 and, to correct the historical omission of an otherwise eligible carrier that received its certificate of public convenience and necessity after the initial enactment of this program, should also be extended to include Trans Caribbean Airways in accordance with the proposed amendment attached to this statement. Both the national defense, through CRAF availability of Trans Caribbean's jet aircraft, and the commerce, through improved service to the public at continued low-cost thrift fares—Trans Caribbean's specialty—will thereby be materially advanced.

I am pleased to call attention to this committee to the fact that Senator Vance Hartke on May 9, 1962, introduced an amendment which would correct this inequity and would provide for inclusion of carriers, the major portion of whose services are between the United States and Puerto Rico.

I also understand that Under Secretary Martin has recommended the extension of the financial aspects from \$5 to \$15 million, which I would wholeheartedly support and recommend to this committee, based upon the success of the \$5 million program, at no cost whatsoever to the United States.

I want to thank you sincerely for permitting me this opportunity to appear before you today on behalf of Trans Caribbean Airways. Your courtesy in this matter is greatly appreciated as will be your favorable consideration of the amendment I have proposed.

Senator MONRONEY. Thank you very much, Mr. Chalk.

May I ask—you keep referring to New York-San Juan—do you now serve, as Trans Caribbean formerly did, the Virgin Islands, too.

Mr. CHALK. We do not operate to the Virgin Islands. We operate to San Juan. Caribair does operate to the Virgin Islands.

Senator MONRONEY. Which is a local service?

Mr. CHALK. That is a local service.

Senator MONRONEY. They are not covered under the feeder-line bill, are they?

Mr. CHALK. Yes, they are included. In fact, practically everybody is included.

Senator MONRONEY. They would be eligible for the loans, flying between San Juan, P.R., Santa Margarita, and St. Croix; is that correct?

Mr. CHALK. That is correct, sir.

Senator MONRONEY. But you are not when you are certificated to fly from New York to San Juan. Is that a temporary arrangement to Aruba?

Mr. CHALK. It is an exemption of an indefinite nature, pending a final determination in the case.

Senator MONRONEY. Does that go to San Juan and then stop and on to Aruba?

Mr. CHALK. That is correct.

Senator MONRONEY. This gives about the only American service to Aruba, does it not?

Mr. CHALK. It is the only American service to Aruba.

Senator MONRONEY. What is your fare? Do you run tourist and first class?

Mr. CHALK. We run basically a tourist service; \$57.50 is the tariff between New York and San Juan, P.R.

Senator MONRONEY. \$57.50 one way. What is round trip?

Mr. CHALK. \$115. Of course, this is the same tariff as our competitors have, Eastern and Pan American. It is at the same price level.

Senator MONRONEY. They have had that before or did you put it in and they met it?

Mr. CHALK. We have always put it in first and they have usually followed. When we started operations between New York and San Juan, it was \$180 one way and we started the downward path with the price of \$150, then down to \$125, \$100, and straight down the line. Of course, the passenger traffic ascended geometrically and proved the point that low-cost transportation is the answer to the economics of any geographical area.

Senator MONRONEY. Puerto Rico, of course, is on a considerable boom as is the Virgin Islands. Of course, access to the Virgin Islands generally is through San Juan, I presume?

Mr. CHALK. That is correct.

Senator MONRONEY. There is no New York-Virgin Island service, is there?

Mr. CHALK. There is no direct service.

Senator MONRONEY. So it is more convenient to come down and then come across by DC-3 or something like that, is that correct?

Mr. CHALK. That is correct.

Senator MONRONEY. Do you feel that the reduced rates and availability of this fast service has assisted in building up the economy of Puerto Rico for the tourist business?

Mr. CHALK. It has been the single great factor that accomplished this result.

Senator MONRONEY. And the low cost makes it possible for them to operate year-round tourism?

Mr. CHALK. That is right, sir.

Senator MONRONEY. What is the density of your seating?

Mr. CHALK. 168 passengers.

Senator MONRONEY. In the DC-8?

Mr. CHALK. That is correct.

Senator MONRONEY. Is that the original DC-8 or the big DC-8?

Mr. CHALK. No, the big new turbofan DC-8. We fly down there normally in about 2 hours and 40 minutes from New York, the fastest service between New York and San Juan.

Senator MONRONEY. Is your service to Aruba daily?

Mr. CHALK. No, that is on a three-times-a-week basis, although we have applied for daily service. It has been very successful because of the low cost. As a matter of fact, I understand that a large chain is about to build a new 400-room hotel because of the fact of the low-cost fare. A large American chain is building in Aruba because of that. Without that low cost, it never would have been possible.

Senator MONRONEY. You mentioned the disparity between the rates you have to pay and the 5½ to 6 percent that those carriers eligible to buy under the guarantee loan bill have to pay. What is your interest rate?

Mr. CHALK. Approximately I think it computes at about 8 percent.

Senator MONRONEY. About 8 percent and what is the payout period?

Mr. CHALK. Seven years.

Senator MONRONEY. In other words, it is 8 percent vis-a-vis 5½ to 6 and 7 years vis-a-vis 10-year pay?

Mr. CHALK. That is correct.

Senator MONRONEY. So this increases your monthly or annual payments by nearly 50 percent?

Mr. CHALK. That is correct.

Senator MONRONEY. If you are not included as the Alaskan Lines are, the DC-8 that you have on order will be, at 8 percent and on a 7-year payout?

Mr. CHALK. That is correct.

Senator MONRONEY. The similarity to the Alaskan Airline which you called to our attention, they have bought, I believe, one jet, have they not?

Mr. CHALK. They have ordered two. I think they have received one, just as we have, and are about to receive their second.

Senator MONRONEY. They are subsidized?

Mr. CHALK. Yes, sir.

Senator MONRONEY. They are a subsidized line and render to that State, you say, approximately the same transportation service, supplementing the regularly scheduled trunklines?

Mr. CHALK. That is correct.

Senator MONRONEY. While you supplement the regularly scheduled trunklines into Puerto Rico?

Mr. CHALK. That is correct, sir.

Senator MONRONEY. You mentioned the endorsement of the cargo provisions of the bill. Do you fly or earn money in cargo today?

Mr. CHALK. Well, I would say the major part of our operations is passenger although we do fly cargo.

Senator MONRONEY. Your interest in the DC-8 is primarily passenger at this time?

Mr. CHALK. Yes, except we are most seriously considering the purchase now of the new jet cargo aircraft with convertibility as was the DC-6A to passengers, to a combined operation. First, we feel that cargo in this area can be a successful part in that aviation operation. Secondly, we feel it is necessary to supplement the military airlift.

Senator MONRONEY. Plus the fact, too, that your utilization of the plane at odd hours with only 2 hours' flight time could make round-trip carriage possible late at night or early morning perhaps, would it not?

Mr. CHALK. You are right, sir, because when we leave New York at 10 o'clock, arriving down there at 12 or 1 in the morning, it is rather difficult to obtain passengers to leave at 2 or 3, whereas cargo could be waiting, loaded, and would justify such flight.

Senator MONRONEY. The cargo emanating out of Puerto Rico is highly desirable?

Mr. CHALK. It is most desirable.

Senator MONRONEY. Air cargo and types that would lend themselves to air cargo?

Mr. CHALK. Right.

Senator MONRONEY. How does our first-class mail move from Puerto Rico?

Mr. CHALK. Our first-class mail presently moves via two carriers, Eastern and Pan American. For some reason, despite the fact that we have applied to carry the mail, we have also been excluded in this area.

Senator MONRONEY. That is first-class mail as well as airmail, is that correct?

Mr. CHALK. That is correct.

Senator MONRONEY. Have they ever offered it for bid?

Mr. CHALK. No, sir.

Senator MONRONEY. In other words, first-class mail is not flown at the same rate, I'm sure, as airmail?

Mr. CHALK. No.

Senator MONRONEY. About \$19 a ton-mile, I presume?

Mr. CHALK. That is correct. If we were permitted to bid on that, I think we could save the United States a lot of money on a lot of mail that flies between New York and San Juan.

Senator MONRONEY. But the first-class mail is all flown, and does not now go by ship?

Mr. CHALK. That is correct. I know of no mail that goes by boat any more between New York and San Juan.

Senator MONRONEY. I understood some came in from San Juan to Miami rather than being flown directly to New York.

Mr. CHALK. This is possible, sir.

Senator MONRONEY. And then reaching Miami, it is put on a train instead of going the faster way through New York and out that way. You are not familiar with that?

Mr. CHALK. I'm not familiar with that except I wouldn't want my mail sent that way.

Senator MONRONEY. Senator Thurmond?

Senator THURMOND. No questions, Mr. Chairman.

Senator MONRONEY. Senator Engle?

Senator ENGLE. I have read your statement, Mr. Chalk. Do I understand you are a certificated carrier as a trunkline?

Mr. CHALK. That is correct, sir.

Senator ENGLE. Why don't you come under the bill as now written?

Mr. CHALK. We were certificated after the bill became effective. It was just an accident of time. I am sure that had we been certificated possibly 6 months earlier before the effectiveness of the bill, the fair thing would have been to include us and I am sure we would have been included.

Senator ENGLE. In other words, the language of the law is that as such, mere extension of the act wouldn't get you under the tent, is that it?

Mr. CHALK. That is correct.

Senator ENGLE. And the import of this language, which I take it would be offered as an amendment by Senator Hartke, would include your operation?

Mr. CHALK. It is the same language as the Alaskan language. This would put Puerto Rico on a equality with the Alaskan operation.

Senator ENGLE. Thank you very much.

Senator MONRONEY. Earlier, Mr. Chalk testified that this is more on a parallel with Mackey Airlines, which were included, although Mackey does not fly Puerto Rico, a U.S. possession, they are eligible for the guarantee loan bill. They fly to the Bahamas, Nassau and in that area. But they are eligible and were included by definition of the route structure in the bill because they were operating at the time, I believe, as a temporarily certificated carrier, as is the present case with Trans Caribbean.

Senator ENGLE. I notice your emphasis, Mr. Chalk, on low-cost transportation. I want to say that I applaud that.

Mr. CHALK. Thank you.

Senator ENGLE. I have constantly said that what people want is fast, safe and cheap air transportation. We can get rid of some of the frills and just as long as we get there fast, get there safely and get there on time at the lowest possible rate and we will be mighty happy. There is no identifiable group of people in the country, who ride airplanes more than U.S. Senators and I can get along without the fancy meals and a lot of the other things they toss in, including the whisky, if they would just get the price down.

Mr. CHALK. That has been the keynote of our business.

Senator THURMOND. Mr. Chairman, I would like to associate myself with the remarks of the distinguished Senator from California on that point. I took a trip to California last fall and I forget, but it seems to me the difference in the first-class tickets or what do you call them, and the tourist, I believe, was somewhere between \$25 and \$50. Well, I was brought up the hard way and I didn't know how I could make \$25 or \$50 that cheap, just for 3 or 4 hours, and I rode the tourist. And there wasn't a bit of difference I saw in those flights.

I was on the same plane with the people that paid \$40 or \$50 more, except I think they got a glass of champagne up in front and I didn't, but I got the same meal, had a comfortable seat, and my judgment is that the transportation in this country should be geared to the masses of the public and that we ought to have the benefits accruing to the public as a whole.

These people that want all this fancy stuff, well let them go on some other way or have some other planes, if you want to put them on. But I think the public should be taken care of just as the Senator from California said. We need fast transportation, get them safe and get them there at a reasonable price.

I hope you will look into that and I am anxious to see all of our airlines look into this question too, because sometimes I haven't been able to get a seat because they are sold out on the tourist rate. And I would have to pay a lot more. It averages somewhere between \$35 and \$50 more just on one trip for 4 or 5 hours traveling and it doesn't make sense.

Senator ENGLE. That front section is reserved for those who ride on expense accounts.

Senator THURMOND. I understand now the industries chiefs are requiring even their executives to ride on tourist; not all of them, but some of them, and I was glad to hear that the Government is doing that.

Is that right, Mr. Chairman, do you know whether the Government is?

Senator MONRONEY. The Department of Defense has made considerable strides to book passage on tourists when available, but many of the planes that are configured for first and tourist, have limited tourist space—the Electra is an example—25, 26 seats, as against about 60 in the first class. Usually, I find from observation, that the tourists are always sold out, and, as you say, are wait listed, but rarely given a confirmed seat on a tourist configured Electra, and yet first-class is always available.

Senator THURMOND. Air transportation is so essential today, that the public is going to demand it and unless the air carriers take steps to provide that transportation at tourist rates or cheaper rates, in my judgment, there will be steps made to require it. So I hope you will look into this.

Mr. CHALK. Senator, I wholeheartedly concur with your views. For more than 18 years now, we have been preaching that philosophy to the entire industry. We have had some disputing it over, but we have had to lead the way and we have, as the record has indicated, and as the Board will agree, we were the first to initiate low-cost transportation.

Senator THURMOND. I found traveling on the tourist rate was very comfortable and I don't know of any better accommodations that anybody would want, unless they just want to live in luxury and have everything in the world they ought not to have, maybe.

Senator MONRONEY. In addition to your DC-8, what equipment do you operate now, Mr. Chalk?

Mr. CHALK. One DC-8 and one DC-6, and with a second DC-8 scheduled for July.

Senator MONRONEY. Does the DS-6B have a fare differential?

Mr. CHALK. Yes, it does have a fare differential, \$49.50.

Senator MONRONEY. Forty-nine dollars and fifty cents. What is your average load factor?

Mr. CHALK. Our average load factor for the past 15 years, 365 days a year between New York and Puerto Rico has been pretty close to 80 percent in both directions.

Senator MONRONEY. Isn't that pretty much a high point?

Mr. CHALK. It is the highest in the country.

Senator MONRONEY. Highest in the business?

Mr. CHALK. Highest in the airline industry.

Senator MONRONEY. This is another answer to your question, that cheap transportation brings volume, 80 percent load factor for 15 years.

Senator ENGLE. I would like some day, Mr. Chairman, to get the load factors on Pacific Southwest, the airline that operates intrastate from San Diego, Los Angeles, to San Francisco. They run Electras. I think they have four. They run them just like a busline and the last time I went up to San Francisco from Los Angeles, when I was in California, that plane was full. They had everything full including seats in the back end, and I am not sure that is legal, but they had them there just the same, and it was that way going and coming.

Some day, maybe Mr. Beeks could find out just what the load factor is.

This outfit runs between San Francisco and Los Angeles and it seems to me that their ticket cost is something around \$13. It is about half of what you pay on the other airlines, and I have always been puzzled as to why it is that Western and United and American and all the others out there charge almost twice as much for that trip and why anybody with any sense would ride on their airplanes and pay twice as much.

Those big Electras have nice big seats, you know, and that airplane will really get up and fly. It seems to me it makes that trip between San Francisco and Los Angeles in about 61 minutes, and it is a typical example of what happens in the aviation industry when these airline companies get it through their thick skulls that people want safe, fast, and economical transportation. I don't know what kind of shape those people are in to get more equipment. They have four of those Electras, I understand, and they just chase them around the circle and if they get behind in their schedule, they lack backup equipment. I suspect you would have the same problem, if something happened. You are pretty well in the soup with only two airplanes.

But, this is the kind of operation I am trying to see go, and some day I am going to try to find out why it is, Mr. Chairman, that PSA can do that and these other airlines can't.

Senator MONRONEY. They don't even have reservation service, just like a bus, you board without a reservation?

Senator ENGLE. You can make a reservation, but if you aren't checked in an hour beforehand, you are liable to be left off and I mean left off, because they will have people standing up to get on that airplane. And they issue tickets like a bus ticket, not all this fancy business of going through and writing everything down. It is really some operation.

My suspicion is that the redtape involved in Federal regulation has straitjacketed these other outfits. They reason PSA doesn't go to Reno or some place else they don't want to get involved in that kind of nonsense.

Senator THURMOND. What redtape?

Senator ENGLE. Redtape of Federal Government.

Senator MONRONEY. They are intrastate and not certificated as a Federal carrier.

Senator THURMOND. I wanted to be sure what redtape.

Senator ENGLE. I wasn't talking about redtape of Reno or red ink you can get into over there either.

Senator THURMOND. Since the shuttles have been placed from here to New York, their business, I understand, has just picked up tremendously.

Mr. CHALK. It has. I came down on it this morning.

Senator THURMOND. I have traveled those shuttles time and again, and they are very convenient. You don't waste any time, much quicker than train and about the same price as a train ticket to New York, even the ordinary coach, about the same.

Senator MONRONEY. I believe Mr. Chalk was the first one that I remember advocating aerial bus service between Washington and New York, and I believe at one time you offered to do it.

Mr. CHALK. I modestly admit that, sir.

Senator THURMOND. I am not advocating this because I go off every weekend speaking, which I do almost, and it costs a lot of money and a lot of difference in the price of tourist tickets and first-class tickets, but I think for the sake of the public, it ought to be done. This transportation ought to be made as cheap as possible. I think you get more business, render more service to the public and, I think, it is well deserving of looking into.

Senator MONRONEY. You mentioned 80 percent load factor. How does that compare with your competition?

Mr. CHALK. The industry average, I would say, is closer to 50 and 60.

Senator MONRONEY. I was reaching for competition on the New York-Puerto Rico run?

Mr. CHALK. I would say between New York and San Juan, it is pretty much the same, because of the fact that they are also highlighting the low cost. The low cost has done it.

Senator MONRONEY. Do they have competitive full, all tourist flights, or are theirs split planes, first and tourist?

Mr. CHALK. They have split. I would say predominantly no, they have tourist service.

Senator MONRONEY. Any further questions?

Thank you very much, Mr. Chalk, for your testimony. I appreciate it.

Mr. CHALK. Thank you.

Senator MONRONEY. Our next witness, Mr. R. M. Hewitt, president of Riddle Airlines, 120 Connecticut Avenue NW., Washington.

Senator MONRONEY. We appreciate your appearance before the Committee. We have your statement, and you may proceed in your own way.

**STATEMENT OF ROBERT M. HEWITT, PRESIDENT OF RIDDLE  
AIRLINES, INC., WASHINGTON, D.C.**

Mr. HEWITT. Senator Monroney, it is a pleasure to be here today to inform you of the position of Riddle Airlines in connection with this aircraft loan guarantee. I would like to submit to you our prepared statement.

My name is Robert M. Hewitt, president of Riddle Airlines, a Miami-based cargo carrier certified for scheduled service between Miami, New York, San Juan, and other cities; also the leading U.S. military contract carrier, worldwide.

Though I can speak only for Riddle, I shall state what I believe to be the case for America's all-cargo industry as a whole.

These airlines are indebted to the Monroney subcommittee for your help in the Engle amendment to confirm charter rights essential to the very existence of these unsubsidized carriers.

The pending bill can be another step toward an air cargo breakthrough without cost to the taxpayers. I urge the following steps, supported by official witnesses before your committee:

1. Renew the aircraft loan guarantee program 5 years beyond its expiration next September, as proposed in S. 2815.
2. Raise the guarantee limit from \$5 million to \$15 million per airline for the 90-percent guarantee.
3. Include the all-cargo carriers, as in the Smathers amendment. We oppose broadening the law to include other classes of carriers or for the purchase of foreign aircraft.

For renewing the Aircraft Loan Guarantee Act of 1957 another 5 years, both the CAB and Commerce have cited good progress in the first 5 years of the law.

So far, 11 carriers, including two helicopter lines, have borrowed \$37 million at about 5½ percent to modernize their fleets with 49 airplanes and 13 helicopters, and have repaid more than \$14 million. Applications for 10 more aircraft are pending. Doubtless more would have been bought had the plane makers been ready with new local service types.

That is not the whole story. The present law allows 90-percent guarantee for 32 airlines up to \$5 million each, a total of \$160 million. But an airline first has to be turned down by commercial lenders before it goes to CAB. Some, without recourse to guarantee, have received equipment loans on better terms than if the door were not open to the Board.

One line needed \$3 million. Three local banks decided that if it was a good risk for CAB, they could carry it on their own. So each lent a million and this airline bought its planes.

Beyond the direct measurable results, the law is a yardstick for aircraft loans as the Tennessee Valley Authority was for electric rates. Powerful lobbies sometimes try to oppose such legislation, but Congress acts in the public interest.

In 1957, the local transport lines, the main beneficiaries of the law so far, were losing money with their obsolescent planes. Their earnings record was against their borrowing for new ones. It was to break this impasse that CAB proposed loan guarantee.

Conservatives in Congress feared that such a use of public credit might be costly in the end. No airline has defaulted. Similar aid is being extended to the railroads. Several foreign nations also have guarantee for loans to push sales of their planes, including sales to U.S. airlines.

Banking interests tried to stop the bill on the grounds that their trust certificate plan, to give lenders first lien on aircraft as for railway rolling stock, was enough. Congress passed both bills.

It should be clear that something more than liens on aircraft still is needed. The trouble in disposing of old aircraft, as airlines converted to turboprops and then to jets, has shown that used planes are not always a quick asset to pledge as security. Lenders still must rely on the soundness of the airlines, backed by guarantee for those in development stages.

CAB is pushing hard for new types of local service aircraft. This alone could well justify the support the Board is giving to renewal of loan guarantee. The same applies to cargo planes.

#### RAISE THE LOAN LIMIT

As we have seen, the limit of \$5 million per airline can buy quite a few planes of the small local service types. But this will not finance more than one jet transport. The type that most interests Riddle will cost close to \$7 million.

That is why Riddle wants the loan limit increased. The Department of Commerce recommends \$15 million—

to allow for the higher cost of an aircraft suitable for use in all-cargo operations.

Not a single jet aircraft is flown by the cargo lines today, and only a few turboprops, which Riddle has. Jet flight is essential to the future of cargo lift just as it is to passenger lift.

On domestic routes, the passenger airlines are gaining in cargo mainly by the space in the holds of passenger flights. This includes jets with their great capacity beyond the weight of passengers.

The all-cargo lines, with their piston planes, have gained little in scheduled ton-miles for several years. They must have jets to compete.

Across the oceans, foreign airlines gain steadily in U.S. traffic. The cargo lines must modernize to do their part in restoring the U.S. position.

Military airlift requires the latest and best in speed, capacity, and economy. The absence of cargo jets is a weak spot in American readiness.

Most of the cargo airline planes are passenger-convertible. Seats slide on tracks or fold to the wall, either to carry passengers or make room for cargo. Applications are pending in CAB to combine cargo and passengers in civilian flights, a very economical form of transport.

Since the committee just discussed this point about load passengers, I happen to have a study with me which was prepared for our exhibit in the New York-Florida case to point out what the varying passenger rate structure is between New York and Miami.

I might point out that the air first-class transport, first-class, is \$93.85. The lowest air night coach, prop airplane, is \$49. In other words, there is approximately \$35 difference between New York and Miami between first-class jet and prop night coach.

We presently are operating DC-7 CF in military contracts at a rate of approximately \$0.0275 a passenger-mile. We submitted in the New York-Florida case a rate structure on our night flight airplane, which is combination freight-passengers, at a rate of \$29.84. If we operated during the day, it would be \$38.03.

Now this is lower than rail, train coach, it is lower than bus. The type of aircraft that are currently used as cargo passenger convertible

airplanes, that takes advantage of high density arrangement and high lift weight capacity of the airplanes used in military contracts can reduce very substantially your passenger fares in domestic service.

Senator MONRONEY. Would that be an all-passenger configured or a mixed plane?

Mr. HEWITT. No, sir, what we do is exactly what they do. We have a simple partition between freight and passenger in the plane cabin of the airplane. This partition, and I am not talking theory now, we are doing this today, this partition can be moved forward 12 feet. We have five seats across and in this particular section, it will be approximately three to four rows.

Now, we in the Berlin lift in September, lifted 38,000 pounds of cargo in a DC-7 CF, landed it in Frankfurt, we off-loaded the cargo, the military did, in an hour. We cleaned up the airplane and took the passenger interior that was installed in the belly, put it back in the airplane and had 99 seats. This whole transaction on the ground takes 2½ hours. So, it is capable, it is being done and it is a matter purely of whether the Federal Government, through the CAB, will permit such to be operated.

Senator MONRONEY. What did you get each for the 99 seats? What did you charge the Government?

Mr. HEWITT. To Frankfurt?

Senator MONRONEY. Returning from Frankfurt to the United States.

Mr. HEWITT. We were operating under military contract at 2.95 cents a passenger mile at that time. It has since been reduced to 2.75 cents.

Senator MONRONEY. \$0.0275 that figures out on the mileage, how much?

Mr. HEWITT. It is approximately 4,000 miles.

Senator MONRONEY. It would be \$80.

Mr. HEWITT. \$120.

Senator MONRONEY. It would be between \$80 and \$90.

Mr. HEWITT. If it is 4,000 miles, and 3 cents, that is \$120, take off about 10 percent, so I would say about \$108.

Senator ENGLE. As a matter of fact, it helps the Government, does it not, to have an airplane that can be used both for passengers and for cargo, because if you have to fly cargo to Europe and deadhead back empty, you are going to have to charge more to take the cargo over.

Mr. HEWITT. Absolutely.

Senator ENGLE. There cannot be any question on that.

Mr. HEWITT. No question.

Senator ENGLE. I understand CAB has in their mind to limit these certificated carriers to the type of operation for which they are certificated, that is, Flying Tigers and your line are certificated for cargo and would be limited to hauling cargo exclusively if this idea that is germinating down there ever comes to fruition. Now if this happens, it seems to me that somebody is going to pay through the nose and I suspect it will be Uncle Sam because if you are going to take cargo across and they are going to do it, you and Flying Tigers and all the others will have to include in your cargo cost going over, the expense of deadheading back, whereas if you can put in your seats and bring

a load of contract passengers back, whether they are tourists or whether they are service people and their families, that can be reflected in the rate round trip, can it not?

Mr. HEWITT. No question. This is a very important thing. The military program of MATS supports a substantial number of airplanes, and these airplanes should have rights, so they can preserve in a reserve fleet, additional airplanes so in the event of war, the Government will have additional lift as required.

If I may, I would like to continue my prepared statement. To make the most of their flexibility and their worldwide experience the cargo lines need jets. Just one jet per airline would be of limited use. It is uneconomical to maintain a single-bit airplane of any kind. At least two are needed so one can fly when the other is out of service.

The \$15 million limit will finance two jets each for the airlines that need them. Once in jet operations, they will be on the way to acquiring more.

If your committee does not wish to give above \$5 million for airlines using smaller aircraft, appropriate limiting language may be inserted. But Riddle has no objection to equal limits for all the airlines eligible under the renewed law.

Neither do we object to CAB's proposal that guarantee for cargo line aircraft be limited to turbine-powered planes. That is what Riddle wants to buy. But we cannot foresee the needs of other airlines, so we suggest it be left to administrative discretion.

#### INCLUDE THE CARGO LINES

Inclusion of the certificated all-cargo carriers in loan guarantee is proposed by an amendment to S. 2815 by Senator Smathers. He told the Senate on March 8:

This is the one way I know to develop U.S. airlift for civil and military use without cost to the taxpayer \* \* \*.

The cargo carriers are the survivors of the companies formed after World War II which pioneered in the new and difficult field of cargo lift. Their job is to render scheduled cargo service on the routes for which they are certificated by CAB. Flying for the most part in secondhand aircraft designed for passengers, they have not yet been able to break even on their cargo routes.

To stay in business, the cargo airlines have developed worldwide military and civilian charter service, important experience for emergency readiness. Even so, this branch of air transport has incurred net losses in recent years. This unfavorable earnings record makes it difficult to secure new aircraft, the key to future earnings.

The backing of CAB and the Commerce Department for cargo line guarantee is in accordance with recognized Government policy in the report of the task force on national aviation goals, developed through the Federal Aviation Administrator and accepted for implementation by President Kennedy, September 10, 1961.

Several all-cargo carriers have withdrawn from scheduled commercial services and the others require substantial revenues from nonscheduled services to sustain their scheduled operations \* \* \*.

Questioning subsidy as a cure, the report concludes:

We are of the opinion that indirect aid should be provided in the form of Government support of air cargo transport vehicle development, the expanded use of air cargo services for mail and military cargo \* \* \* and guaranteed loan legislation subject to the most detailed scrutiny by the Civil Aeronautics Board of the characteristics of the aircraft as an economic vehicle, before

approval of such loans is granted. And the matter of direct subsidy requires immediate analysis, not only in view of the obvious national interest in expanding the development of this branch of air transport, but in terms of its relation to military airlift capability.

We in the air cargo industry would rather operate without subsidy. We find it hard to do so unless national policies on paper are made real.

In 1957, it was argued that loan guarantee would pay dividends to the taxpayers by helping the local service airlines get off subsidy. While most have not achieved this, their traffic has doubled and they are making great progress.

Loan guarantee can help keep the cargo lines off subsidy. Other measures take time. Aid in developing a true cargo aircraft, instead of the makeshift use of passenger types, is long overdue. It was urged as far back as the air policy reports of 1948. We hope someday it will be done.

But the cargo lines cannot wait. We must buy the planes on hand. Jets now being manufactured will help us greatly, both for fast freight and for passenger charters.

We would not like the cargo line guarantee limited to freight use. Past military lease of planes thus restricted proved impractical. With convertible planes, we often can balance a cargo flight with a return load of passengers instead of ferrying back empty. The military value of such flexibility needs no argument.

As the Horizon report says, full scrutiny by CAB of plane types for guarantee is a proper safeguard, if not prolonged in so-called expedited cases that take 5 years.

Otherwise, we invite inspection because we are proud of our record and enthusiastic about our potential, ready to go if officials will only lift some of the uncertainties that make it so hard to get long-range financing.

Of the postwar airlines that tried to prove their fitness in the cargo field, only six remain as entities. One of these did not operate its routes and lost them in a recent CAB decision. Another, with routes into Latin America, has a merger agreement pending with Riddle.

So the Smathers amendment presumably will add only 4 airlines to the 32 now eligible for guarantee: Riddle Airlines, with north-south routes in the East; the Flying Tiger Line, with east-west routes; Seaboard World Airways, transatlantic; and Slick Airways, not currently in route service.

The cargo airlines have some 120 aircraft with a total payload capacity of 2,000 tons. The passenger airlines have about 80 aircraft of cargo-convertible or cargo configuration. The supplemental air carriers and other nonscheduled operators have no more than 50.

The cargo lines have modernized their fleets as best they could, to include the later models of piston aircraft, whereby they have helped maintain the used plane market for the jet conversion of the passenger lines.

Also, they are the first commercial users of true cargo aircraft. Since no such U.S. plane was available, foreign types were bought. Riddle has several British Argosy AW-650's, a nose-loading turbo-prop. Several other cargo lines have bought the aft-loading Canadian CL-44-D4 Swingtail.

There is no early prospect of converting the heavy military cargo planes into economical civilian use of completing a commercial prototype. But the eligible airlines, even if they use their credit now for off-the-shelf models, may repay enough within 5 years so they can apply for guarantee again up to their loan limit. Thus, they may contribute to the market for U.S. cargo aircraft before September 1967, if any are developed within the term of the renewed law.

Senator ENGLE. Could I ask a question right there?

If I understood your statement right, at the top of page 2, you say, point 3, you want to include all cargo carriers as in the Smathers amendment and oppose broadening the law to include other class of carriers, which I assume would be supplementals and what not, and then you say, "or for the purchase of foreign aircraft."

In other words, you would limit this bill to guarantee for the purchase of domestically produced aircraft, is that what you are saying?

Mr. HEWITT. American-manufactured aircraft.

Senator ENGLE. And since there isn't any available, you would not be authorizing anything, would you?

Mr. HEWITT. Yes, sir, two very excellent airplanes, Douglas manufactures the DC-8-CF, and Boeing manufactures a 707, 321-C, and various models. These are actually the extension of the present Douglas and Boeing jet models in which they install a very large cargo door in the front. They are specifically designed so they may be cargo convertible and these aircraft are the aircraft today that any carrier under this guaranteed loan provision in the cargo business or international passenger charter, military contract business internationally, would consider, and they are very excellent airplanes.

Now when we speak about a truly cargo airplane, in which the original design started from that concept, there is no such airplane in the United States today.

Senator ENGLE. Such as that Swingtail model out of Canada?

Mr. HEWITT. That is not an original basic model. That design was originally started in England as Britainy. It was brought to Canada and it was then designed and developed as the submarine transport hunter of some type. It was then modified into the Swingtail engine change and other factors, but it was originally basically a passenger airplane.

Senator ENGLE. You bought some of those?

Mr. HEWITT. No, we bought the British Argosy. British Argosy is the exception. The British Argosy, which is a short-haul, high-wing truck-level bed that opens the door, front and rear. Its original concept was basically cargo, which is completely cargo. Its second consideration was that it could be adapted for passengers.

Now one of the first approaches to an original design of cargo is what is known as C-141, which Lockheed is proposing and building for the military. It is a basic original design for cargo. But for the immediate future, that the jet aircraft that we speak about, and the only available, are the Boeing and the Douglas.

For the guarantee to extend to purchase of foreign aircraft, while U.S. cargo types are not available, seems unnecessary. The cargo lines have bought foreign planes, with foreign aid in financing, and may continue to do so if necessary. It would have saved us money had Congress chosen to remit the import duty, as was proposed. But if we

expect Congress to be concerned with the welfare of U.S. airlines, it is only fair that our Government also support the interests of U.S. aircraftmakers while foreign governments support theirs.

Senator MONRONEY. Isn't it a fact that you not only have to pay 12½ percent import duty, but you have to pay for a shorter payout?

Mr. HEWITT. We pay 7 percent interest and the payout is 4-year pay.

Senator MONRONEY. Also we sell American-made planes, just as you are talking about here, on a Government export loan guarantee, through the Export-Import Bank, at terms probably as low as or lower than this bill provides?

Mr. HEWITT. That is correct. It is easier for a foreign carrier to get financing in the United States under the Export Bank loans than it is for U.S. carriers to get and purchase and finance here in this country.

Senator MONRONEY. I am not objecting to financing the export of our American-made aircraft. There are too many disappearing from the world aviation scene today due to the lack of diversification in the purposes for which our planes can now serve. We have dropped off the planes that once ruled the airways of the world, they are obsolete, but we have not replaced them with modern, short-haul, usable work-horse type of aircraft.

But I still defend the right to keep American-made aircraft flying as much as we can abroad in the airlines of the world, but still I feel there are some home needs also that need attention.

Mr. HEWITT. I would support that too, Senator Monroney. I might point out in Britain, on British airplanes, they have what they call export credit guarantee. In Canada for Flying Tigers and Seaboard they use Canadian export credit guarantee. So this is made available in foreign countries to their manufacturers for sale of aircraft here in the United States.

For military emergency, the importance of cargolift is recognized in Horizon and other high-level reports, and commercial lift is bought by the Armed Forces to help maintain ready lift capacity.

Riddle is first in MATS work for the fiscal year 1962. Pan American World Airways is a close second. Flying Tigers, another all-cargo line, is a close third.

Out of a total of \$126 million for all 18 U.S. air carriers in contract work for the Military Air Transport Service, five all-cargo lines totaled more than \$71 million or 57 percent.

Much of the same ratio prevails as to cargo aircraft in the Civil Air Reserve Fleet—the airline planes capable of long-range flight over the oceans, on call by MATS if the bell rings. Here are recent figures from the Defense Air Transport Administration.

For the fiscal year 1963, the all-cargo lines are to have at least 55 aircraft in CRAF with a total capacity of nearly 1,200 tons payload, more than half of the total commercial cargo lift in CRAF. Most of these planes are owned rather than leased, so their purchase has contributed to the lift capacity of the Nation.

The nonscheduled airlines, that some people seem to think are the backbone of the military reserve, have 43 planes in CRAF with a payload capacity of 660 tons, barely half the cargo-line total. Many are leased, presumably including some from the all-cargo industry, so they have added nothing to U.S. lift. All are piston driven, including 10 DC-4's of World War II vintage, nonpressurized and thus below military passenger standards.

Present MATS work of the cargo line includes the route-type LOGAIR and QUICKTRANS, on schedule between bases within the United States, as well as planeload cargo and passenger flights to U.S. bases over both the Atlantic and Pacific.

Last year, Riddle broke the commercial distance record in a routine ferrying flight nonstop from Tokyo to Chicago. Who can give you a better demonstration of global readiness?

Last summer, we flew U.S. and foreign tourist groups across the Atlantic, we totaled as many as four round trip crossings a day for weeks at a time. Tourism at last is encouraged by government for international good will. The more we fly, in competition with foreign carriers, the better for the gold balance. It is good for emergency readiness because such traffic can stop and the planes can go at once to military use.

This year Riddle is making contract flights out of Berlin to points in Europe. The lessons of the Berlin lift, for which America was unprepared, shows how valuable it is to have an American airline gaining friends and experience in this sensitive area.

#### MILITARY CARGO JETS ARE NEEDED

The report on "The Role of MATS in Peace and War," issued by the Department of Defense in February 1960, put much stress on cargo lift, including jets. It reads:

That, with respect to service overseas and to foreign countries, commercial augmentation airlift procurement policies and practices be better adapted to the long-range Department of Defense requirements, so as to encourage and assist in sound economic growth, development, and maintenance of an increased air cargo capability \* \* \*.

That since the development of long-range, economical turbine-powered cargo aircraft is essential to MATS modernization and to long-range evaluation of a modern civil cargo fleet, suitable arrangements should be made for Defense and industry participation in the costs of such development.

That purchase loan guarantee legislation, if proposed, contain provisions to insure the immediate availability of cargo aircraft covered thereby to meet military and mobilization requirements.

Riddle, of course, stands ready to place any aircraft it may own into the service of national defense if the call comes.

#### CARGO LINES ARE LOSING MONEY

The cargo lines cannot be expected to modernize at the pace required without the help of loan guarantee. They have strained their resources in the reequipment they have done.

It is difficult and costly even for major airlines, let alone smaller ones, to put a new-type plane into operation. The Argosy and Swingtail are giving good service now. But this costs thousands of hours of work and millions of dollars for engineering, maintenance, crew training, and experience.

The all-cargo industry, between the baggage-hold competition of passenger airlines on its routes and nonscheduled lines without route responsibility in its charters, is losing money. We waited for years for route system decisions that have not solved our problems. We face sudden ups and downs in military traffic and have to scratch

for other work between times. We meet many FAA demands and support union crews. We must have personnel in foreign countries.

The charter operations, which are our mainstay, depend on the cumbersome process of CAB exemptions that Congress wants to discourage. Long-range authority for charter work is in the Engle amendment, long delayed because of the deadlock of the controversial supplemental air carrier bill.

All these things are relevant to your consideration of S. 2815 because this is not a separate issue but part of a pattern of change and progress demanded by public necessity.

Even more than the local service lines 5 years ago, that could not go broke because they drew subsidy, the unsubsidized cargo lines need Federal backing for their credit. Money has been hard to get, long-term and reasonable rates, either for expansion or to offset deficits.

Amid all these burdens, uncertainties, and difficulties of pioneering a new industry with secondhand equipment intended for other use, the all-cargo industry has incurred annual deficits. After making a little in its early years, it began to lose in 1954; gained a bit in 1955 and 1956; and since reported losses.

The annual summary by the Air Transport Association, just out, shows that these airlines lost more than \$24 million in the 5 years 1957-61, despite increasing traffic.

When their scheduled freight began to hit a dead level in the mid-1950's, they diversified into military and other charter work to stay alive. It is an amazing fact that their total traffic since has tripled in ton-mile and dollar volume; yet losses have mounted.

In 1960, they lost over \$9 million. In 1961, despite added military work and transatlantic charters, they still lost more than \$6 million.

The big truck airlines oppose us as a matter of routine. In the present hearings, the Air Transport Association, of which we are members, has been put in a neutral position. But it is the example of the cargo lines that has pointed the way to the cargo revenue of the passenger airlines. With your help, we will take a new lead with cargo jets.

It would seem unfair to extend loan guarantee to the big passenger airlines for cargo aircraft. They already have the great advantage of space in the bellies of passenger flights and, after all, cargo flying is our assigned job. The passenger airlines after World War II were content with their high-rate express and mail. They let the cargo lines develop the air freight market, the sales methods, the packaging, and the ground handling. Now they are barely doing more than skim the cream as they have empty space in planes available.

It may be hoped that the problems of the passenger airlines are temporary during expensive equipment change and readjustment. The solutions include mergers and harder passenger selling in competition with ground carriers rather than help for them to divert more cargo from our branch of the industry.

Beyond our route service, if we have become also the world's largest group of charter flyers, this is a field that the passenger lines have not sought to develop except as a minor sideline, and one that is not reserved for any class of carriers. If we lead, it is by salesmanship and merit.

Bankers cannot lend on hopes and aspirations. We in Riddle ought to be experts in airline credit; we have knocked at the doors of more lenders, probably, than any airline in the world, trying to get working capital at reasonable rates.

Much of the credit for aircraft purchases for cargo airlines these days comes from the manufacturers and their parent companies, rather than from lending institutions. This includes foreign money and U.S. interests with foreign holdings. General Dynamics, Douglas, Lockheed, and Whitworth Clouster have helped finance the cargo lines.

This is not only to sell new planes they make but to dispose of older models they have taken as trade-ins. Whether this verges on a new form of indirect control, unforeseen in the making of aviation laws, and whether taking the plane with the easiest credit always means the most suitable, are matters I shall not pursue. There is a complex tangle of interests at work here.

I do say that aircraft loan guarantee, to provide funds through the normal channels of lending institutions, has given the local transport airlines a greater freedom of choice in reequipment and can do the same for the all-cargo airlines.

#### KEEP PROGRAM IN CAB

As for the administration of the aircraft loan guarantee law, I would recommend that it stay in CAB, the one agency primarily in the airline business. The principle of keeping aviation in an independent agency, rather than submerged under officials busy in other fields as well, has been upheld over the years and Commerce Department powers more than once were taken away.

Without reflection on present Commerce officials, we cannot afford the delays attendant on agency transfer and remarking of policies. We should not be expected to wait behind the problems of transportation as a whole; we have enough problems in our small part of it.

Our needs are fairly simple and the steps are well marked in policies nationally accepted. But action lags between several agencies that never seem to move together. Please do not add further complications.

In closing, may I suggest that responsibility between a carrier and the Government goes two ways. To win a public franchise, the carrier must agree to perform the required service to the best of its ability. As the giver of the franchise, the Government is bound to show some decent regard for the carrier, and save it from impossible conditions.

The cargo airlines are grateful to your committee for doing so much to meet your share of the responsibility.

Senator MONRONEY. Thank you very much for your testimony, Mr. Hewitt.

Senator Scott, do you have some questions?

Senator SCOTT. No.

Senator MONRONEY. Senator Engle?

Senator ENGLE. I want to compliment you, Mr. Hewitt, on an excellent statement.

Will you refer to page 12 in which you say, "It would seem most unfair to extend loan guarantee to the big passenger airlines for cargo aircraft."

May I ask, has that been proposed?

Senator MONRONEY. It has been brought out in the hearings whether it should be made available to all scheduled airlines as a matter of developing air cargo. This applies currently to about four airlines, three or four.

Senator ENGLE. The passenger airlines can carry cargo now, can't they?

Mr. HEWITT. They have the right for passenger, freight, express and mail. Roughly speaking, they carry about 90 to 95 percent of their total revenue in passengers and the balance in mail, express and freight.

Senator ENGLE. What you are talking about then is cargo aircraft purchased by the passenger airlines, trunklines, for that specific and sole purpose, that is, a cargo plane configured for cargo and nothing else. Is that it?

Mr. HEWITT. That is correct.

Senator ENGLE. Is that what you are talking about?

Mr. HEWITT. Yes, sir. Well, except, we should say convertible cargo-passenger airplanes required for the military.

Senator ENGLE. They can still do that now with the present certification, can't they?

Mr. HEWITT. The domestic trunks and local airlines, most of the territorial carriers, can operate with both passengers 100 percent, they can operate cargo 100 percent, or any combination of that. What they generally do, as I say, 90 to 95 percent of their total schedules are passenger airplanes, where they carry in the main cabin passengers and in the bellies of those passenger airplanes, where you generally put your baggage, they carry most of the scheduled air freight today in those bellies.

Senator ENGLE. You are not asking to change that, are you?

Mr. HEWITT. No, sir. What we are proposing here is that we would have a guaranteed loan for the purpose of acquiring all-cargo type aircraft and then these all-cargo type aircraft would also be convertible, that is in the main cabin, not in the bellies, so you could carry military for domestic and commercial purposes, all-cargo, or all-passenger or any combination of that in the main cabin.

Senator ENGLE. There is one other question I would like to ask you. Your company has already bought some airplanes for cargo purposes. You bought some from overseas?

Mr. HEWITT. Yes.

Senator ENGLE. And you are paying a higher rate of interest than would be required under this legislation. Some cargo carriers have bought the new type of airplanes, you and Flying Tigers have bought some?

Mr. HEWITT. Seaboard and Flying Tigers and Slick have bought CL-44 manufactured in Canada, and we have bought the British Argosy manufactured in England.

Senator ENGLE. You said there were four lines left. What is the other one?

Mr. HEWITT. Aaxico, they were not renewed in the current cargo case pending before the Board. The sixth carrier is Aerovias Sud Americana which is the certificated U.S. carrier to serve an all-cargo operation in South America. We have purchased controlling interest in ASA and there is a case pending before the Board to permit us to acquire and merge, so then we would take over the South American certificate. So then there would be just four certificates, all-cargo carriers remaining. Flying Tigers, east-west, Slick east-west, Seaboard and World to Europe, Riddle, north-south, and to South America.

Senator ENGLE. Now, if an all-cargo carrier has gone out and bought his fleet without the aid of this legislation, if this legislation is passed, he might find his competitive position affected by the fact that airlines not similarly situated could move under this proposal and buy new equipment at much less cost?

Mr. HEWITT. Let me say this. You can't hold up progress. I think the airline industry is evidence of that. The Douglas DC-8, the Boeing 707 all-cargo, are cargo-convertible aircraft, will produce in ton-miles per hour about 280 percent more than the CL-44 could. The way that is calculated, is that we take the speed of airplane, in other words, a jet will fly in mach speed 520 miles plus. A CL-44, a turboprop airplane, will fly 330 miles an hour in mach speed plus. The big jet is expected in all-cargo configuration to carry approximately 50 tons. The CL-44 will carry 30 tons.

Senator MONRONEY. Over what range?

Mr. HEWITT. They would both carry that maximum load approximately 3,500 miles. The jet has a capability of going out 8,000 miles. I think recently the 8 flew from Tokyo to Miami and the CL-44 would have a capability of approximately, let's say, 4,500 miles, or 5,000.

Now if you take the speed and the payload, and multiply it, you come up with the productivity in ton-miles per hour. The jet, and I am talking about the DC-8, CF or the 707, is approximately 280 percent more productive in ton-miles per hour than the CL-44.

Pan American recently announced the purchase of the 707. Trans Canadian purchased the DC-8-CF, and there are others to follow, so you can get delivery of these things within 12 to 15 months.

Now I could go through a lot of other statistics, but those airplanes are going to be obsolete, anything that is currently flying in long-range freight operations.

Now, going back to ourselves, and to the other cargo carriers, and in making decisions to purchase these four manufactured airplanes, one of the governing factors was finance, the ability to finance them. All of us had the assistance of foreign financing.

Now, here is a situation where we have better long-range, all-cargo aircraft available and manufactured in this country. I would say at this time, that of those cargo carriers, we would all be interested in this type of equipment, but we need assistance in financing and this type of equipment will be the most productive from a commercial point of view and from a military point of view and this is why we are strongly recommending the guaranteed loan for cargo carriers.

Senator ENGLE. How much of your fleet has been upgraded with foreign aircraft purchases?

Mr. HEWITT. We have 45 aircraft. We have 10 DC-7CF, we have 7 Argosys and the balance of 28 airplanes are C-46's.

Senator ENGLE. C what?

Mr. HEWITT. The old Curtis Commando, C-46.

Senator ENGLE. I am familiar with them. You are sure obsolete in that section.

Mr. HEWITT. I might point out in that, Senator, in short-haul, under military contracts, the lowest cost per ton-mile that is currently contracted by the Government, is performed by the C-46.

Senator ENGLE. Is that a fact?

Mr. HEWITT. That is a fact.

Senator ENGLE. I heard testimony yesterday that the DC-3 was the most inefficient and high cost airplane.

Mr. HEWITT. You have to appreciate when you are analyzing airplanes, you have to specifically take that given airplane and take the specific routes and specific type of business in operation, and you are going to have varying answers.

Under certain circumstances there is no question because of load factor, distance, public acceptance, and so forth, that the DC-3 could not compete and it would take more modern airplanes. Under some instances, there is nothing cheaper than DC-3.

Take a very good example, I mean you take today a C-46, we may have an investment of \$10,000, \$20,000. Now, on the same short-haul markets, I have to put \$1,600,000 in an Argosy to fly the same route. The investment alone, I have a problem, so it has to be a hell-of-a-lot more productive to justify that investment.

Senator ENGLE. There is one other point and this is my last question, Mr. Chairman.

I observe that you make a comment in your last page about keeping the program in the CAB. Do I understand, Mr. Chairman, that there is an amendment proposed to put it over in Commerce?

Senator MONRONEY. The Commerce Department testified, and the President, in his transportation message, supported the centering of all equipment loans, railroad and air, in the Department of Commerce.

The Department of Commerce, while supporting these bills, asked that it be transferred to them for the execution and management and granting of the loans.

Senator ENGLE. You think to start to shift the thing around here would just ball it up and create difficulties?

Mr. HEWITT. It is now in the CAB. We have no strong objection if it is transferred to the Commerce Department, but we think there would be a delay in transferring over.

Senator ENGLE. Thank you very much, Mr. Chairman.

Senator MONRONEY. Would you tell us what the financing arrangements on your Argosys are. They are not as favorable as this bill would propose or the current lending on the feeder line would propose?

Mr. HEWITT. The basic financing which we obtained from Armstrong Wintworth Manufacturing Co., in England was 4 years and the rate of interest was 7 percent.

Senator MONRONEY. That is 4 years instead of 10 years?

Mr. HEWITT. Right.

Senator MONRONEY. And 7 percent instead of 5½ to 6?

Mr. HEWITT. Right.

Senator MONRONEY. And 12½-percent surcharge for tariff, which, of course, does not add necessarily to the value of the plane. This is a penalty that because of no local manufacturer, you had to go elsewhere to qualify for the logair contracts, did you not, to have a truck bed loader and new configuration?

Mr. HEWITT. Yes, sir.

Senator MONRONEY. We are very deficient in American-made aircraft for short-haul, all-cargo planes of that character?

Mr. HEWITT. Yes, sir.

Senator MONRONEY. You are testifying today, that the DC-8C or the 707-321, by observation as an expert as a cargo carrier and other cargo carriers, whom I presume will testify, that this is probably the most modern all-cargo plane that can be used for all cargo in the world. Is that correct?

Mr. HEWITT. I think that is correct; yes, sir.

Senator MONRONEY. What do you estimate the ton-mile cost of these DC-8's and 707-321's to be?

Mr. HEWITT. This is something too that has a lot of variables. You have heard it said in a direct ton-mile cost, that you can produce that on a CL-44 for somewhere around 9 cents a ton-mile. Some have said 7 cents.

Senator MONRONEY. Some have said five.

Mr. HEWITT. All right, 5 to 9 cents. This is direct ton-mile cost. And I would say that either the Boeing or the Douglas, but probably under the same comparative basis, would probably run somewhere around the 3 to 5 cents a ton-mile.

Senator MONRONEY. This will carry, you said, and would put over ocean capabilities and Oriental service with one stop at Anchorage, in line for 50-ton loads or 100,000 pounds at 3,500 miles. That is correct?

Mr. HEWITT. If you were taking a full cargo load, you would take off, say, from San Francisco area, proceed to somewhere around Anchorage, one stop, and then on into Tokyo and you would get up to about 5,300 miles. When you get to Tokyo, this convertible cargo airplane, you could then put 168 seats, which you would carry with you in the belly of that airplane; and nonstop 5,300 miles back to San Francisco in about 10 hours.

Senator MONRONEY. In all seasons or only when you have the strong prevailing winds?

Mr. HEWITT. I am not talking about your terrific winds. I would say no wind condition. You see, you get a mach speed of 520 and you have about 5,300 miles to fly.

Senator MONRONEY. You testified that you were opposed to the guaranteed loan being extended to the big passenger airlines. They are doing a substantial cargo business today by their measurements, not by mine, but they have generated some \$95 million annual cargo traffic, which is equivalent to only 5 percent of their gross revenue of \$1,200 million. It would seem to me that if we really are anxious to get all-cargo performance off the ground, that to exclude this group of carriers from any eligibility might further delay it. They fly many places and many frequencies in which the all-cargo carriers cannot fly and have in the past been your similar competitors in the field of all cargo in which you work.

As long as their certificate requires them to accept and fly cargo, I think the committee is bound to at least consider whether this bill should be limited to all-cargo operations or whether those desiring it or needing it to increase the all-cargo capacity for military and for domestic service and to enlarge the whole concept of common carriage by air. We ought to take a look at this suggestion which has been frequently made at these hearings for their inclusion.

You feel if they had equipment such as this, that it would work to a great disadvantage of the all-cargo carriers?

Mr. HEWITT. Senator Monroney, I do not really have any strong objections to the guaranteed loan bill for the domestic trunks, the certificated carriers that you are talking about.

What I do have a strong objection to is the fact that a lot of people think that the airfreight breakthrough is just around the corner. Frankly at this point, if you operate strictly commercial airfreight operation, you have nothing to do but lose your shirt and I don't want this committee to assume that by getting some big jet airplane, that we are going to get a jet freight breakthrough because we are not.

There are many policies and it took us 4 years to go through the case at ACA in which the basic conclusion of that case was not to solve one basic economic problem in the airfreight industry. We have to take and really get down to the hard facts of how we produce a regulation in a policy for carriers where we have 24-hour airfreight service and get into this volume airfreight that we have to do.

These aircraft are capable of getting the rate lower than it ever has been but the ratemaking policies at the CAB are such—a very excellent example of that is the last 6 to 9 months when the Flying Tiger attempted to introduce something into the East-West market and they had to revert to the old system—we might have to consider rate conferences to get direct carriers to talk to each other to find out what it takes to take and calculate direct costs of airfreight, total costs of all first schedules, not some indirect cost of freight that is carried in a passenger airplane in the bellies.

I could take hours to discuss the airfreight industry with you but there are many things that have to be done. Our company is taking a very strong policy in the airfreight business that we are going to be ultraconservative in the development of scheduled airfreight because we lost our shirts in scheduled airfreight and we make money in going into the military contract field.

We will fight until the rules and regulations are set out in the Government to accomplish this.

Senator MONRONEY. Off the record.

(Discussion off the record.)

Senator ENGLE (presiding). I have only one comment to what the Chairman said. It is a little difficult to have it both ways. We have been trying to do a little something for the all-cargo carriers in connection with the supplemental airline bill. You know about that?

Mr. HEWITT. Yes, sir.

Senator ENGLE. We have had an argument going on on limited ticketing plus the charter service and to permit the all-cargoes just to operate on the basis equal to the supplementals, whatever they get, so that you wouldn't have to run into the CAB every 15 minutes to get an exemption.

As the chairman has observed, it is a little difficult to say to the regular airlines that we are trying to do this for the cargo people and for the supplementals to some extent and yet we are going to specifically exclude you in connection with any guarantee where you might compete with cargo airplanes. It would raise some questions.

Mr. HEWITT. If my recollection is correct, there was a guarantee loan bill here about 2 or 2½ years ago which some of the major airlines opposed. This year the Air Transport Association has been basically neutral; in other words, the carriers are some for and some against. The association's position is a neutral position.

Now we come out for the guaranteed loan for cargo carriers because we know we need it. I don't know whether the other industry, that is the domestic trunks, really want it.

Senator ENGLE. You referred to losing your shirt in commercial route cargo service. What I gather is that you think if you tried to set up a regular route service for cargo, you lose your shirt, is that right?

Mr. HEWITT. That is correct.

Senator ENGLE. You do have some scheduled airfreight service, do you not?

Mr. HEWITT. Our position in scheduled airfreight business—and this is based upon some 10 years' experience in this company in this field—we have lost in scheduled airfreight, for example, approximately \$10 million. We compete with every north-south carrier who has the same freight rates as we do, but they have the right to carry passengers. They have the right to carry mail and express. We carry express and mail also.

Now, this competitive situation and the way rates are made and prepared, it is very difficult for a freight carrier to compete in that market profitably. All of these passenger schedules are established for the purposes of passengers and when you get between New York and Miami, you may have 100 schedules between New York and Miami, all of which can carry freight. Now what they have done in some ground transportations, they have taken and put a rate for belly freight or for express-type freight in these passenger airplanes, passenger services like on railroads, and put it at a premium. If they want to carry it in passenger airplanes, increase it 20, 25 percent in rate, then encourage the volume freight to move not just at night in off-rate schedules, but devise it so that you can use those airplanes at night and at day.

The reason we acquired the South American carrier, it was very simple. We have a utilization possibility in our north-south routes of 12 hours of utilizing an airplane during the night because the basic-type freight that moves today in the air, it is required that they be able to pick up after working hours, get it somewhere tomorrow morning, and the rates are now at a rate that we can't afford to lower and then use the same airplane in the daytime.

What we do now out of Miami with the South American carrier, you have to operate the South American routes during the day because of terrain, weather conditions, customs, airports, and many other things. So we found a way in which we can fly an airplane from New York to Miami during the midnight to 4 o'clock in the morning, reload it, shift it out of Miami, fly it from Miami to Panama

during the morning, return it that afternoon, and then reoriginate back to New York again.

We now have 24-hour utilization on that airplane, whereas before, we had to let it sit in Miami all day.

When you can get freight moving in volume 24 hours a day, this is when you have a chance. But to get the volume, you have to make some device ratewise to encourage all freight aircraft operations, not belly freight.

There are other things than rate situations that have to be discussed. This is going to take some time to change.

Senator ENGLE. What percentage of your business is now in that category that you fly on scheduled airfreight route, roughly?

Mr. HEWITT. Roughly we fly about 10 percent of our total. The first 9 months we operated \$22 million; that is, from June 30, 1961, to March 30, 1962, and we operated \$2,800,000 on scheduled airfreight.

Senator ENGLE. We very much appreciate your testimony. Thank you very much.

The committee will stand in recess until 2 o'clock this afternoon.

(Whereupon, at 12 o'clock noon, the committee was recessed to reconvene at 2 p.m. of the same day.)

#### AFTERNOON SESSION

Senator BARTLETT. The committee will be in order.

The first witness this afternoon will be Richard A. Fitzgerald, vice president, Washington Affairs Seaboard World Airlines.

We are glad to have you here, Mr. Fitzgerald.

#### STATEMENT OF RICHARD A. FITZGERALD, VICE PRESIDENT, WASHINGTON AFFAIRS SEABOARD WORLD AIRLINES, INC.

Mr. FITZGERALD. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear in support of the Smathers amendment to S. 2815.

Seaboard World Airlines is a certificated all-cargo carrier, operating over the North Atlantic and serving points in Western Europe, including the United Kingdom, Ireland, the low countries, Germany, Switzerland, and France. Seaboard World is the only scheduled international all-cargo air carrier presently operating under the American flag. It has its headquarters at the Idlewild Airport in New York.

Seaboard World Airlines has been operating freight services across the North Atlantic since May 1947. Until 1956, it operated as a nonscheduled cargo carrier. Since April 1956, it has operated under a certificate of convenience and necessity which authorizes scheduled cargo and mail service between the United States and Europe.

Seaboard World has many proud accomplishments in the public interest.

It was one of the first air carriers to provide transatlantic airlift support for the Berlin airlift in 1954. During the 6 months of the Berlin airlift, it operated 107 transatlantic freight flights, carrying 1,394,000 pounds of cargo.

Two years later, in July 1950, Seaboard World was the first carrier to take off from Travis Air Force Base in California to inaugurate the Pacific airlift to Tokyo in support of the Korean action. During the following 44 months, Seaboard World operated 2,500 flights, totaling 17 million miles, carrying 23 million pounds of freight and 34,000 military passengers.

Since the end of the Korean conflict, Seaboard World has continued to provide a large volume of airlift for the U.S. military establishments while at the same time developing the commercial airfreight market between the United States and Europe.

This company's contribution to the development of U.S.-flag commercial cargo service between the United States and Europe is demonstrated by the fact that North Atlantic commercial freight carried by U.S.-flag carriers has increased from 4,539,000 kilos in 1955, which was prior to certification of Seaboard World, to 31,847,000 kilos in 1961, an increase of sevenfold. And the U.S. carriers' share of the North Atlantic market increased from 38 percent in 1955 to 48 percent in 1961. Seaboard World's share of the U.S.-flag total increased from 32 percent in 1957 to 51 percent in 1960.

At the present time, Seaboard World is the only carrier, United States or foreign, operating modern, turbine-powered cargo aircraft on the North Atlantic route. In fact, it is the only carrier operating such aircraft on any scheduled international service. We believe that our operation has substantially stimulated the growth and development of air cargo and that our continued operations will stimulate more vigorous cargo development in the future.

In 1959, Seaboard World contracted to purchase five Canadair CL-44 prop-jet convertible cargo aircraft to be delivered in 1961. The CL-44 is a swing-tail turbine-powered propeller aircraft, having a capacity in excess of 30 tons on the North Atlantic route. It is convertible to passenger service and will carry 165 passengers with their baggage. It is the only modern all cargo in service today, and it is the only existing cargo aircraft which has a chance of making a profit at existing and foreseeable cargo rates.

The CL-44 is manufactured in Canada by Canadair Ltd., which is a subsidiary of General Dynamics, a U.S. corporation. The action of our company in acquiring the CL-44 was dictated by the fact that it was the only modern, long-range, all-cargo aircraft available to us at the time. Moreover, we were able to acquire these aircraft only because the Canadian Government assisted us in financing the aircraft by an arrangement which is basically comparable to the guaranteed loan program here under consideration. And I should add, but not nearly as favorable in the term of the repayment. But for this assistance, we would not have the CL-44's in operation today, and the United States would have five less modern cargo planes in its Civil Reserve Air Fleet.

Seaboard World's accomplishments have not been achieved without serious sacrifices by its stockholders and management. Unlike the scheduled passenger air carriers, the all-cargo air transportation has not been an economic business up to this point in time. This is illustrated in our case by the fact that our earned surplus as of December 31, 1961, was a deficit of \$13,210,000 and by the further fact that our losses totaled over \$11 million during the past 2 years.

I would like to add here, Mr. Bartlett, that the all-cargo operations are also unsubsidized, whereas most, if not all, of the other types of air transportation have had subsidy during their early development periods, which is another reason we haven't been able to break even.

The basic cause of our past losses was the lack of aircraft capable of operating at sufficiently low unit costs to permit rates which would produce a reasonably economic volume of service. We now have the aircraft which can do the job.

The CL-44 can produce unit costs which will permit profitable operations at current air freight rates. This does not mean that we are sure of making a profit, for our operations are subject to the same competitive problems about which our passenger carrier brethren so loudly complain. And we have the tremendous handicap of being required to operate without the benefit of passenger revenues and without the advantage of carrying freight in the cargo holds of large passenger aircraft.

On the other hand, all of the 17 passengers operating over the North Atlantic—that is, all except Seaboard World—can operate all-cargo aircraft, and a number of them do.

With the delivery of our fifth CL-44 aircraft, we have now established a pattern of service under which we expect to make a modest profit. This pattern of service includes a substantial volume of military contract service, and we are dependent on military traffic for a substantial part of our revenue.

At the present time, Seaboard World is considering the purchase of additional CL-44 aircraft. Because of the complex problem of crew integration, maintenance, and other technical problems, it would be uneconomical for us to acquire a different aircraft type at this time. Our efforts to acquire these additional aircraft are dependent on large part on financing to be guaranteed by the Canadian Government.

Although we feel that we have no existing requirement for U.S.-manufactured aircraft, we foresee a strong possibility that we will require fewer jet aircraft within the next 3 to 5 years. Both Boeing and Douglas have now indicated that they plan to produce all-cargo versions of the Boeing 307 and the DC-8 jet passenger aircraft, and Lockheed Aircraft is well along in its production of the C-141 cargo jet, which is designed to provide much greater lift and substantially lower unit costs.

It remains to be seen whether the converted passenger jets will produce unit costs which are lower than those produced by the CL-44. It is clear, however, that the pure jet aircraft will have a significant speed advantage which may have an effect on our ability to compete in the market. In any event, it is almost a certainty that the next generation of freight aircraft will be pure jets and that we will have an urgent need for such aircraft in order to remain competitive against other U.S.-flag carriers and the many foreign airlines with whom we compete.

In considering the proposed legislation, it must be remembered that the various committees of Congress, the President, and the Department of Defense have repeatedly emphasized the fact that the primary deficiency in our military airlift capability is in long-range cargo aircraft.

This deficiency was underscored by the Department of Defense report titled "The Role of the Military Air Transport Service in Peace and War," which included the "Presidentially Approved Courses of Action," issued in February 1960, in which it was declared:

Military readiness: Existing deficiencies in cargo airlift capability adversely affect military readiness. There is not sufficient commercial cargo capability to accommodate the military wartime traffic which could otherwise move in commercial aircraft. The quantitative deficits in commercial capability to meet wartime needs are such that the continuity of the oversea pipeline cannot be assured in cases of emergency and forces whose operations are geared to airlift support may be deprived of airlift at a time of urgent need.

Continuing the quotation:

The overall cargo airlift situation is serious and unless action is taken to modernize and expand the national cargo capability, both military and commercial, effective airlift support cannot be assured the Armed Forces. Further, unless cargo capability is modernized and expanded, the Department of Defense and the Nation will continue to be denied efficient and economical airlift service.

The objective of encouraging the development of new and modern all-cargo aircraft was also recognized in the so-called Project Horizon Report where there is set forth as one of the "National Aviation Goals for 1960-70":

Support and encourage accelerated development of the civil air-cargo industry in a manner that will contribute in peacetime to the economic growth of the Nation and of the world and will, as well, supply a fleet of efficient cargo aircraft to meet any military emergency.

The serious cargo airlift deficiency in the CRAF program was affirmed by Gen. Joe Kelly, commanding general of the Military Air Transport Service in a panel presentation to the press at the Air Force Convention on September 22, 1961. General Kelly stated:

Since all planned passenger requirements will soon be satisfied by civil jets, the only deficiency in CRAF equipment is in cargo capability. The delivery in the near future of 17 Canadair CL-44 to three CRAF carriers will mean some improvement in this area.

The fact that the aircraft which would be acquired under the proposed legislation covering all-cargo aircraft is urgently needed in support of the national defense is a most important reason for approving an adequate guaranteed loan program for all-cargo carriers. In addition, such a program will provide important support to the cargo carriers in their efforts to acquire and maintain modern and fully competitive aircraft in the development of the trade and commerce of the United States.

The present law fixes a \$5 million limit on all-cargo loan guarantees. We urge that the amount be increased to \$20 million for the cargo carriers. The price of modern cargo aircraft is such that \$20 million may well be required for a minimum fleet.

Pan American World Airways has announced that the two cargo jets which it recently ordered cost more than \$13 million. It would appear that the cost of cargo jets for a carrier not operating the same type of aircraft would be substantially greater, since it would involve the purchase of many spares which Pan American does not have to buy.

By that, I mean that Pan American operates the basic 707 aircraft and the cargo jet is just a version of that same basic aircraft.

We have found that a fleet of five turbo-prop aircraft is close to the minimum size for efficient operation. It is reasonably apparent that at least three jet aircraft would be the minimum which could be operated effectively. For this reason, we urge that the maximum guarantee for all-cargo carriers be increased to \$20 million.

The inclusion of the all-cargo carriers in the guaranteed loan program is endorsed by the President's Task Force on National Aviation Goals—that is Project Horizon—issued in September 1961, which recommended, and I quote:

While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of aircargo transport vehicle development, the expanded use of aircargo services for mail and military cargo, and guaranteed loan legislation subject to the most detailed scrutiny by the Civil Aeronautics Board.

That is the end of my statement, Mr. Bartlett, although I do want to add one thing: I mentioned that we have had some financial assistance from the Canadian Government in the form of what is basically guaranteed loans. I believe it has been brought out on the record here before that that guarantee is much less favorable than the one that has been proposed here, particularly in the terms of repayment.

The problem of repaying this amount of money in 5 years is a very, very difficult proposition, and it has had a very adverse effect on our financial situation in trying to meet those payments.

Senator BARTLETT. Mr. Fitzgerald, just what help does the Canadian Government give in this area?

Mr. FITZGERALD. I am not exactly sure of all the details, but they have a corporation, some sort of a Government corporation, that, as I understand it, does provide some sort of guarantee to the loans when we purchase the Canadian aircraft. And it requires a 5-year payback at, I believe, 5¾ percent interest at the time.

Senator BARTLETT. Five and three quarters?

Mr. FITZGERALD. I believe that is correct, and that is subject to some adjustment, depending on the market.

Senator BARTLETT. Are there any other charges?

Mr. FITZGERALD. I do not know. I am sorry I do not know more details of that, but I do not.

Senator BARTLETT. What do these planes cost each?

Mr. FITZGERALD. Let me see if I can be a little more accurate about that.

They average about \$5 million with the spares. I think the basic cost is something under \$3 million. But with other equipment, all the spares, it comes up over \$5 million.

Senator BARTLETT. Did Seaboard take advantage of the Canadian Government loan program in respect to all the planes bought there?

Mr. FITZGERALD. Yes, sir.

Senator BARTLETT. What is the speed of that plane?

Mr. FITZGERALD. Well, it is rated at 400 miles an hour. I guess it cruises at about 380 actually.

Senator BARTLETT. And what is the carrying capacity?

Mr. FITZGERALD. 61,000 to 62,000 pounds, 30 to 31 tons on the North Atlantic route.

Senator BARTLETT. How does that compare with the pure jet cargo plane?

Mr. FITZGERALD. Well, they say that the new 707 will carry 40 tons from New York to London. That is what the Pan American ad says.

Senator BARTLETT. Does Seaboard operate a freight service within the borders of the United States or are all the routes overseas?

Mr. FITZGERALD. All of our services are overseas. All of our scheduled services are across the North Atlantic. And, as a matter of fact, as you know, we do some considerable amount of military work. Presently and for the last year, that has all been in the North Atlantic.

Senator BARTLETT. How many planes in the aggregate does Seaboard have?

Mr. FITZGERALD. We have five CL-44's in service. That is our entire scheduled pattern. We own nine superconstallations which are on short-term lease at the present time, and we own one C-46. And we recently sold three DC-4's. But the superconstallations are surplus. The CL-44 is the only airplane that we have a chance to make a profit with in the cargo service.

Senator BARTLETT. That is the entire operating fleet then?

Mr. FITZGERALD. Yes, sir, and we are considering purchasing one or two more depending on the MATS situation.

Senator BARTLETT. Have you ever heard why it was that General Dynamics went to Canada to develop and manufacture this plane?

Mr. FITZGERALD. No, sir, I do not know.

Senator BARTLETT. You say the company is now making a profit?

Mr. FITZGERALD. Not yet. We hope we are making a profit this month. What happened, we lost money in the past. And during the past few months, since January 1, we have had a CL-44 operation in existence, but it has been limited because we only had four aircraft, and we had a problem of training crews, which took a lot of aircraft time.

Senator BARTLETT. The company lost \$11 million during the past 2 years.

Mr. FITZGERALD. Yes, sir.

Senator BARTLETT. Where did that come from?

Mr. FITZGERALD. Stockholders.

Senator BARTLETT. Issued more stock?

Mr. FITZGERALD. Oh, increased indebtedness, yes, issued more stock. It went through a sort of reorganization a year ago.

Senator BARTLETT. There is a limit, I suppose.

Mr. FITZGERALD. Our management feels that it is close to the bottom of the well insofar as these people are concerned who have put the money up, and we have dedicated ourselves to trying to get ourselves in the posture where we don't have to go back to them again because the last time we went back, it was very difficult.

Senator BARTLETT. How long has Seaboard been in existence?

Mr. FITZGERALD. Well, the company started in 1947, I believe. They started operations, and they have been a certificated cargo carrier since 1956.

Senator BARTLETT. And throughout its existence, it has been exclusively dedicated to the carriage of freight?

Mr. FITZGERALD. Well, dominantly. It has always, I think, perhaps had the record of having concentrated its best efforts on freight, although it has found it necessary to do other things. They carried passengers under contract to Irish Airlines for a while and Sabena

for a while. And, of course, they carried variable amounts of passengers for the Department of Defense, but at the present time, we are desirous to operate a profitable cargo service.

But the problem is getting enough volume to make it economic to do so. But our basic objective is to develop the cargo market, and I think that our record bears that out.

Senator BARTLETT. You noted in your statement, Mr. Fitzgerald, that all of the 17 passenger carriers of the North Atlantic route are entitled to operate all-cargo aircraft. Then you went on to say that some of them do.

Mr. FITZGERALD. Yes.

Senator BARTLETT. How many of them, do you know?

Mr. FITZGERALD. I think six or seven. Pan American, TWA, BOAC, Air France, Alitalia, KLM, and Lufthansa did operate an all-cargo service, but they discontinued that after they made the arrangement with Seaboard World which we call a blocked space agreement.

Senator BARTLETT. Do any of the companies outside of Pan American operate pure jet freight carriers?

Mr. FITZGERALD. No one operates pure jet cargo service, including Pan American.

Senator BARTLETT. Including Pan American?

Mr. FITZGERALD. They do not have that airplane yet. They will not have it for another year. They all operate piston-converted passenger planes, principally DC-7C's and the Lockheed 1649.

Of course, you must realize, sir, that a great deal of the freight is carried in the bellies of the passenger jets. They have a great amount of capacity in those passenger airplanes for cargo.

Senator BARTLETT. I have a very penetrating and probing question to ask you here, but I cannot read my own writing.

Thank you, Mr. Fitzgerald.

Mr. Beeks?

Mr. BEEKS. It was proposed by some of the witnesses that the bill be extended to cover loans only for purchase of American aircraft, U.S.-built aircraft. Do you have a position?

Mr. FITZGERALD. Mr. Beeks, I heard the testimony of Mr. Boyd and Mr. Martin, and I can understand the desire to stimulate the purchase of American aircraft. And from that standpoint, it would seem logical to limit it to U.S.-built aircraft.

On the other hand, I feel that the primary motivation behind this request for guaranteed loan for cargo aircraft should be recognized as the benefit to the U.S. Government and to the military and a foreign-built aircraft is no less valuable to the military than a U.S.-built aircraft, presuming it is a good cargo airplane. From that standpoint, we feel it would be desirable to permit it to cover foreign aircraft.

Now, as I say, we would like to see it cover foreign manufactured aircraft because we think we may thereby be able to acquire aircraft which we may not be able to handle. And these aircraft will be fully committed to the aircraft fleet and to the support of our military operation. And for that matter, they will also contribute to the development of U.S. cargo, air cargo, and commerce.

Mr. BEEKS. In your long-range plans, do you contemplate the purchase of any present U.S. planes?

Mr. FITZGERALD. We are considering in a future basis; as I said in our testimony, we recognize that the next generation of cargo aircraft will be a well-designed pure jet cargo aircraft. We assume or hope that that will be produced in the United States. We may find that we are required to purchase the Boeing 707 or the Douglas DC-8, and we are following the C-141 with interest.

So we do anticipate that within the next 3 to 5 years we will have a requirement for a pure jet aircraft, and we hope it will be an American one because we have to pay duty on foreign aircraft, and it is less desirable to buy outside of the country.

Mr. BEEKS. Do you have any cost comparison between the direct operating cost of some of the present U.S. planes versus the CL-44?

Mr. FITZGERALD. Yes, sir. This is the current Aviation Week. I do not know exactly where they got the figures, but they show the CL-44 as producing a direct expense ton-mile cost of 9.65 cents compared to 10.11 for the 707, 11.45 for the DC-8, and the costs go on up from that point to 25.5 for the F-27, which is the most expensive turbine-powered plane listed.

These figures, particularly the CL-44 figure, is based on a limited operation in 1961. There was not very much of it, and it is undoubtedly subject to revision upward or downward, depending on how the accounting worked. If the accounting were true, I am sure that cost should go down because it is a more economic plane today than it was in 1961.

Mr. BEEKS. It was also proposed that the terms of the bill be extended so as to include the all-purpose carriers. Would you include them?

Mr. FITZGERALD. I have heard this and my first reaction to that is: I have not heard any of them asking for it. As a matter of fact, I understand some of them oppose it.

From my experience in the airline business, and I worked for one of the trunkline carriers for many years, is that they do not need it. American Airlines financing, for instance, extends over 30 years. The other big carriers have long-term loans which make a small carrier very envious, and I do not think they need it.

Aside from that, I think that even if this bill is passed, the relative ability of carriers to finance equipment is going to be completely lopsided in favor of the certificated trunkline carriers. For that reason, I do not think it is needed. I do not think it would be any great calamity if they were included, but it seems to me that it is not a requirement in any sense, and I have not heard any of them asking for it.

Mr. BEEKS. You may not have these figures with you, but in terms of percentages and dollars, how do your on-route commercial cargo operations compare with your off-route cargo operations?

Mr. FITZGERALD. I think I have that. Do you mean by "off route" our nonscheduled? Practically everything we do is on route, Mr. Beeks.

Mr. BEEKS. Military charter, isn't it?

Mr. FITZGERALD. They are on route, too.

Mr. BEEKS. Nonscheduled?

Mr. FITZGERALD. Yes, most of our military business is on our own route. This is one advantage that we have, in that we operate over

a route where there is a substantial demand for military contract service, and it is more economical for us to do it in those markets.

But let me say this: Last year, our scheduled revenues were \$12,936,000, roughly \$13 million. Our special charter and other, which includes military contract, is \$5,295,000—some \$5 million to \$13 million.

Mr. BEEKS. \$13 million was what?

Mr. FITZGERALD. That is our scheduled revenues.

Mr. BEEKS. How about the military versus commercial?

Mr. FITZGERALD. Unfortunately, this one doesn't give that breakdown, but if you will just give me a minute, I think I can find that.

No, it does not break it down that way, I am sorry to say. I thought I did have that, but I do not. But most of this \$5 million is military, Mr. Beeks, almost all of it, maybe \$200,000 being commercial charters, something in the vicinity of \$5 million of military business last year. We are hoping to have more this year.

Mr. BEEKS. How does this compare with your passenger versus cargo, percentage of passenger revenues versus cargo revenues?

Mr. FITZGERALD. I can find that, I think.

As I recall it, last year, something less than 25 percent of our revenues were passenger revenues. And most of those, as I say, were military passengers, and we carry whatever the military tells us to carry.

Just one second; I can tell you.

We had \$5 million in passenger revenues, which includes military and commercial, out of \$20.5 million, which is roughly one-fourth. But there, again, if the military wants us to carry cargo, we will be glad to carry cargo.

Senator BARTLETT. Mr. Kenney?

Mr. KENNEY. Mr. Fitzgerald, one question: Do you foresee any possibility, should the Smathers amendment be adopted, it would be possible to couple the U.S.-loan guarantee together with the export incentives like the Canadian-loan guarantee or similar export programs in other countries in such a way there would be net advantage in purchasing a foreign-built plane or purchase of a U.S.-built plane, or would the tariff more than compensate for whatever advantage there might be?

Mr. FITZGERALD. Well, I never thought of that. If you do have a concern with it, I assume that somebody could write some regulation so that it would not happen if you think it would happen. I had assumed that if we got a loan from the U.S. Government, that would be it.

It is hard to see how it would be any advantage anyway if you have a 10-year guaranteed loan from somebody that is guaranteed by the United States. I do not see that it would save you anything to go up and get it. I do not think anybody would loan you again. You see, you cannot go out and get two mortgages on a house unless you have got some equity in it. There would not be much equity left in this airplane.

Mr. KENNEY. The double guarantee would not necessarily lower the interest rate very much?

Mr. FITZGERALD. I would not think so, although I am no expert on that.

Senator BARTLETT. Thank you, Mr. Fitzgerald.

Mr. FITZGERALD. Thank you, sir.

Senator BARTLETT. The next witness will be Mr. James Dresher, Jr., who will represent Fairchild Stratos Corp. in lieu of Mr. Arata.

**STATEMENT OF JAMES T. DRESHER, VICE PRESIDENT, FINANCE,  
AND TREASURER, FAIRCHILD STRATOS CORP.**

Mr. DRESHER. Mr. Chairman, we have presented a statement in support of the guaranteed loan legislation extension, and I would prefer not to read that and take additional time unless you insist.

Senator BARTLETT. There will be no insistence. The statement will be incorporated in the record in complete text.

Mr. DRESHER. Fine.

(The statement of Mr. W. H. Arata, Jr., is as follows:)

STATEMENT BY W. H. ARATA, JR., MANAGER, MARKET PLANNING, AIRCRAFT-MISSILES DIVISION, FAIRCHILD STRATOS CORP., HAGERSTOWN, MD., TO CONGRESSIONAL COMMITTEES EVALUATING RENEWAL OF GOVERNMENT GUARANTEED LOAN LEGISLATION APPLICABLE TO LOCAL AIRLINES (71 STAT. 629), DATED SEPTEMBER 7, 1957

INTRODUCTION

The opportunity to express our thoughts regarding the continuation of guaranteed-loan legislation is greatly appreciated.

Since initial enactment of this legislation, the class mail rate has gone into effect for the local airlines, as well as the continuation of Government support to operations of these airlines. These forms of support are providing the environment wherein equity capital is being attracted to the airlines. As time goes on, this will improve the ability of the airlines to secure private financing. Even so, the Government guaranteed loan legislation is important enough that it should be renewed as an act of Congress.

LOCAL AIRLINES

The Fairchild organization has been intimately affected by this legislation. Prior to its enactment, Fairchild was just beginning the manufacture of the F-27 turboprop transport.

During this time period, i.e., 1956-57, the local airlines were somewhat an unknown quantity to financial institutions regarding the underwriting of new transports, as up to that time surplus aircraft had been used.

At this time, when the trunk airlines were procuring jet equipment, the local airlines also deemed it necessary to begin their modernization programs. Since the individual net worth of the airlines was then quite limited, some means was necessary in order to permit modernization through normal banking procedures. The Government Guaranteed Loan Legislation Act of September 17, 1957 (71 Stat. 629), provided the mechanism for this modernization to begin.

At the time of the enactment of legislation and subsequent to this, Fairchild has been successful in selling F-27 aircraft to the following U.S. local airlines: Aloha, Bonanza, Northern Consolidated, Ozark, Pacific, Piedmont, Wien Alaska, and West Coast Airlines. Of these airlines, Aloha, Bonanza, Ozark, Pacific, Piedmont, and Wien Alaska utilized the guaranteed-loan legislation in order to modernize with the F-27 aircraft. That is, all but two airlines utilized the loan provisions.

Since modern, intermediate-range aircraft, with spares, represents an investment approaching \$1 million, it becomes obvious that complete airline modernization with this aircraft cannot take place when the maximum loan limit is only \$5 million. Therefore, at this time when the legislation is being reviewed for possible renewal, it is recommended that the loan limit be increased.

## CARGO AIRLINES

The legislation as enacted in 1957 made no provisions for scheduled all-cargo airlines. Senator Smathers has proposed an amendment to the bill (S. 2815) which would correct this shortcoming.

This is a step in the right direction, as it will provide a means for the all-cargo carriers to modernize their fleets just as the local airlines have begun to modernize their flight equipment.

Present problems with the modernization of Logair and Quick-Trans contractors would be minimized if the guaranteed-loan legislation included the scheduled all-cargo operators. Such changes in the legislation would also no doubt allow these airlines to secure loans at a more reasonable interest rate. In the long run, a healthy air carrier industry operating at normal interest rates is to the advantage of the economy of this country.

## RECOMMENDATIONS

The following recommendations are offered for consideration relative to the proposed renewal of the guaranteed-loan legislation:

(1) The proposed bill by Senator Magnuson (S. 2815, dated February 7, 1962) for extending the act another 5 years should be enacted. At the end of this time period, another review can be made of the need for further legislation.

(2) Increase the total loan value as specified in section 4, paragraph (d) of the act, 71 Stat. 629, dated September 7, 1957, to \$15 million applicable only to new aircraft. While this increase in loan amount will not provide complete modernization, with class mail rate and equity value of the airlines increasing, this new value should permit the continuation of modernization with new aircraft which is desired and necessary.

(3) Include all-cargo air carriers as recipients of the guaranteed-loan legislation. It is believed that the all-cargo carriers are in as much need of help today as the local airlines were 5 years ago.

## SUMMARY

Since this legislation has been in force for 5 years and a modern aircraft has been in local airline service for almost 4 years, sufficient time has elapsed to establish the merits of the legislation, both to the airlines and to the airframe industry.

Thus, it can be concluded that continuing guaranteed-loan legislation will help the local airlines and airframe manufacturers in the common task of local airline modernization. This modernization effort will provide jet-age passenger comfort to the local airlines, as well as improve operating efficiency to all-cargo airlines.

This modernization effort should help in the early reduction of subsidy that President Kennedy requested in his message on transportation to the Congress of the United States on April 4, 1962.

Mr. DRESHER. Mr. Chairman, my name is James T. Dresher. I am vice president of finance, and treasurer, Fairchild Stratos Corp., and on behalf of my company, I wish to thank this distinguished committee for this opportunity to appear before you.

As you know, Fairchild Stratos Corp. manufactures the F-27 aircraft which has been a topic of discussion in these hearings. And from reading testimony of May 8, 1962, I believe, Mr. Chairman, that there may be some misunderstanding with respect to the status of the F-27 program.

May I try to clear up some of those misunderstandings?

The F-27 aircraft is in production in our plant at Hagerstown, Md. Ninety-two aircraft have been completed of which 91 have been sold and delivered and 1 retained as a company demonstrator. Fifteen additional aircraft have been released for production at the rate of 1 aircraft per month, and more will be released at the appropriate time. Present schedules extend to August 1963. These aircraft can be sold to airline or corporate users.

Representatives of Fairchild Stratos Corp. know of no instance where the F-27 has been replaced by the Lockheed-built Jet-Star. These two aircraft are not competitive, but, in fact, complement each other in a total aircraft inventory.

The F-27 is a modern, turboprop aircraft which was placed in service late in 1958, the same year as the Boeing 707. The F-27 was designed as a DC-3 replacement, and it will operate in and out of smaller fields than the DC-3, both aircraft operating at design load capacity. All engineering, tooling and other development expenses were paid by the Fairchild Stratos Corp. This cost has been charged against current operations, causing severe losses, but future aircraft will benefit from these written off development costs.

Continuing developments have kept the aircraft modern:

1. The F-27F was certified September 1961. The principal improvements were the increase in operating altitude from 20,000 to 25,000 feet; increase in gross weight from 38,500 to 39,400 pounds; and increase in fuel capacity from 1,728 to 1,936 gallons.

2. In April 1962, just last month, Fairchild received FAA certification for an operating weight of 42,000 pounds on the F-27F.

3. Engineering work is in process to certify a fuel capacity of 2,300 gallons. This new capacity will give a range of 3,300 statute miles.

4. In addition to the F-27A airline transport and the F-27F executive transport which are currently in production, Fairchild is offering growth versions—namely, the F-27G convertible cargo transport and the F-27E extended fuselage airline transport. These new aircraft will be available with either the Rolls Royce Dart 7 or the Rolls Royce Dart 10 engines.

As further proof that the F-27 is indeed, a modern aircraft, we need only to study the aircraft programs of other countries, and we will find that several countries are in the process of introducing twin engine, turboprop aircraft of the same size and general configuration as the F-27. The Russian AN-24 and the English Herald are very like the F-27 in configuration, size, and design performance.

The Japanese YS-11 and the English AVRO-748 are similar in size and design performance, but configuration differs in that they are low-winged aircraft.

In summary, the Fairchild Stratos Corp. is actively manufacturing and marketing the F-27 propjet transport. These activities involve the current F-27A and F-27F models, as well as growth versions including the F-27G and the F-27E.

These active programs are being undertaken because of the company's conviction that an expanding market exists for the F-27 series aircraft. The F-27 is the only turboprop aircraft being produced in the United States for commercial carriers. Although the F-27 is a modern, turboprop aircraft, fulfilling the needs for which it was designed, Fairchild would welcome the opportunity to work with the Government and carriers to modify the aircraft to fill additional local service aircraft needs.

We simply wanted to clear up any misconceptions that the aircraft was out of production and was not, in fact, a modern turboprop, turbojet aircraft.

Senator BARTLETT. Mr. Dresher, I, for one, am delighted that you appeared before the committee to correct the testimony heretofore

given. I happened to be here when that testimony was offered, and it made me feel sad. I have flown over the mighty Yukon and the shores of the Bering Sea in an F-27, and I was dismayed to think this airplane, which was a first-class passenger aircraft, was no longer in production.

Mr. DRESHER. Thank you.

Senator BARTLETT. In the opening page of your statement, what did you mean when you said 15 additional aircraft have been released for production?

Mr. DRESHER. By "released for production" we mean that the work orders have been released to shop, which permits the buying of engines and propellers and eventually the making of the detailed parts and assembly of the aircraft. Of these 15, ship No. 93 is complete. Ship No. 94 will be complete in June, and they extend one a month through August of 1963, with one exception. The month of August of 1962 there will be no aircraft delivered, since the plant will be on vacation.

Senator BARTLETT. And these are in addition, as I understand, to the 91 which have been sold and delivered?

Mr. DRESHER. Yes, plus one demonstrator which we have retained.

Senator BARTLETT. How long does it take to build an F-27, on the average?

Mr. DRESHER. About a year. The principal long leadtime items are certain castings and the engines, which we buy from Rolls Royce. Having those in our possession, we can build the F-27 in about 6 months.

Senator BARTLETT. What is the sales price?

Mr. DRESHER. \$890,000.

Senator BARTLETT. What is the speed of the F-27 fully loaded?

Mr. DRESHER. The maximum speed is approximately 300 miles an hour. The maximum cruising speed is about 270 miles an hour.

Senator BARTLETT. What is the passenger capacity in the most commonly accepted configuration?

Mr. DRESHER. Forty passengers in most configurations. Aloha Air Lines has 44, and I believe Pacific Air Lines has 44.

Senator BARTLETT. Mr. Dresher, is there an economic need, in your opinion, for a smaller aircraft than the F-27 to provide air service for small cities?

Mr. DRESHER. I think there is a need to provide better service to the smaller communities. However, our experience has been that as the aircraft becomes smaller the operating costs become larger. Receipt-mile costs increase and your ton-mile costs increase. For example, we have recently experienced in Hagerstown the beginning of a small airline known as the Hagerstown Commuter, operating a twin Beech with eight seats. They must have five people to break even.

Senator BARTLETT. How many?

Mr. DRESHER. Five to break even. Just to give you an example of an outdated aircraft, what a high load factor must be maintained, a DC-3 has an extremely high load factor to break even. The F-27 has about 50 percent or slightly over.

Senator BARTLETT. I beg your pardon?

Mr. DRESHER. The F-27 is slightly over 50 percent to break even.

The Bonanza I believe must have 50 or 51 percent to operate at break even, so that our feeling would be that it is a mistake to get too

small, but rather we would think that the airplane should be about the size of the F-27 and that more use should be made of it.

For example, a combination cargo-passenger airplane would be a more economical aircraft and still may only have 20 or 25 seats, but when you have a 20-passenger airplane you still have essentially the same expensive articles, engines and propellers, the same expensive systems in the aircraft, such as air conditioning, air pressurization. We say spread it over a broader revenue base.

Senator BARTLETT. In your judgment, Mr. Dresher, can an American manufacturer build, let us say, a 20-passenger turboprop pressurized aircraft, modern in every way, that could be sold for less than half a million dollars?

Mr. DRESHER. This, of course, is a personal opinion—you might say a Fairchild opinion—but if we were required to meet the standards which the public demands in modern aircraft, such as the standards of the F-27, we do not think it is possible to do it. To cite an example, the comparison of the Grumman aircraft with the Fairchild aircraft, the Grumman Gulfstream is at maximum a 19-passenger aircraft.

Senator BARTLETT. I beg your pardon?

Mr. DRESHER. It is at maximum a 19-passenger. This is a Grumman Gulfstream. Ours is a 40-passenger. But the Gulfstream sells for \$100,000 more than our aircraft, which just might mean that as parts and systems become smaller they become more expensive. We know this is the case in some instances. So we would feel that \$500,000 is an extremely low figure to maintain a certified transport, modern turbojet transport aircraft.

Senator BARTLETT. Do you believe that the F-27 could be so modified to become a combined passenger-cargo plane on the order you previously mentioned, which could economically serve the very small cities?

Mr. DRESHER. Yes, we do believe that, and we have made certain studies of it and done certain preliminary design. If you design a smaller aircraft, the first thing you do is repeat all of the expensive development cost. You have got to prove out all of your systems and work out the bugs. We have done that to the tune of about \$30 million. Eventually your airplane will be about the same fuselage width because it is carrying the same size people. It will be possibly a little smaller than the F-27, but we could use the existing space as cargo space, and when we get through we think we would have about the passenger capacity that the chairman, Mr. Boyd, suggested was an ideal capacity.

Senator BARTLETT. In your statement you said that Fairchild knows of no instance where the F-27 has been replaced by the Lockheed Jetstar.

Mr. DRESHER. Yes.

Senator BARTLETT. Not having had the opportunity to be here at all of the meetings, I did not know that that allegation had been made. Was it so asserted?

Mr. DRESHER. Yes. I think Mr. Boyd suggested that certain corporations were flying Fairchild F-27's and that there had been examples where they had been replaced by Jetstars, and the inference being that these used aircraft would be available in the feeder airline service.

Senator BARTLETT. One final question. Not having had an opportunity to read Mr. Arata's statement, is Fairchild for the bill?

Mr. DRESHER. Very much so. We think it is well managed to date. It has been beneficial to the carriers. It has been beneficial to the manufacturers. I think we are probably the primary beneficiary of the bill to this date so far as manufacturing.

Mr. BEEKS. In terms of average flight of 80 statute miles, what would be the direct operating cost of the F-27?

Mr. DRESHER. Direct operating costs, approximately 90 cents a mile. I believe this converts to about 6 cents per ton-mile.

Mr. BEEKS. What are your runway requirements in length?

Mr. DRESHER. I have some statistics on that in this book. Excuse me just a moment. The F-27B, which is our newest version, 42,000 pounds, will take off in about 2,700 feet. It will land at 37,000 pounds, which requires full dumping provisions, at about 2,000 feet.

Senator BARTLETT. Does the chairman of the committee have any questions to put to Mr. Dresher?

Senator MONRONEY. No, sir. I know of the good use to which many of the feeder lines have put the F-27, and some have completely modernized their fleet. As I understand it, you still have a line set up to production, do you not?

Mr. DRESHER. Yes, we do.

Senator BARTLETT. And are producing?

Mr. DRESHER. Yes, sir, one per month. This is not an ideal rate to produce. We feel we could go to five per month with probably a 15-month go-ahead. As I say, the long leadtime items are not always in your control.

Senator MONRONEY. I have no further questions.

Senator BARTLETT. Thank you very much, Mr. Dresher.

The next witness will be Mr. Jackson R. McGowen, of Douglas Aircraft. We have you here, Mr. McGowen, representing one of the great names in aviation, and we appreciate your pursuing your testimony in your own manner.

**STATEMENT OF JACKSON R. MCGOWEN, VICE PRESIDENT, DOUGLAS AIRCRAFT CO.; ACCOMPANIED BY LLOYD ASCHENBECK, MANAGER, MARKET RESEARCH; AND HOWARD MAGINNISS, WASHINGTON OFFICE, DOUGLAS AIRCRAFT CO.**

Mr. MCGOWEN. Thank you very much. I have with me Lloyd Aschenbeck, the manager of our Market Research Department, to my right, and Howard Maginniss, of our Washington office, on my left.

With the indulgence of the chairman, I would like to have Mr. Aschenbeck read my statement.

Mr. ASCHENBECK. Mr. Chairman and members of the committee, it is a privilege to appear before this committee and be given the opportunity of making a statement in support of legislation to extend and broaden the scope of the act relating to aircraft loan guarantees. The people of this country should be gratified to know that this committee has shown a concern for a segment of our transportation system which reaches deeply into the grassroots of the Nation.

Since its inception 5 years ago, the act under consideration has helped make modern air transportation available to a substantial por-

tion of the American public. Amendments presently under consideration would, in our opinion, contribute further to the advancement of the aviation industry and increase the benefits which have accrued to a broad spectrum of the Nation's population.

Since its inception 5 years ago, the act under consideration has helped make modern air transportation available to a substantial portion of the American public. Amendments presently under consideration would, in our opinion, contribute further to the advancement of the aviation industry and increase the benefits which have accrued to a broad spectrum of the Nation's population.

With your permission, we should like to discuss this subject in the light of the extensive experience which Douglas Aircraft Co. has had with airline operators during the past quarter century. We will have some comment also on the subject of encouragement needed by that portion of the aviation industry which is devoted solely to the carrying of cargo.

With respect to increasing the amount of the loan guarantee, we feel the subject is most timely. As we are all aware, more than one-half of air travel in this country is over relatively short ranges.

The local service carriers, as a logical extension to the major trunk services, are bringing the convenience and comfort of air travel to smaller communities throughout the United States. They have been faced with many problems, not the least of which was providing a level of comfort to the members of these communities equal to that provided by the major trunk carriers to the large metropolitan areas. The success of the feeder lines in meeting the needs of the traveling public is shown in a substantial growth rate of passenger-miles experienced by these carriers. It is significant to note that since the beginning of guarantee loan legislation and the addition of modern aircraft to the local service fleets the passenger-miles they have flown has nearly doubled. Additional equipment will be needed by them to meet future traffic growth. Their customers are entitled to the speed and comfort of improved modern aircraft. These carriers recognize the demands of their market and have expressed a great interest in new aircraft.

It is highly significant that there is being proposed at this time an amendment to Senate bill S. 2815 to include the scheduled all-cargo carriers. For many years the entire aviation industry has been aware of the tremendous potential in air cargo, and today the industry's revenue from air cargo is more than four times the level of passenger revenue in 1938. In 1961 revenue from air cargo amounted to over \$125 million. It is already big business. Air cargo has grown in this manner as a result of the activity of the major trunk carriers and the highly significant efforts of the all-cargo operators.

In most cases, cargo has been carried in converted passenger planes which do not have the economic efficiency of modern pure jet cargo transports. This handicap has been one of the factors which has restricted the growth of air traffic. The high operating cost has made it necessary for the carriers to charge a high rate for their service. For this and other reasons, air cargo initially was used primarily for handling emergency shipment problems.

With the advent of modern jet cargo aircraft, the cost per ton-mile is considerably less than half of the costs incurred by piston engine aircraft. This economic breakthrough has permitted the carriers to

reexamine their ratemaking formulas, and in many cases new lower rate structures are now possible which are truly competitive with surface transportation. The CAB has recognized this and has recently permitted a downward adjustment of the cargo rate structure.

Probably one of the best examples of the effect of lower rate structures on increasing cargo traffic may be found on the North Atlantic traffic for the year 1961. Since airfreight rates were reduced, monthly tonnage moved by air on the North Atlantic increased from 30 to 50 percent over the like month of the previous year. While there are many other factors involved in making lower rates an economic realization, the burden of proof falls on the capability of the transport vehicle to operate at lower costs. This has been accomplished with pure jet all-cargo aircraft which will soon be in airline service.

Because of the immensity of cargo movement—1.4 trillion annual ton-miles in the United States—it seems logical that the distribution business can support several types of air cargo carriers just as it has supported hundreds of railroads and thousands of trucking companies in this country for many years.

The all-cargo carriers have demonstrated an aggressive merchandising effort in the development of air cargo traffic. Along with the combination carriers, they have shown imagination in developing sound business principles which demonstrate to manufacturers and shippers the value and need of high-speed cargo movement in their distribution complex. By inclusion in this loan guarantee bill, the all-cargo carriers will be in a position to provide additional air cargo service to areas and industries who at present do not receive the benefit of air cargo service. The value of being able to move cargo by air between all sections of the country and the world will, in the long run, be of vital benefit to our national economy and to the kind of a world we are trying to build for future generations of Americans.

In addition to the cargo carriers, whose prime area of service is in the commercial field, is another segment of the industry sometimes referred to as contract carriers for the Government. The armed services are insisting, quite properly, that these carriers modernize their fleets. In my opinion these carriers who are properly accredited and certificated should be included in the benefits of this bill.

It is generally considered that an air carrier requires at least two aircraft of a given type in his fleet to maintain service reliability. Therefore, to be fully effective in supporting the cargo carriers the scope of the loan guarantee should be sufficient to cover the acquisition of a minimum of two modern all-cargo aircraft plus spares.

The expansion of this guarantee loan will also bring benefits to the airframe and engine manufacturing industry. This industry, which has for many years been one of the largest employers in our country and has contributed substantially to our favorable balance of trade, is at present faced with a lull in the requirement for large seating capacity jet aircraft.

In anticipating this low period in big jet sales, the industry has invested its own resources in the development of cargo configurations of these large aircraft which achieve the operating economy required to realize a profit while carrying cargo at a lower rate structure. These aircraft will find a significant application by the carriers included in the amended guaranteed loan bill.

In seeking to support and expand this country's air transport, the Congress is following a traditional approach that has been applied in behalf of virtually all forms of transportation in this country throughout our history. We need not detail for this committee how, through the granting of Federal lands to railroads, assistance to States for highway construction, and subsidies to the maritime industry our Government has fostered and stimulated our great progress in the arts of transporting things and people.

This country's magnificent achievements in the realm of transportation, and particularly the benefits that have accrued to us in times of national emergency, testify to the farsightedness of those in Government who have understood the need for Federal interest and support of all kinds of transportation.

May we express our appreciation of the opportunity given us by the chairman and the committee to appear here to discuss matters which we feel are of vital importance to the progress of aviation and to the continued economic growth of our country. If our company can be of service in your deliberations, please do not hesitate to call on us.

Senator MONRONEY. Thank you very much for your courtesy in appearing and reading your splendid statement.

Taking up the first part of the bill, I note you are in favor of the portion of the bill which would extend and perhaps increase the loan guarantee program for the feeder airlines.

Mr. McGOWEN. That is correct. We are.

Senator MONRONEY. As you state on page 2, you are aware that more than one-half of all travel in this country is over relatively short range. Does Douglas have on its agenda or in blueprint stage an airplane that would suitably work in this category?

Mr. McGOWEN. We are studying this field very strongly. We have two concepts. One is a fairly modern trunkline jet of about 48 to 60 passengers. Another is an STOL type of aircraft, from 10 to 25 people, somewhere in that range, which could serve smaller cities.

We have not completed our studies on these two projects. There are many problems in the smaller airplanes as far as the cost of manufacturing and the market potential. We are proceeding as rapidly as we can to tie down the cost picture, the potential market picture, and we hope that inside of 60 days we will have some sort of firm idea where we think we should go so we can discuss it with the feeder line operators.

Senator MONRONEY. I would not be out of line if I made the assertion that the backbone of the air transport business is still the old DC-3; is that not a correct statement?

Mr. McGOWEN. That is completely correct.

Senator MONRONEY. Probably an understatement, because it is more than the backbone. It is probably the hands and legs, too.

Mr. McGOWEN. It is the backbone for several reasons, one of which is it is awfully hard to beat it when it is paid for, and we have to build something that has to be amortized.

Senator MONRONEY. That is true, but on feeder airline routes you have to have better than 80 percent load factor to break even, according to the testimony given here by the feeder lines themselves.

Mr. McGOWEN. That is what I understand, sir.

Senator MONRONEY. Therefore, unless you have a high-density run it is very difficult for them to make it pay. The last DC-3 that was made, I think, was in Oklahoma City in about early 1946.

Mr. McGOWEN. That is about right, sir.

Senator MONRONEY. And the C-47 today is working on airlines of the world and doing the rough and tough jobs everywhere. Do you know of any other comparable American-made plane that is in the process of development or testing?

Mr. McGOWEN. No, sir, I do not know of an airplane other than the F-27 which sets out to replace the DC-3.

Senator MONRONEY. Of course, the F-27 is rather large and rather expensive. This is an almost million-dollar plane today, and is a longer haul plane, I think, than many of the shorter up-and-down routes would require and by no means near an STOL or VTOL.

It seems to me with the state of the art and being able to do the spectacular and fabulous things that we have been able to do in our supersonic and military aircraft, as well as in the very spectacular DC-8 and 707 and Convairs, that there must be somebody in the aviation industry who could be smart enough to dream up a 250-mile-an-hour airplane that would be economic over 100-mile stops or less.

Mr. McGOWEN. I do not think there is any question it can be done in the state of the art. The problem has been the great amount of money the industry put into buying jets, a lot of which has not come back yet, and the uncertainty of the market.

Now, this bill that you are discussing today could have a very great influence on the industry's interest in building such an airplane. If the smaller airlines can afford to buy them, we can certainly afford to build them.

Senator MONRONEY. If you could get quantity production on this you certainly could afford to. In other words, as you increase the numbers your cost goes down rather spectacularly. As I remember, in the old days a DC-3 when you built it for the airlines I think cost in the neighborhood of \$150,000, measured by 1939 dollars.

Mr. McGOWEN. I think the average was about \$110,000 in 1939.

Senator MONRONEY. I thought with all equipment it was probably close to \$150,000, but when we were knocking out hundreds of them for the military I think the cost dropped to around \$75,000.

Mr. McGOWEN. I do not recall the exact number. I think the airframe dropped down close to \$40,000.

Senator MONRONEY. And, of course, these planes are still at work and getting older. You do not any longer manufacture the spares for it?

Mr. McGOWEN. Yes, sir; we do manufacture spares.

Senator MONRONEY. You still manufacture spares? That should be a pretty good business.

Mr. McGOWEN. It is not a very large business, because there are so many surplus parts that we only get little dribbles, things nobody can find elsewhere.

Senator MONRONEY. The feeder line boys tell me they are running pretty low. When a man gets a wing or something that he manages to find someplace, they do not offer it for sale. They offer it for bidding, and the highest bidder gets it. This is the progress on low-time motors and everything else. Motors are no longer built, are they?

Mr. MCGOWEN. I do not believe they are, but I think spares are still built. I do not think the engine is being assembled yet.

Senator MONRONEY. We noted when this bill was passed 5 years ago there were 200 DC-3's in the feeder line fleet, and now they have 250, so when people tell me they want to study the need for a DC-3 replacement it is like studying the need for sunshine or for rain—something you can almost accept as a fact without the verification of a lot of engineering studies and things of that kind. The question is: What kind of a plane? I understand the feeder line people have, under the leadership of the president of Allegheny, tried to or are trying to work out a set of specs that would be optimum for their purpose.

Mr. MCGOWEN. It will be very helpful to us to have that information.

Senator MONRONEY. You are not yet prepared to say what you think would be the ideal feeder line?

Mr. MCGOWEN. I think it is not so simple as what we think it should be, sir. It is what kind of a system or network of airlines will be developed here. If the feeder airlines spread out still more instead of skip stopping, but go to more and more cities, we are going to have a different situation than if they gradually grow up to be trunks.

Senator MONRONEY. I can tell you as a member of this committee and as a member of the Appropriations Committee for the subsidy that when feeder lines stop flying to smaller communities which they were created to serve and which they are subsidized to serve and become junior trunks they will have a difficult time obtaining any subsidy for their operations. If they wish to become junior trunks without subsidy, this is of course possible, but the subsidy feature is in the bill to provide for the service to communities of America that would be denied service under a junior trunk or trunkline concept.

Furthermore, I think there will be more and more resistance to spinning off by the trunklines of their so-called little bitty towns of a million or million and a half people that they want to overfly in their mad rush for the champagne flight between New York and Los Angeles or New York and Miami.

We do have, I think, a problem that is rather well defined and rather firm as far as the Government's participation in the program. These are to be feeder lines and the optimum plane that can be developed for that purpose would be the one that would meet the needs of their present type of run, with perhaps refinements, and, of course, there would be an ingress and egress to the system. You cannot freeze any system. There will still be the need for a short-haul plane that can get in and out of the 5,000-foot field and to carry the daily pickup and unloading traffic on stops of 50 to 100 miles.

Therefore, the jetplane, that I believe Douglas has been looking at, might be a suitable replacement for the Electra and Viscount but hardly for the category that I am describing.

Mr. MCGOWEN. Not for the grassroot cities.

It is one where you can go from a big city to a small city but not a series of small towns.

Senator MONRONEY. Of course, the thing that worries me is that the only American plane today that is still demanded and still used by the airlines finds all of our three great manufacturers—one is

out of the passenger business at the moment, I believe, and there were four—competing in exactly the same category, and nobody building a replacement for the intermediate range that the DC-4 well served, and the DC-6 and the Electra were designed to do. If you want an intermediate range plane you have to go to England to buy a Viscount, or if you want to buy a new plane similar to the old DC-3 size and for short-range use I guess you would have to go to France or to England and get the Dove, which is a little too small for us. Perhaps you would go to Germany, which has now announced its plans for a Heinkel. This leaves the United States a very small and narrow category of world aviation. We have the developing nations which may skip the railroad and the highway age. It would cost them tens of millions of dollars to build their highways to link their capital with the towns a hundred miles away from them. Yet by air they can be reached with a 1-mile runway on each end and a capable plane to serve them.

We would just hate to see American aviation fall completely out of the picture as our three great builders overcompete for the one and undercompete for everything else that is needed in the civilian inventory.

Mr. McGOWEN. I can assure you, sir, that we are most interested in this market and are studying it. I think it involves FAA thinking, your thinking, and the feeder airlines thinking of what is it they really need and what the requirements, and we would be prepared to come up with an airplane to meet it.

Senator MONRONEY. It would not have to be the heavy weight or the highly stressed or sophisticated plane that you must build for 550-mile-an-hour speeds. You have greatly improved motors, do you not, today in your turboprop, greatly improved development of wings and all the other characteristics, some of which have been rather thoroughly tested?

Mr. McGOWEN. We definitely have the capability to do the job. No question about it.

Senator MONRONEY. Do you think it is possible for the airframe companies with the state of the art today and with motors and propellers that have been developed, and new wing design, to build an STOL plane that could step into an area that the helicopters have not been quite able to get their costs down to and been able to serve, such as the suburban traffic pickup in and out of the big cities? Here is an untapped market of tens of millions of people who are seeking rapid transportation, who cannot get there by commuter trains in time. The highways are too crowded and you have these sprawling megalopolises that run almost as far as San Diego from Los Angeles or out 50 or 75 miles from Chicago or New York City or other great cities. Yet, perhaps, with the proper development of a plane that could work both in this suburban traffic and also on the feeder lines it could find a very unusual market that would be very useful.

Mr. McGOWEN. There is no question but that the economics of the helicopter can be exceeded by an STOL airplane by quite a lot. There is a possibility that VTOL airplanes could substantially improve over present cost levels, but certainly in this field of either STOL or VTOL by 1970, let us say, we should have some very fine—several sizes of very fine airplanes available.

Senator MONRONEY. I hope you do not have to wait until 1970. I am afraid these DC-3's will be worn out by that time and we may have to have bicycles.

It also seems to me that there is a tremendous market in the military. We are still using DC-4's and DC-6's and a lot of DC-3's as military liaison planes, for intertheater transportation. Even for lightweight freight and cargo for military air transportation there is this sizable demand for a fast, but medium- or short-range, aircraft that I would think the military would itself be anxious to have.

Mr. MCGOWEN. We have a whole family of designs of aircraft of the type you are speaking of which are suitable for liaison and assault transport use, and so forth. I think that to give this program real impetus that a common requirement between, say, the Army and Air Force and the commercial feeder line could be very useful.

Senator MONRONEY. In other words, a developmental program which would possibly get the Army and perhaps the Air Force and the FAA to underwrite the development of five prototypes or something like that. These planes could be flown, seen, used, and tested thoroughly. Then you could turn the line on and probably complete this before 1970, could you not?

Mr. MCGOWEN. We could arrive at this in a very short time.

Senator MONRONEY. If an arrangement or agreement could be reached between the civil and military authorities for the procurement of five prototypes, with the development cost factor included in their cost so it would not be made at a loss, would a company like Douglas be interested in producing such a plane?

Mr. MCGOWEN. If I understand you, if you mean this group of development costs, we certainly would. There is no question about it.

Senator MONRONEY. This is not the kind of development cost we are talking about when we talk about the supersonic transport.

Mr. MCGOWEN. I understand that perfectly.

Senator MONRONEY. The all-purpose jet. I have heard it estimated that for perhaps \$5 or \$6 million you could develop this type of plane and the prototypes. You would, of course, not do that under the military procurement development system.

Mr. MCGOWEN. Offhand, I do not know what the number would be. I think it might be more than \$5 or \$6 million, but it certainly would be a lot more reasonable than we are talking about in supersonics.

Senator MONRONEY. We are talking about \$50 million of the FAA's budget for a set of blueprints, and some of the fine companies like yours are bidding on doing some of this work. But blueprints do not fly, and then there is a \$300 or \$400 million price ticket at the end of that to get the airframe and motors, if and when somebody can dream up one that will not blow all the windows out of the cities and towns they fly over.

It seems to me that there is need for us to go back to the area that they have flown over so rapidly and find out if we are not leaving the gold under our doorstep when we look to the far end of the rainbow for something that will pick our airframe industry out of the doldrums.

Mr. MCGOWEN. If we can agree on the configuration, I think we could fly five airplanes in the summer of 1963.

Senator MONRONEY. By the summer of 1963?

Mr. McGOWEN. Yes.

Senator MONRONEY. Would it be possible for you—you do not need to answer this if it is too wild a guess—to produce such a replacement? It would have to be a very good, efficient plane and built with the quality of the old DC-3, in a range between \$400,000 and \$500,000 per airframe, providing you had a suitable number of orders before the construction started?

Mr. McGOWEN. Obviously, I think we could build an airplane for \$400,000 or \$500,000, but it would involve a fairly large quantity, more than we could reasonably count on at this time as an initial order. I do not really know what the answer is. I think it is not too far from right. It might be \$700,000 or \$800,000, but it is in that area.

Senator MONRONEY. In thinking of feeder service, many of us think that frequency of service may be one of the answers to "beefing up" runs where, today, passengers find themselves unable to use them, with one flight at 6 o'clock or 7 in the morning and returning at 8 or 9 at night. You do not have convenient departure times to even make connections with your trunkline service, to which much of the traffic goes. You certainly need something that would be attractive enough to keep people from driving two or three hundred miles in their car rather than getting to their destination hours too early or hours too late.

You feel whatever is done in this field nothing the Congress could do would be more helpful than extension of this feeder loan guarantee bill?

Mr. McGOWEN. I do not see how you could give a better climate for the airlines to be able to go forward with such a problem, that is correct.

Senator MONRONEY. After all, they have 250 DC-3's, still many more than they have F-27's and Convairs that they have purchased under this loan bill.

Going back to your aircargo, you were, of course, one of those who submitted designs for the so-called all-purpose cargo and compromise cargo configured aircraft?

Mr. McGOWEN. C-141.

Senator MONRONEY. Later called the C-141.

Mr. McGOWEN. Yes, we were.

Senator MONRONEY. I thought you had a very good design and one that would perhaps have been more satisfactory to the civilian operators because of the extra bonus in the upper bubble for passengers. Fifty or seventy passengers flying in the bubble on top would make a 35-percent cargo load factor more economical. The high wing permitted large cargo capability, but it apparently did not meet all the military requirements.

Mr. McGOWEN. It went beyond military requirements.

Senator MONRONEY. It had not been asked for and therefore could not be evaluated properly in price. Your DC-8C—if the figures that were given to us this morning were approximately right—would carry 50 tons or 100,000-pounds-plus at a 3,500-mile nonstop range, at between 3 and 4 cents per ton-mile direct operating cost?

Mr. McGOWEN. Actually, what you call payload depends on the operator quite a bit. The way we normally categorize it, the plane

carries around 94,000 pounds, or 47 tons. If an operator has that kind of cargo he can afford to strip a lot of weight out and he can get some more, if he wants a cargo loading system that drops him down to perhaps 91,000 pounds. I will try to find the range for you in just a moment.

It would carry about 95,000 pounds, about 2,500 nautical miles, and about 75,000 to 80,000 pounds 3,500 nautical miles.

Senator MONRONEY. And the direct ton-mile cost on that range would be about what?

Mr. MCGOWEN. It should be  $3\frac{1}{2}$  to 4 cents a ton-mile.

Senator MONRONEY. That is less than the ton-mile direct operating cost that was one of the requirements for the C-141, was it not?

Mr. MCGOWEN. Yes. That was a different type of cost accounting they were speaking of.

Senator MONRONEY. I thought it was standard cost accounting.

You mentioned dropping out the cargo-loading facilities. I understand that some new cargo-loading facilities have been perfected which fit into the DC-8 or the 707 in which your ball bearings would serve as a turntable to make a wide front door loading possible, to load or unload in almost recordbreaking time.

Mr. MCGOWEN. That is correct. That is 463 pallet-loading system, which Douglas did some of the original studies on for the Air Force and was the contractor on it. That same system will go in any of the Air Force inventory airplanes.

We also have a Douglas system which is very similar but much lighter and cheaper, in which we use flexible pallets instead of rigid pallets, and each of them both work very well. I think you can unload in about 15 minutes.

Senator MONRONEY. Fifteen minutes with how many men?

Mr. MCGOWEN. I think about four men would do it.

Senator MONRONEY. About four men. And that uses a forklift up to the door?

Mr. MCGOWEN. It depends on the facilities you are using. It can be a lift truck or it can be a fork or a ramp that lets it down with the level of the airplane. With a forklift it will probably take you half an hour, because you have to make several trips.

Senator MONRONEY. But ramp loading such as you use on the jets at San Francisco or Idlewild would enable it to load faster; is that correct?

Mr. MCGOWEN. Yes.

Senator MONRONEY. About 15 minutes?

Mr. MCGOWEN. I think you can load the airplane—in fact, in the KC-135 at Travis they demonstrated the loading of 15 minutes on the system.

Senator MONRONEY. Would you be in favor of expanding the bill under the Smathers amendment to make the scheduled air carriers, trunkline carriers, eligible for this loan guarantee as well?

Mr. MCGOWEN. I would say "Yes," and the reason I say that is that the nature of the bill itself clearly states that if the operator is unable to get satisfactory terms elsewhere he can get them here, so it excludes by its wording anyone who can get regular bank loans at good interest.

Senator MONRONEY. With most of the scheduled airlines now at this point it is pretty hard for them to get a loan from everybody.

Mr. McGOWEN. It might be now.

Senator MONRONEY. In other words, their credit is pretty well committed for the transition of the aircraft to jets. There would be little chance in the, as yet, undeveloped field for many of the scheduled lines to take a gamble, or have their bankers take a gamble on adding more jets to the fleet if the bill were limited to the use of the jets primarily for air cargo. That might be the case of the general airplane market today, is that not true?

Mr. McGOWEN. I believe so. I think this bill serves many purposes, one of which is to encourage the feeder line capability and operating cost and service. The other should be to upgrade and improve the air cargo service. In so doing, we believe strongly that the market will grow so fast as to create a new industry here, the same as the passenger market, over the next 15 years.

Senator MONRONEY. Now, are you not handicapped in making sales to airlines or to the all-cargo lines in that you are competing with foreign manufacturers who have designed all-cargo aircraft, such as the CL-44 or the Argosy? There is no telling what else is coming up where their governments will guarantee the loans for sale here, but you cannot have the same credit facility for the sale of your planes to American carriers.

Mr. McGOWEN. That is absolutely correct. Not only that, but we are losing a lot of business for our people because some of the airlines won't buy the oversea airplanes and cannot finance them here. I think it is very important that these people be allowed to prove what they can do with modern equipment and I don't see any other way for them to get the financing.

Senator MONRONEY. Do we not, as a Government policy, and I think it is a wise one, try to keep American-made aircraft on the airlines of the world? But if you sell a plane to a foreign country, even without proving that other financing is not available, our Government, through the Export-Import Bank or other sources, will guarantee that loan to you as a manufacturer, will they not?

Mr. McGOWEN. That is correct.

Senator MONRONEY. What are the terms of those generally? Can you give us that?

Mr. McGOWEN. I cannot remember the exact percentage. I think we carry about a 15 percent.

Senator MONRONEY. Eighty-five percent loan over how long a period of amortization?

Mr. McGOWEN. Seven years.

Senator MONRONEY. It will not be quite as good as proposed in this bill. That would be 90 and 10.

Mr. McGOWEN. I think there is a tendency in the Export-Import Bank to think in a little longer terms. Most of the other countries are giving 10-year terms.

Senator MONRONEY. Have you noticed diminishment in percentage of American-made aircraft that are being used abroad that might be attributable to our lack of financing or our lack of variety in the types of aircraft?

Mr. McGOWEN. Well, we, of course, have lost sales. I think you will find that Boeing has too, to other countries, who had better financing. I would say that we have lost more sales, however, by being unable to afford to build all the spectrum of types that the market requires.

No one in this country has yet built a small medium jet and no one has built a small feeder line because of capital requirements basically. We certainly have lost many orders because of differences in improvements and credit terms by other countries.

Senator MONRONEY. We have no plans for the short-haul, pure jet traffic to match the Caravelle, do we?

Mr. McGOWEN. That is true.

Senator MONRONEY. Are you still agent for Caravelle?

Mr. McGOWEN. That agreement was terminated about the first of the year.

Senator MONRONEY. That plane has to carry 12½-percent tariff on top of its regular cost?

Mr. McGOWEN. Yes, it does, that is true. On the other hand, I am not speaking of the Caravelle, which is a very fine airplane, but in general, our competitive airplanes from overseas are at least in part financed by the government concerned and, in many cases, they pay engineering and tooling costs just to have an export item for sales.

This means the 12½ percent can be overcome by the country of origin by simply paying it in fact. We have found no evidence that their prices with the 12½ would be any higher than ours without it.

Senator MONRONEY. If we were able to build the types of airplanes which do not exist now or competitive airplanes with large cargo capacities, we would be under the foreign prices by about 12½ percent, is that what you mean?

Mr. McGOWEN. Quite the contrary. I think the foreign countries would tend to make up the 12½ percent through government support of the airplane.

Senator MONRONEY. I see. I misunderstood.

Do you feel the present total cargo, that is listed as freight for the certificated scheduled industry, including domestic and international, which runs \$172,964,000 for the 12-month period ending September 30, 1960, out of a total volume of nearly \$3 billion, is a very small portion of the earnings that still come in from cargo operations?

Mr. McGOWEN. It is only 5 percent, but bigger than the entire air business of 1938 or 1939.

Senator MONRONEY. It certainly has been growing very slowly.

Mr. McGOWEN. Cargo?

Senator MONRONEY. Cargo.

Mr. McGOWEN. Percentagewise it has done very well.

Senator MONRONEY. Percentagewise from nothing looks pretty big. However, compared to \$3,127 million worldwide, it is not a figure which proves that we have done an excellent job in the certified domestic field. In the certified domestic picture, we have \$100,881,000 vis-avis \$2,257,875,000. Of course, we do fairly well on express, but that is not the thing that we are actually talking about here.

Do you feel that a drastic lowering of the rate through the more efficient planes and through more efficient ground handling, that both would have to represent a major reduction from the present tariff to drastically increase the volume of cargo that we move by air?

Mr. McGOWEN. We have made many estimates. I think by and large, we have been conservative compared to the industry, but we show about a 20- to 25-fold growth by 1970.

Senator MONRONEY. 20 to 25 times?

Mr. McGOWEN. Provided we can get the cost down to about 50 to 60 percent of present costs.

Senator MONRONEY. 50 to 60 percent of present costs. If other costs could be reduced as much as the direct operating costs per ton-mile that is offered by the DC-8 or the 707-321, would this be achievable?

Mr. McGOWEN. I think so, yes, if you could do that. Perhaps it is a little harder to knock the other down, but volume helps the other costs quite dramatically. The handling costs on the ground is the function of the volume of business you do and the advertising and sales expenses is a function of the volume, so that I think it is conceivable that that can be reduced in the same quantity.

Senator MONRONEY. In other words, you can increase the cargo figure 20- to 25-fold. You can meet these expenses on the ground, you feel, if they have been met in the air by these new planes?

Mr. McGOWEN. Yes.

Senator MONRONEY. We thank you very much for the courtesy of your appearance here, sir. We hope that Douglas will be interested in replacing their great baby that is still the greatest bird in the air in service and in number of people carried and miles flown.

Mr. McGOWEN. Thank you very much for letting us appear.

Senator MONRONEY. Could I ask, is it not true that the DC-3 was not designed, but merely stretched out from the DC-2, in order to make a sleeper plane for C. R. Smith of American Airlines who thought that people would want to sleep on their way across the country?

Mr. McGOWEN. It was split apart in effect and widened one row of seats from a DC-2 and more powerful engines and little larger wings.

Senator MONRONEY. How many weeks or months did it take you to do that?

Mr. McGOWEN. I think it took about a year, including a little certification, if I recall.

Senator MONRONEY. But it wasn't too spectacular a time-consuming job?

Mr. McGOWEN. No.

Senator MONRONEY. Thank you very much.

The next witness is J. B. Connelly, vice president, assistant general manager of the Boeing Co. accompanied by Clarence F. Wilde, manager, domestic sales. We are happy to have you, Mr. Connelly and Mr. Wilde, and you may proceed to give us the benefit of your testimony on this matter.

Mr. CONNELLY. Thank you, Mr. Chairman.

**STATEMENT OF J. BRUCE CONNELLY, VICE PRESIDENT, ASSISTANT GENERAL MANAGER, BOEING CO., ACCOMPANIED BY CLARENCE F. WILDE, MANAGER, DOMESTIC SALES, BOEING CO.**

Mr. CONNELLY. Mr. Chairman, I would like to say that we greatly appreciate this opportunity to express our views in connection with Senate bill 2815.

I am here on behalf of the Boeing Co. to support passage of S. 2815.

The Boeing Co. has been engaged during the past several years in the design and manufacture of its Model 707, 720 and 727 commercial jet transports, and more recently with its Model 707-320C convertible cargo-passenger jet transport. To date, we have sold a total of 459 of these commercial jet transports and have delivered over 280. In the military support area we have designed and are building a large fleet of KC-135 jet tankers used for aerial refueling of Strategic Air Command bombers. Also, we are building a fleet of C-135 logistic transports for use by the Military Air Transport Service. It is with this background of experience that we have formulated our opinions on the merit of S. 2815.

We have been studying the potential aircargo market for many years and have devoted a great deal of engineering effort to the design of a modern jet cargo transport which will provide improved capability in aircargo movement comparable to the improved capability of our modern jet passenger transports now in service.

We are convinced that the use of cargo aircraft of the type represented by our model 707-320C will contribute in large part to the early development of the full potential growth of aircargo movement. These aircraft can transport 80,000 pounds of cargo over 3,700 statute miles at a speed of 550 miles per hour and with palletized loads they can be unloaded and reloaded within 1 hour. Further, they will carry most of the bulk cargo items which can be shipped by air. Because of their great speed, high utilization, and large load-carrying capabilities they can provide the improved service and economics essential to rapid expansion of the commercial cargo market.

Our estimate of the potential commercial cargo market for the years 1966 and 1971 (based on the assumption this type of equipment will be used) and comparison with actual figures for 1960 is shown in the following table:

[Figures are billions of ton-miles per year]

	1960	1966	1971
Total worldwide aircargo movement.....	1.7	5.0	14.0
Total U.S. movement of aircargo.....	.8	3.0	9.2

This forecasted growth translated into requirements for aircraft would call for 200 jet cargo airplanes of the model 707-320C type in the world's airlines by 1971.

Senator MONRONEY. This growth you outline is about 2½ times the volume over 1960, by 1966, and about 8 times the growth by 1971, worldwide. At what going price range for the cargo per ton-mile are you figuring this? This is not at the same rate?

Mr. CONNELLY. This is not at the same rates that prevail today. It is about 60 percent of today's rates.

Senator MONRONEY. Sixty percent of today's rates?

Mr. CONNELLY. Which are on the order of about 24 cents per ton-mile at the present time.

Senator MONRONEY. I see; 60 percent of that?

Mr. CONNELLY. Right.

We would point out that estimates made in independent studies and reports by Prof. Stanley H. Brewer of the University of Washington Transportation Department, by United Research, and by the Stanford Research Institute are in substantial agreement with the estimate in the above table.

To summarize, jet cargo aircraft are now available which because of their speed, load capacity, high utilization capability and low operating cost, will enable the aircargo carriers to provide greatly improved service at substantially lower rates. We believe this in time will result in full realization of the aircargo growth potential and profitable operations for the carriers.

In addition to the need for a strong U.S. commercial aircargo capability is the urgent requirement for an adequate standby airlift capability for military use in cases of emergency. This additional requirement has been amply stressed by the Secretary of Defense, the Commander of the Military Air Transport Service, the Project Horizon Report and by your committee.

The 707-320C type aircraft acquired and to be acquired by U.S. aircargo carriers fully meet the modernization requirements of the Military Air Transport Service and will be an important addition to the Civil Reserve Air Fleet.

We agree with the objectives of developing a strong U.S. airlift, for civil and military use without cost to the taxpayer, and we believe this objective can best be achieved by enactment of the legislation proposed in S. 2815.

We feel that it would be extremely difficult, if not impossible, for the scheduled air cargo carriers to finance the acquisition of modern cargo jet transports in any other way. At the same time, if these carriers can acquire modern jet equipment under the provisions of this legislation, we believe they will be able to repay their loans and operate at a profit.

However, we would recommend that this proposed legislation provide for guaranteed loans up to \$24 million rather than \$5 million. To purchase one cargo convertible jet aircraft with spare parts would total approximately \$9 million. Two aircraft with spare parts would cost the airline approximately \$16 million. And, three aircraft plus spare parts would total approximately \$23 million. To operate a fleet of less than two or three aircraft is difficult and expensive.

We would also recommend that the benefits of this legislation be extended to scheduled passenger carriers who are engaged in aircargo operation and have a similar need for financial assistance in order to modernize their aircargo fleets.

That is the end of our statement, Senator Monroney.

Senator MONRONEY. Thank you very much, Mr. Connelly. Have you had overtures from some of our scheduled air carriers as to interest in going heavier into aircargo through the addition of these 707-320's?

Mr. CONNELLY. Yes, we have, sir.

Senator MONRONEY. Did they evidence a feeling that they could not support the purchases without the Government guaranteed loan?

Mr. CONNELLY. With the carriers with whom we have discussed this matter at the present time, we believe the financing can be accomplished without the benefits of this legislation. However, it is quite possible in our opinion there will be others who may require this type of assistance.

Senator MONRONEY. You mentioned the C-135's. This is not the same plane you are talking about here, the 707-320. That is a smaller plane, is it not, and does not even have turbofan motors. Is that correct?

Mr. CONNELLY. Yes, we have delivered or will deliver a quantity of some 45 of the C-135's with turbofan engines. It is a smaller airplane.

Senator MONRONEY. It would not have the gross cargo capacity, at say, 2,500 and 3,500 miles?

Mr. WILDE. That is correct, lesser capacity and less range.

Senator MONRONEY. You don't know what capacity it has?

Mr. WILDE. In cubic capacity, in the neighborhood of 75 percent.

Senator MONRONEY. Of the big one?

Mr. WILDE. Of the 320.

Senator MONRONEY. Range about the same?

Mr. WILDE. For full payload, for each airplane, the range is about the same.

Senator MONRONEY. These all have overocean capabilities?

Mr. WILDE. Yes.

Senator MONRONEY. And the purchase order was changed from the pure jet, after it was made, was it not, to the fan-jet?

Mr. CONNELLY. This is correct with respect to the 45 airplanes.

Senator MONRONEY. You delivered some without the turbofan, did you not?

Mr. CONNELLY. That is correct.

Senator MONRONEY. How many?

Mr. CONNELLY. Fifteen.

Senator MONRONEY. Then the others came through from the factory with the turboprops?

Mr. CONNELLY. This is correct, sir.

Senator MONRONEY. Would you favor extension of this loan to supplemental air carriers as well as certificated lines, provided the supplemental bill is ever passed?

Mr. CONNELLY. Yes, we would.

Senator MONRONEY. Do you feel it would be necessary to move the guarantee above the \$15 million recommended to cover two complete aircraft?

Mr. CONNELLY. Yes, sir.

Senator MONRONEY. Even at the 90 percent—you said about \$9 million per copy?

Mr. CONNELLY. I would say these figures, Senator, do not take into consideration other than the complete purchase price of the airplane plus spares. So it is conceivable an adjustment could be made here. However, it should be recognized that these figures will vary with individual customers, depending upon what their particular requirements are. The requirement for line spares on certain route assignments may require a higher volume of spares than in the case of another operator, so this is not a constant figure. I would say that the figure of \$25 million should certainly cover almost any circumstance that might develop.

Senator MONRONEY. Would the \$9 million per copy cover the new loading machinery and things of that kind?

Mr. CONNELLY. Yes, sir.

Senator MONRONEY. This could be loaded or unloaded almost anywhere where you had a forklift?

Mr. CONNELLY. Standard forklift truck—this is correct.

Senator MONRONEY. Take containerization where you have better facilities with ramps and all—that would merely speed it up?

Mr. CONNELLY. Right.

Senator MONRONEY. Are you interested at all in the feeder airline sections? You were here when we discussed the need for short-haul aircraft?

Mr. CONNELLY. That is right. At the present time, Senator Monroney, we have what we refer to as a "family" or airplanes. We have the model 707-320, which is our long-range intercontinental airplane; we have what started out to be a transcontinental airplane in the 707-120. We designed, built, and delivered a sizable number of what started out, I should say again, as medium-range airplanes in our 720, and I say "started out" because the state of the art has again caught up with us and taking the 720 airplane, for example, once this airplane was fitted with turbofan engines, it became a transcontinental airplane.

You are familiar, I am sure, with our latest model in the passenger field, the model 727, which is designed to operate up to maximum ranges of 1,800 miles, but in the main is anticipated to serve the requirement from, say, 300 to 1,200 miles. This is the smallest member of our so-called Boeing family of jet aircraft.

Senator MONRONEY. That is trimotored, is it not?

Mr. CONNELLY. Three-motor airplane.

Senator MONRONEY. Two in the tail and one on the nose?

Mr. CONNELLY. No; all three in the tail. The third engine is mounted aft of the two side engines with an air intake forward of the fin.

Senator MONRONEY. That hasn't been flown yet?

Mr. CONNELLY. No, this airplane will fly in October or November of this year.

Senator MONRONEY. What is the anticipated price tag or ticket?

Mr. CONNELLY. The price at the present time is, including what we call a normal number of customer changes, about \$4¼ million.

Senator MONRONEY. What is its seating capacity?

Mr. CONNELLY. Full tourist configuration, this is in the neighborhood of 130 and in a dual configuration, around 94.

Senator MONRONEY. In other words, it has a little more than the 720 in your dual configuration?

Mr. CONNELLY. It is a smaller airplane. It is approximately 70 percent in the body interior of the 720 airplane.

Senator MONRONEY. You compare this to an intermediate range?

Mr. CONNELLY. Well, we call it a short- to medium-range airplane.

Senator MONRONEY. Not very short?

Mr. CONNELLY. Not the extreme short range, no. It is not a feeder line airplane.

Senator MONRONEY. You have nothing on the drawing boards, no interest in a slow STOL aircraft?

Mr. CONNELLY. Only such efforts as are being carried on at our Vertol Division in Norton, Pa. We are, of course, producing helicopters at the present time and have devoted a great deal of work in the STOL field. At the present time, I would say that we have

not come up with anything. The economics primarily would make this, in our opinion, an acceptable extremely short-range airplane.

Senator MONRONEY. Let me ask your sales manager as I think this should be directed more properly to Mr. Wilde. Looking at the future of the scheduled airlines of America, the trunklines, appear to be on the plateau of the passenger development. The days of rapid increase in numbers has not occurred in the last 2 years. The development of an aircargo plane and the ultimate reduction of the cost of movement of aircargo might be one way in which they would be able to find a profitable economic base.

In your discussions with the trunklines, do you find interest in the need for more items, more material or more goods to beef up the income situation since the bodies are not coming in as fast?

Mr. WILDE. I would say definitely that the airlines involved in aircargo operations are anticipating a very healthy growth. I would also like to add, however, that Boeing's forecast for passenger traffic for the trunk carriers for the next 5 or 6 years indicates that there will be a continued growth of passenger traffic also. It will not be as dynamic as the aircargo market, but nevertheless, a reasonable 8 to 9 percent annually.

Senator MONRONEY. There hasn't been that much in the last 2 years.

Mr. WILDE. I understand—we have been in a recession. The airlines have felt this drastically, we all know that, but we are all hopeful that they will recover and I think the early reports of this year will show that airline passenger traffic is again increasing.

Senator MONRONEY. Do you have any further testimony? I believe you are going to testify as a member of the Aerospace Industries Association, due to the absence of the president of that organization.

Mr. CONNELLY. We have one correction we would like to make, Senator Monroney. I am a little dazzled myself when my associate said 130 passengers in the 727, the full tourist configuration.

Mr. WILDE. I was quoting 130 for our 720. I am very sorry that I gave you the wrong answer. The tourist capacity for the 727 is 108 passengers.

Senator MONRONEY. That is about \$3½ million for the plane, you say?

Mr. WILDE. Four and one-quarter.

Senator MONRONEY. You may proceed with testimony for Aerospace.

**STATEMENT OF J. B. CONNELLY, VICE PRESIDENT AND ASSISTANT  
GENERAL MANAGER, TRANSPORT DIVISION OF THE BOEING CO.,  
APPEARING FOR AEROSPACE INDUSTRIES ASSOCIATION**

Mr. CONNELLY. Mr. Chairman, and distinguished members of this subcommittee, my name is J. B. Connelly, and I am vice president of the Boeing Co.; however, I am making this statement on behalf of the Aerospace Industries Association. AIA is the national trade association of the manufacturers of aircraft, guided missiles, spacecraft, propulsion, navigation and guidance systems, accessories, parts, materials and components used in the construction and operation of these aerospace products.

This statement represents only the viewpoint of that portion of the AIA membership concerned with the design, development and production of commercial transport aircraft, including engines and other major subsystems.

The Aerospace Industries Association welcomes the opportunity to appear before this subcommittee in support of S. 2815, which would extend for 5 years the law providing Government guarantee of loans for the purchase of commercial aircraft by certain air carriers.

This subcommittee, over the years, and particularly during the period that Senator Monroney has served as its chairman, has been a potent force for progress in the aviation industry. The proposed legislation is in that tradition.

Without this legislation, U.S. manufacturers of commercial transports would be placed at a severe disadvantage with respect to our foreign competitors. Aircraft manufacturers in other countries would enjoy an even stronger competitive edge over our manufacturers because of liberal Government subsidies and other assistance that start with the idea or requirement for an aircraft right down to the sales closure.

The extension of the loan guarantee law will at least permit U.S. carriers to purchase U.S. transports on financing terms roughly comparable to those available outside this Nation.

The point of financing strikes to the heart of this legislative matter.

The decision to purchase a particular aircraft is often dictated by the financing terms. Many air carriers must buy time along with the aircraft. An air carrier is not only concerned with the overall cost, but also with the terms of loan amortization. The amortization time becomes a pivotal factor at the time of purchase settlement.

The bill to extend the act, along with the amendments, will give our manufacturers an essential tool in equating our financial terms with those of foreign manufacturers.

We have every reason to be proud of our transport aircraft. U.S. manufacturers have sold, in the past 4 years, 286 turbine-powered aircraft to foreign air carriers, many of them nationally owned. They were sold for the simple reason that they were the best aircraft available. They are returning a profit to their owners.

This association, of course, has no voice regarding the type, size, performance or any other characteristic of an aircraft any individual company may decide to design, develop, and produce. These companies are responsible to their stockholders. The decision to put resources and reputation on the line is a matter, and a very serious matter, of company management.

One company—or two or three—may decide to develop a particular type of aircraft for the commercial or military market. They are all profit motivated. The decision to proceed with a commercial aircraft is based on the market, and the ability of the customer to pay. This is, of course, a gross simplification of an involved problem.

Further, the aircraft acquired through this legislation would buttress our civil reserve air fleet—a program that gives a firm logistical foundation to our national defense. This subcommittee has heard detailed explanations of this advantage, and it is not necessary to repeat or underscore them in this statement.

Finally, this association recommends that the guarantee limit for individual carriers be substantially increased from the present \$5 million. The cost of modern, turbine-powered aircraft is such that this dollar limitation is unrealistic, and would unduly restrict the airlines from making the most economic purchase of new equipment.

The Aerospace Industries Association is grateful for the opportunity to appear before this subcommittee. Thank you.

Senator MONRONEY. Thank you for your testimony in regard to the Aerospace Industries Association.

In regard to this, with the underdeveloped nations or shall we say the developing nations of the world and their transport problems, do you have any information as to what competition we face from Russian airframe and aircraft design by the Communist sources?

Mr. CONNELLY. Very serious competition, sir.

Senator MONRONEY. In which particular field is it the greatest?

Mr. CONNELLY. In making such aircraft available at terms which it would be impossible for such nations to meet. I say "impossible"; it is impossible in most instances.

Senator MONRONEY. In other words, our loan guarantee program by the Export-Import Bank still does not put the aircraft at a price or at terms of which we will not be undersold by Communist aircraft?

Mr. CONNELLY. I would say in many instances our Government would take the position—both State and Export-Import Bank people—they are neither good political or good credit risks.

Senator MONRONEY. We are still selling lots of these developing nations through the Export-Import Bank?

Mr. CONNELLY. I say a good number of them, sir.

Senator MONRONEY. But many of them are going into Russian-made planes with full credit?

Mr. CONNELLY. That is right.

Senator MONRONEY. Once they are in, that probably involves Russian technicians, Russian training pilots, and even Russian lines operated under the name of the new country but actually run by the Russians?

Mr. CONNELLY. That is correct.

Senator MONRONEY. What type of aircraft would you say they build today that would be competitive or lower in cost or on better terms than ours? Do they have a short-haul aircraft?

Mr. CONNELLY. Those with whom we have been in contact, I should say where we have been in competition in discussing future aircraft requirements, in the case of these nations, we are talking about airplanes like the TU-104, the Aleutian 18.

Senator MONRONEY. Define those as to what they are?

Mr. CONNELLY. The TU-104 is a two-engine turbojet aircraft.

Senator MONRONEY. Comparable to what aircraft in the American fleet in size, the Electra? Two motors, you say?

Mr. CONNELLY. It would be smaller than a 707 or DC-8. I would say probably it would be more comparable in size to our 720 airplane.

Senator MONRONEY. Twin-motor turboprop?

Mr. CONNELLY. No, straight turbo jet.

Senator MONRONEY. TU-104?

Mr. CONNELLY. Yes. The Aleutian 18 and 114 are turboprop aircraft.

Senator MONRONEY. About the size of the Electra or the Viking?

Mr. CONNELLY. The 114 is a very large airplane, sir.

Senator MONRONEY. As big as the CL-44?

Mr. CONNELLY. I would say yes; it is the airplane Mr. Khrushchev flew from Moscow to New York.

Senator MONRONEY. Four motor turbo. Is there any evidence they have gone, after an early experience concentrating heavily in jets, back to turboprop in some of their commercial equipment?

Mr. CONNELLY. We are so confident they have advance designs and we would judge they are probably moving toward turbofan engines.

Senator MONRONEY. Turbofan?

Mr. CONNELLY. Yes.

Senator MONRONEY. You don't know that they have?

Mr. CONNELLY. No.

Senator MONRONEY. Would you say they are reaching a point that rivals us in our competency in aircraft design for civilian operations?

Mr. CONNELLY. At this particular point, we would feel that they are not competitive to the extent of providing the same degree of passenger comfort in their airplanes. The reports we have would indicate that from the standpoint of reliability, they would not be competitive. There is a good deal of evidence at hand that spare parts problems are very severe and that interchangeability of spare parts is rather questionable.

Senator MONRONEY. Pricewise, how would they compare?

Mr. CONNELLY. We have no information on price.

Senator MONRONEY. Would you say in the areas which you mentioned where the credit of the country is poor, they would sell them on terms twice as good as our available terms.

Mr. CONNELLY. I'm afraid I can't answer that although whatever basis the transaction is made on, it is one that is completely out of reach of normal business practices. This could amount to considerations in other ways than payment of funds.

Senator MONRONEY. Do you have any evidence they have developed or are getting ready to develop supersonic transports?

Mr. CONNELLY. We have every reason to believe they are; yes, sir.

Senator MONRONEY. As a Government project?

Mr. CONNELLY. Yes, sir.

Senator MONRONEY. In the last month or so, I have heard fears expressed by our airlines that the Communist state-owned airline is threatening severe competition and invasion of the African market and in the newly developing nations in setting up a widespread network of its own airlines. Do you have any verification of that?

Mr. CONNELLY. This is one of the areas I was referring to in my previous testimony where we are finding the competition very severe for these reasons.

Senator MONRONEY. This would be on the sale to nationalist lines, would it not? I understand they are extending their own airline to these areas?

Mr. CONNELLY. I am afraid I can't answer that, sir.

Senator MONRONEY. You are not familiar with that?

Mr. CONNELLY. No.

Senator MONRONEY. This would be one of the ways. If they are able to capture this market with their aircraft, then as a concession

for terms or low prices, they could very easily demand landing and service rights for their own airline to form a closer link and to infiltrate the African countries through the guise of an airline operation. This is the same as the Germans did in South America prior to our entrance into World War II.

It is a favorite method of subversion by transplanting airline service to have not just transportation ends in mind, but propaganda or subversion.

Thank you very much, Mr. Connelly.

Mr. CONNELLY. I would like to add one statement along the line you were just discussing.

Senator MONRONEY. I would like to have your comments on this.

Mr. CONNELLY. I was only going to add that while we have been talking about the threat of Russian competition, competition from the British and the French in respect to financial terms is likewise a very serious problem. As Mr. McGowen pointed out a few moments ago, these aircraft companies are either Government owned or receive substantial Government assistance and, as a result of this, they are able to quote very favorable terms in respect to price and in respect to conditions and in respect to repayment of the loan. Likewise, they are able to operate very rapidly in securing this financial assistance.

This is a very serious problem as far as we are concerned in the foreign market. Mr. McGowen alluded to this and I would just like to endorse the remarks he made.

Senator MONRONEY. In other words, they have the order book and the credit when they are there to make the sale and you have to go back through the Export-Import Bank after you have made the sale and get the loan guarantee.

Mr. CONNELLY. This is correct.

Senator MONRONEY. Thank you very much, Mr. Connelly, for the courtesy of giving us this testimony, sir.

Our next and last witness today is Mr. George W. Tompkins, president, National Air Carrier Association, Cafritz Building, Washington, D.C.

Mr. Tompkins, we are happy to have you here representing this group of supplemental air carriers.

**STATEMENT OF GEORGE W. TOMPKINS, PRESIDENT, NATIONAL AIR CARRIER ASSOCIATION, INC., ACCOMPANIED BY CORTES LEAR, ATTORNEY**

Mr. TOMPKINS. I am president of the National Air Carrier Association, and I am also president of Overseas National Airways, a supplemental air carrier.

Attached hereto as exhibit 1 is a list of the officers and members of the National Air Carrier Association. All of the members of our association are classified by the Civil Aeronautics Board as supplemental air carriers.

Technically, at the present time, there are some 32 carriers holding authority from the Civil Aeronautics Board to engage in air transportation as supplemental air carriers. However, a substantial number of these companies are inactive or their operations are so small as to be insignificant. The eight members of National Air Carrier

Association currently have assets of over \$22 million, or about 73 percent of the total assets of all supplemental air carriers.

Our members are engaged in a variety of air transportation services; oversea contract and charter operations for the Department of Defense; domestic cargo services for the Air Force; specialized operations for the National Aeronautics and Space Administration; low-cost transatlantic charter operations for charter-eligible groups such as fraternal organizations, schoolteachers, students, et cetera; limited individually ticketed commercial services, all-expense tour activities, and charter services for military personnel traveling among points within the continental limits of the United States.

Generally speaking, our members are in favor of the principle of guaranteed loan legislation for the acquisition of modern aircraft (particularly those of a cargo configuration), but we are definitely opposed to any legislation which would favor any relatively small group of air carriers to the detriment of their competitors.

Specifically, we are opposed for reasons we will later discuss, to the amendment to S. 2815 introduced by Senator Smathers, which we understand would extend the benefits of guaranteed loan legislation to the scheduled cargo carriers only and would deny such benefits to both the supplemental air carriers and the certificated all-purpose carriers.

Our members received their certificates from the Civil Aeronautics Board in 1959 as a result of hearings which began in 1952. Although there was disagreement among the members of the Board with respect to the extent to which these carriers should be allowed to engage in individually ticketed services, the members of the Board were unanimous in their opinion that charter and contract operations by the supplemental air carriers are required by the public interest. Moreover, one of the principal reasons given by the Board for granting certificates to the supplemental carriers was " \* \* \* the vital services rendered by these carriers in the interest of national defense." (CAB Order No. E-13436.)

Supplemental air carriers are in direct competition with the scheduled cargo carriers for contract and charter services operated for the Department of Defense.

Attached hereto as exhibit 2 is a tabulation showing the allocation of Department of Defense traffic by the Military Air Transport Service (MATS) during the fiscal year July 1, 1961, through January 31, 1962. It will be noted that of the approximately \$126 million in total airlift contracts, \$63,808,571 or over 50 percent was allocated to the four domestic cargo carriers; namely, Riddle Airlines, Inc., the Flying Tiger Line, Slick Airways, Inc., and AAXICO Airlines, Inc.

On the other hand, the five members<sup>1</sup> of National Air Carrier Association participating in MATS traffic received a total of \$25,639,204 in airlift business or less than half the amount allocated to the four certificated cargo carriers.

The fact that the certificated cargo carriers have been favored in the awarding of MATS business has not, in my opinion, stimulated the development of commercial air freight services. On the contrary,

<sup>1</sup> World Airways, Inc., Capital Airways, Inc., Trans International Airlines, Inc., Overseas National Airways, Inc., and Southern Air Transport, Inc.

military contract operations have served to divert the time and energy of the cargo carriers from what is supposed to be their function, namely, the operation of commercial air freight services over fixed linear routes. Thus, it is reasonable to assume that any aircraft to be acquired by the cargo carriers pursuant to guaranteed loan legislation will be placed in off-route contract and charter operations (in direct competition with the supplemental carriers) and not in commercial freight services.

The following tabulation shows that during the year 1961, only 20 percent of the total revenues of the domestic cargo carriers was derived from commercial freight operations; 74 percent of their revenues was derived from military contract and charter operations having no relationship to the fixed linear routes of the cargo carriers; and the rest, 6 percent, was obtained from the operation of commercial charters and the transportation of express and mail.

*Source of transport revenues—Scheduled domestic cargo carriers, 1961*

AAXICO Airlines, Inc.:	
Military contracts and charters.....	\$4, 148, 165
Commercial charters.....	none
U.S. mail.....	none
Express.....	none
Commercial freight.....	none
Total.....	<u>4, 148, 165</u>
Riddle Airlines, Inc.:	
Military contracts and charters.....	18, 522, 703
Commercial charters.....	907, 234
U.S. mail.....	128, 407
Express.....	122, 207
Commercial freight.....	3, 959, 082
Total.....	<u>23, 639, 633</u>
Slick Airways, Inc.:	
Military contracts and charters.....	11, 662, 405
Commercial charters.....	112, 738
U.S. mail.....	none
Express.....	none
Commercial freight.....	none
Total.....	<u>11, 775, 143</u>
The Flying Tiger Line, Inc.:	
Military contracts and charters.....	18, 656, 239
Commercial charters.....	2, 899, 316
U.S. mail.....	105, 346
Express.....	124, 687
Commercial freight.....	10, 410, 368
Total.....	<u>32, 195, 956</u>

Source: Carrier form 41 reports to the CAB for year ending Dec. 31, 1961.

Despite their recent acquisition of so-called modern turbine-powered cargo aircraft, the certificated domestic cargo carriers have, during the past few years, either greatly curtailed their commercial freight services or abandoned such services altogether. Specifically, the history of such operations is as follows:

1. AAXICO Airlines, Inc.: This carrier was certificated by the Civil Aeronautics Board in 1956 to provide cargo services over

extensive routes east of the Mississippi River. The company inaugurated service over a portion of its routes in November 1956 and suspended such services on June 30, 1959. (CAB Order No. E-14145 dated June 30, 1959.)

2. Riddle Airlines, Inc.: Historically, this company has operated the most extensive north-south air freight service of any air carrier. During 1957, Riddle generated about 21 million scheduled ton-miles of commercial air freight. By 1959, this volume had fallen to 16,500,000 ton-miles where it remained relatively stable until February 1962, at which time Riddle suspended service over all of its domestic route system except between New York City and Miami, Fla. (CAB Order No. E-18300 dated May 4, 1962.) One of the principal arguments advanced by Riddle in support of its application to suspend commercial air freight service was the alleged fact that the company had not received enough MATS business; yet reference to exhibit 2 shows that during the 1962 fiscal year, Riddle received more MATS business than any other air carrier and seven times the amount of such business awarded to the average carrier participating in the MATS airlift program. Indeed, in its application for suspension dated February 7, 1962 (pp. 2-3), Riddle commented on its losses from commercial freight service as follows:

These losses can be either eliminated, by abandoning services, or offset, by revenues from other sources (CAB Order No. E-18300 dated May 4, 1962).

In other words, the fact that MATS has favored Riddle by awarding that company more business than any other air carrier has not had the effect of stimulating the development of commercial airfreight; rather, Riddle has apparently decided to abandon commercial freight services and obtain its revenue "from other sources"—that is Government contract and charter operations.

Riddle is one of three domestic cargo carriers which has acquired so-called modern turbine-powered all-cargo aircraft. In its brief to the Civil Aeronautics Board in the *Domestic Cargo-Mail Service* case dated March 27, 1961, Riddle advised the Civil Aeronautics Board that it had acquired some seven British-built Argosy aircraft for use on its commercial airfreight services. Riddle stated:

One of the principal reasons of the examiner for selecting Riddle was that Riddle "has submitted detailed plans for its operation of the needed north-south routes, and proposes installation of modern jet-powered all-cargo equipment on its system" (I.D. 76). No carrier in the case submitted such a complete and detailed proposal. And only Riddle now has in hand the airplane it said it would use. (Brief of Riddle Airlines, Inc., to the Civil Aeronautics Board, dated Mar. 27, 1961, p. 11.)

Yet, Riddle has never operated any of these aircraft on commercial freight services; rather, these planes have been assigned entirely to a contract which Riddle operates for the Air Force. Thus, the Government is, in effect, financing a fleet of British-built Argosy aircraft for Riddle and yet these aircraft are apparently not suited for commercial freight operations. In any event, they have not been assigned to commercial freight services despite the representations of Riddle to the Civil Aeronautics Board in the *Domestic Cargo-Mail Service* case.

In view of this history, I suggest that it is unreasonable to assume that any aircraft acquired by Riddle pursuant to guaranteed-loan legislation will, in fact, be placed in commercial airfreight services;

rather, the reasonable assumption is that such aircraft will be utilized by Riddle in the same manner as the Argosy planes; namely, placed in off-route charter and contract services in direct competition with the supplemental air carriers.

3. Slick Airways, Inc.: Prior to 1958, this company operated an extensive east-west cargo route system. In 1958, however, the company suspended all of its commercial freight services and has not reinstated any such operations despite the fact that it has acquired a number of Canadair CL-44 aircraft.

4. The Flying Tiger Line: This company's presentation in the *Domestic Cargo-Mail Service* case was based upon the operation of CL-44 aircraft in commercial air cargo services; yet these planes were assigned by the Flying Tiger Line to military contract services as soon as they were delivered to the company beginning about a year ago. In other words, the fact that the Flying Tiger Line has been awarded over \$20 million in MATS business during the current Government fiscal year, second only to Riddle and Pan American, has not had the practical effect of placing any so-called "modern turbine-powered cargo aircraft" in commercial airfreight services.

Mr. Chairman, I would like to depart from my text—I want to say I have learned since preparing my statement that in the last 2 weeks, they have started some transcontinental CL-44 services.

The basic purpose of the guaranteed-loan legislation as it was originally adopted in 1957 was to enable the local service carriers, and also the territorial carriers, to convert their operations from DC-3's, or similar aircraft, to more modern planes. Generally speaking, these carriers have either had no competition or limited competition among themselves. Thus the legislation operated to the benefit of all members of the class without unjust discrimination against any particular member. On the other hand, the extension of the benefits of the legislation to the scheduled cargo carriers would be a disastrous blow to the supplemental air carriers in a field, contract and charter operations, where they have rendered valuable services since shortly after the end of World War II. Moreover, all persons who have studied the supplemental air carrier problem agree that their primary operations should be in contract and charter services.

The supplemental air carriers were awarded their certificates as a result of the most extensive hearings ever conducted by the Civil Aeronautics Board. As pointed out above, all members of the Board agreed, and the Board's examiners also agreed, that the public interest, and the interest of national defense, require contract and charter operations by the supplemental air carriers. No comparable findings have ever been made in the case of the certificated cargo carriers. On the contrary, the off-route charter and contract operations are supposed to be services which are merely incidental to the primary function of such carriers; namely, the development of common carriage airfreight over fixed linear routes. If the scheduled cargo carriers are, in fact, to be supplemental air carriers, they should be so classified by the Civil Aeronautics Board and treated in the same manner as other supplemental air carriers. In any event, the so-called cargo carriers should certainly not be singled out for special favors.

In summary, we strongly favor guaranteed loan legislation to enable air carriers to acquire modern jet-powered equipment, provided this assistance is not limited to any particular class of carrier, but available to all.

I wish to thank the committee for the privilege of presenting this testimony.

(The exhibits follow:)

EXHIBIT 1

NATIONAL AIR CARRIER ASSOCIATION

George W. Tompkins, president, Solar Building, Washington, D.C.  
E. J. Daly, first vice president, Oakland International Airport, Oakland, Calif.  
J. F. Stallings, second vice president, Berry Field, Nashville, Tenn.

MEMBERS

American Flyers Airline Corp., Meacham Field, Fort Worth, Tex.  
Capitol Airways, Inc., Berry Field, Nashville, Tenn.  
Modern Air Transport, Inc., Newark Airport, Hangar No. 8, Newark, N.J.  
Overseas National Airways, 404 Solar Building, Washington, D.C.  
Saturn Airways, Inc., Post Office Box 182, International Airport Branch, Miami, Fla.  
Southern Air Transport, Inc., Post Office Box 48-1266, Miami International Airport, Miami, Fla.  
Trans International Airlines, Inc., Post Office Box 90277, Airport Station, Los Angeles, Calif.  
World Airways, Inc., Oakland International Airport, Oakland, Calif.

ASSOCIATE MEMBER

Purdue Aeronautics Corp., Purdue University, Lafayette, Ind.

EXHIBIT 2  
 Military Air Transport Service, fiscal year 1962 dollar obligations, July 1, 1961-Jan. 31, 1962

Carrier	Total volume		Logair, quick trans, and fixed		Expansion		Call		Percent of call to fixed	Percent of call to total
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total		
1. Riddle Airlines.....	\$21,134,367	16.79	\$15,845,810	18.24	\$1,303,353	7.67	\$3,985,205	18.08	25.14	18.86
2. Pan American.....	21,047,987	16.72	15,926,165	18.33	4,745,994	27.93	375,798	1.71	2.36	1.79
3. Flying Tiger Line.....	20,079,515	15.95	10,496,598	12.08	5,902,967	34.75	3,679,950	16.70	35.06	18.33
4. Slick Airways.....	14,760,948	11.72	9,081,775	10.45	2,588,182	15.23	3,090,981	14.02	34.03	20.94
5. World Airways.....	10,693,481	8.45	6,793,872	7.92	996,590	5.87	2,843,019	12.90	41.85	26.74
6. AAXCO Airlines.....	7,893,741	6.22	7,786,764	8.96	938,841	5.53	46,977	0.21	0.60	0.60
7. Seaboard World Airlines.....	7,415,256	5.89	5,772,922	6.65	2,883,135	3.32	703,463	3.19	12.19	9.49
8. Capitol Airways.....	5,319,527	4.23	3,772,058	4.34	2,883,135	3.32	2,436,392	11.05	84.50	45.80
9. Zantop.....	3,772,058	3.00	3,772,058	4.34	218,213	1.28	2,097,942	9.52	145.61	55.84
10. Trans International.....	3,756,987	2.98	1,440,832	1.66	29,241	0.17	2,000,457	0.91	5.99	5.60
11. Overseas National.....	3,578,900	2.84	3,349,203	3.86	267,454	1.57	11,947	0.05	0.51	0.51
12. Southern Air Transport.....	2,350,309	1.87	2,338,362	2.69	1,437,556	1.57	1,437,556	6.52	0.00	100.00
13. Northwest.....	1,648,435	1.31	1,380,982	1.59	528,949	2.40	356,449	1.62	0.00	100.00
14. U.S. Overseas.....	1,437,556	1.14	346,449	0.28	228,090	1.03	17,133	0.08	0.00	100.00
15. Great Lakes.....	528,949	0.42	17,133	0.01	125,899,688	100.00	16,990,835	100.00	0.00	0.00
16. California Hawaiian.....	346,449	0.28	17,133	0.01	86,808,508	100.00	22,040,338	100.00	0.00	0.00
17. Alaska Airlines.....	228,090	0.18	17,133	0.01	86,808,508	100.00	22,040,338	100.00	0.00	0.00
18. Trans Caribbean.....	17,133	0.01	17,133	0.01	86,808,508	100.00	22,040,338	100.00	0.00	0.00
Total.....	125,899,688	100.00	86,808,508	100.00	16,990,835	100.00	22,040,338	100.00	0.00	0.00

Source: MATS Headquarters, Scott Air Force Base, Ill.

Senator MONRONEY. Thank you very much, Mr. Tompkins. In other words, you would like to have the Smathers' amendment extended to include the supplemental carriers, as well as the all-cargo carriers?

Mr. TOMPKINS. That is the gist of it; yes, sir.

Senator MONRONEY. What about the scheduled airline carriers?

Mr. TOMPKINS. I think it should apply to all carriers. I don't think it should be limited to any class.

Senator MONRONEY. You would like to have it applied to all carriers?

Mr. TOMPKINS. Any carrier certificated by the Board.

Senator MONRONEY. You mean you would put these cargo jets on feeder lines, too?

Mr. TOMPKINS. If the feeder line wants to buy it and if their management feels it is necessary, that is a matter of management and judgment of the airline.

Senator MONRONEY. I am thinking that personally I would like to have the heads of the CAB examined if they make such a loan. You are testifying as to the rationale of the service. Certainly the route schedules which their charters allows and certainly the supplementals or off-route flights would not lend themselves to that, would they?

Mr. TOMPKINS. No, Mr. Chairman. What I am trying to say is I don't think if the guarantee loan legislation is passed, it should be limited to any particular class of carriers. Each carrier, depending upon the type of aircraft activity in which it is engaged, will have to make a decision from management what type of aircraft they wish to buy. I don't recommend any aircraft for local carriers because I don't know that much about them. But I think that the Congress should make available, if they do pass guarantee loan legislation or extend it, to any carrier who has use for it.

Senator MONRONEY. But this goes by categories. You wouldn't need jet cargo planes for feeder lines. I think we would be less than fulfilling our responsibilities if we decided suddenly that we ought to give the feeder lines, that have established service in small towns all over America, jetplanes to carry cargo.

Mr. TOMPKINS. That may be so, Mr. Chairman, but as I understand it, they have guarantee loan legislation which gives them access to guaranteed loans for the equipment which they do need for their routes.

I think when you get to the larger aircraft, it shouldn't be limited simply to all-cargo carriers because we in the past have operated just as large equipment as the all-cargo carriers and still do.

Senator MONRONEY. The all-cargo carriers have bought a supply of aircraft and while some of them have not flown on the domestic route, some of these planes have just now been delivered.

Mr. TOMPKINS. You are talking about the CL-44's?

Senator MONRONEY. Yes.

Mr. TOMPKINS. Yes, I believe they have all been delivered that have been purchased.

Senator MONRONEY. I know they have been coming in gradually in little dribbles. I know Riddle received the last of their Argosies in the last few months and it was quite a job adapting them for use in their Logair service.

Mr. TOMPKINS. I believe the Tigers have recently received the last of their CL-44's.

Senator MONRONEY. I think Slick just received the first of their CL-44's.

Mr. TOMPKINS. No, they had it some months ago, Mr. Chairman. Of course, Mr. Chairman, as you know, you talk about the smaller carriers, the local service carriers buying jets, the applications for these loans have to be passed upon by the Civil Aeronautics Board and I doubt in view of the fact that most, if not all, of the local service carriers are on subsidy, the Board would hardly approve such application, should management get that idea.

Senator MONRONEY. Well, of course, it is the duty of the Congress to provide the broad outlines of eligibility for it and we will give due consideration to all the testimony that we have received.

Did you have any further statement?

Mr. TOMPKINS. No, sir.

Senator MONRONEY. Thank you very much, Mr. Tompkins, for appearing here.

Mr. TOMPKINS. Thank you, Mr. Chairman, for the privilege of giving this testimony.

Mr. LEAR. Thank you, Mr. Chairman.

Senator MONRONEY. Thank you.

The next hearing is being held Monday, May 14. We will hear the Department of Defense, Slick Airlines, and perhaps FAA at that time.

The committee will stand in recess until Monday at 10 o'clock.

(Whereupon, at 4:50 p.m., the hearing was adjourned to Monday, May 14, 1962, at 10 a.m.)



## AIRCRAFT GUARANTEE LOAN PROGRAM

MONDAY, MAY 14, 1962

U. S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON AVIATION,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 10:10 a.m., in room 5110, New Senate Office Building, Hon. E. L. Bartlett presiding.

Staff counsel for the hearing: William T. Beeks.

Senator BARTLETT. The committee will be in order.

The first witness will be D. W. Rentzel, Slick Airways.

Mr. Rentzel, we welcome you.

### STATEMENT OF DELOS W. RENTZEL, DIRECTOR AND MEMBER OF EXECUTIVE COMMITTEE, SLICK AIRWAYS

Mr. RENTZEL. Thank you, Mr. Chairman.

If you think it is all right, Mr. Chairman, I will read this statement. It should only take about 5 minutes.

Senator BARTLETT. I think it is all right.

Mr. RENTZEL. Mr. Chairman and members of the committee, I appreciate the opportunity of appearing before your committee in support of the inclusion of all-cargo service as one of the categories covered by the guaranteed loan legislation now being considered by your committee.

Since 1954 I have been closely associated with Slick Airways, one of the Nation's pioneers of all-cargo service. At various times I have served as its president and chairman of the board. Presently I am a director and member of the executive committee.

Prior to my association with Slick, as some of you may know, I spent a number of years in Government, serving as Chairman of the Civil Aeronautics Board and Under Secretary of Commerce for Transportation, among other positions.

I sincerely believe that the expansion of guaranteed loan coverage to include all-cargo equipment, as proposed by Senator Smathers, is urgently needed to achieve a successful air cargo industry in this country and the modern cargo airlift required by military logistics and national security in the event of an emergency.

#### LACK OF ADEQUATE EQUIPMENT HAS HAMPERED PROGRESS IN THE AIR FREIGHT INDUSTRY

Slick Airways is vitally interested in legislation which will promote the development and utilization of modern, efficient aircraft in the all-cargo industry. Slick is one of the original certificated all-cargo carriers and one of the leaders in the development of this service.

During the period 1946-57, Slick transported close to one-half billion ton-miles of air freight, nearly one-fifth the total air freight carried by the entire domestic industry during that period.

Despite severe losses, borne entirely by its stockholders, Slick continuously strove to promote all-cargo transportation on an efficient, economical basis. However, the unavailability of proper equipment for all-cargo operations proved a serious handicap in those efforts.

Slick Airways temporarily suspended common carrier air freight service in 1958, but now has definite plans to resume that service later this year. Since our suspension, we have been involved in extensive contract air freight operations for the Defense Department, both domestically and internationally.

On May 4, 1962, the Civil Aeronautics Board announced its final decision and order to grant Slick a permanent certificate covering essentially the same route we have served for many years. Pursuant to this decision, we intend to resume common carrier operations by October 1, 1962.

This service will include certain novel features, notably a combined military contract and common carriage service over certain U.S. Navy quicktrans routes. Such a service should afford considerable benefits to both the military and commercial shippers, as well as being economic in nature.

Although Slick has already achieved part of its programmed fleet modernization through the acquisition of the Canadian-manufactured CL-44D, further modernization is planned and is necessary for the contribution Slick expects to make in airfreight service. This additional modernization is necessarily contingent upon obtaining adequate financing, and guaranteed loan legislation is thus an important step in assuring the success of Slick's plans.

We feel that all those who are truly interested in the prompt and reasonable development of all-cargo transportation will support guaranteed loan legislation covering all-cargo equipment.

In the past the all-cargo industry has been compelled to accept for the most part hand-me-down equipment designed primarily for passenger service rather than freight service. The use of this inferior equipment in all-cargo operations resulted in high rates and a consequent slow growth of air freight traffic. Air carriers were unable to tap the vast quantities of freight moving by surface means because to do so would require rates far below direct and indirect operating costs of the obsolete equipment the industry utilized. As a consequence, the airlines were unable to contribute modern long-range cargo aircraft to the civil reserve air fleet program.

Now, with the permanent status accorded the industry by the Civil Aeronautics Board and with modern cargo aircraft finally becoming available, the industry has the first real opportunity in its history to move forward and achieve its true place in the Nation's transportation picture.

Now is clearly an excellent time for passage of guaranteed loan legislation, for the industry is well able to respond to the modernization stimulus such legislation would afford.

Conversely, the absence of such legislation might well frustrate this opportunity for progress which is now at hand, since, as you

know, these modern cargo aircraft are very expensive, and their financing is a difficult job even for large carriers, let alone relatively small carriers such as Slick and the other all-cargo airlines.

#### NEED FOR FINANCIAL STABILITY

Slick's planned fleet of CL-44D propjets and the latest turbofan jets has and will require a substantial expenditure. To date, this modernization program has cost Slick in excess of \$11 million, and the total expenditure, including modern ground equipment, will probably ultimately run several times that figure. Other all-cargo carriers, who, with Slick, have pioneered the use of modern turbine-powered air cargo equipment, are facing similar expenditures.

In view of this tremendous cost, in contrast with the relatively small size of the carriers involved, the need for guaranteed loan legislation is readily apparent.

The CL-44D purchase by Slick was facilitated by existing Canadian Government aircraft purchase loan legislation very similar to the legislation here under consideration, but comparable assistance is not available for purchases from domestic manufacturers, forcing the carriers to meet somewhat harsh requirements for financing.

In the past, Slick has been compelled to pay interest rates of up to 15 percent on new capital. Such financing costs obviously represent a virtually insurmountable barrier to expansion plans. Financing should be available at a cost of not over 6 percent, on a reasonably long term basis, if the all-cargo industry is to develop properly.

Slick believes that Government guarantee of loans for the purchase of modern cargo aircraft would be a major contribution toward obtaining this kind of financing. Such legislation would stimulate renewed lender confidence in the future of the airfreight industry, as it has done in the case of the local service industry, and would bring forth investment funds on much more reasonable terms than are presently available.

#### TYPE OF LEGISLATION REQUIRED

Legislation renewing the governmental guarantee with respect to local service carriers affords an excellent vehicle for affording similar needed financial strength to the airfreight industry. We support both renewal of the existing legislation, as proposed by S. 2815, and its amendment to include all-cargo service, as proposed by Senator Smathers.

As in the case of local service carriers, the aircargo industry urgently requires financial stability to attract the capital to finance modernization and expansion of service. Surely the development of a sound aircargo industry in this country, responsive to both commercial and military shipping needs, is as much in the national interest as the considerations which supported the passage and which support the renewal of local service guaranteed loan legislation.

Moreover, the local service legislation demonstrates that the concept of Government guarantee of such loans is sound, meets the needs of the carriers, and can be carried out without cost to the Government.

As of last month, a total of 16 loans had been made under Public Law 85-307, without any cost to the Government whatever. These loans amounted to about \$40 million, with the guaranteed amount

being about \$36 million, and they enabled the carriers involved to purchase some \$46,500,000 worth of new equipment. Three other loan applications are now pending before the Board.

The guaranteed loan program has worked well with the local service industry and it should work equally well with the all-cargo industry.

It should be noted that this type of encouragement for all-cargo air service is really quite limited in nature, when compared, for example, with the multitude of legislative provisions designed to encourage and protect this country's merchant marine, despite the fact that modern cargo airlift has at least an equal significance in the Nation's defense and overall transportation picture.

In fact, Secretary McNamara recently testified before the House Merchant Marine Subcommittee that the Department of Defense now, in many instances, considers cargo and passenger airlift, where available, as less expensive and of considerably greater national defense value than seairlift (hearings on review of merchant marine policy before the Subcommittee on Merchant Marine, House Committee on Merchant Marine and Fisheries, Apr. 18, 1962 (transcript, p. 135)).

For years Congress has found it in the best interests of national defense to provide the merchant marine with not only a form of guaranteed loan legislation but also with a large variety of subsidy-type benefits and other Government assistance. Surely, it is equally in the interest of national defense to provide guaranteed loan assistance to the unsubsidized all-cargo carriers to further their efforts to achieve vitally needed expansion of the Nation's cargo airlift resources.

In this connection, I would like to support the recommendation of the Civil Aeronautics Board that loan guarantees for cargo aircraft be made only for the purchase of turbine-powered equipment which would be made available to the Department of Defense in time of national emergency. This type of amendment will maximize the national defense value of the proposed legislation, while at the same time serving to underscore the significant national defense role played by cargo airlift and the Nation's all-cargo carriers.

Moreover, it should be made clear in the legislation that the modern cargo airlift covered by guaranteed loans can be made available at all times for international and domestic military requirements, as well as for commercial scheduled service. The use of this equipment by the military obviously should not be limited solely to emergencies.

At the same time, the all-cargo carriers should be afforded needed flexibility in meeting both their military and commercial cargo service commitments with the most modern cargo lift available.

I would suggest that this policy be spelled out in the initial policy section of the renewed legislation, changing the last sentence thereof to read as follows:

In furtherance of this policy it is deemed necessary and desirable that provision be made to assist certain air carriers engaged in such air transportation by providing governmental guarantees of loans to enable them to purchase aircraft suitable for such transportation *and for military cargo airlift operations* on reasonable terms.

The phrase added to this sentence is italicized.

This change should make it clear that the modern cargo equipment covered by the legislation can be utilized in providing both routine

and emergency service for the Defense Department, as well as in meeting common carrier obligations.

Senator COTTON. Pardon me. Would you object to being interrupted at this point?

Mr. RENTZEL. No, sir.

Senator COTTON. I think your suggested language is excellent.

You have indicated, and other witnesses for other carriers have indicated, that in case of emergency, at least in case of emergency, these carriers would be available to the Government. Would you have any objection, as representing one carrier, and would you believe it fair and a good addition to the bill, to insert as a part of the law that in obtaining these loans that there should be a specified agreement, an agreement on the part of the carrier receiving the loan, that they would be made available in case of emergency?

Mr. RENTZEL. No, sir. I think it should be done. As a matter of fact, Senator, we have revised, for example, our labor contracts to make it possible to provide the aircraft with crews at the request of the Department of Defense, and I think this should be added.

Senator COTTON. With suitable compensation ultimately, of course.

Mr. RENTZEL. Yes, sir.

Under the civil reserve air fleet agreement, Senator, there is a standby provision for such a demand on the part of the Department of Defense.

Senator COTTON. Pardon me. I did not quite hear you.

Mr. RENTZEL. Under the civil reserve air fleet agreement, the standby contract provisions make such an acquisition by the Department of Defense with proper compensation a possibility, and I think this legislation should make that clear.

Senator COTTON. Thank you.

Senator BARTLETT. Will you proceed, Mr. Rentzel?

Mr. RENTZEL. Thank you, sir.

Three additional changes in the local service guaranteed loan law appear to be necessary to accommodate it to the different characteristics of the airfreight field. Here the aircraft are much larger and much more expensive. Each one costs in excess of \$5 million, and the fleet needed adequately to serve a nationwide all-cargo route, as well as to provide the airlift reserve needed for national emergencies, could easily require at least \$25 million in financing.

Accordingly, we recommend that, insofar as the all-cargo industry is concerned, a limit of \$25 million be imposed on the total amount of guaranteed loans outstanding to any one carrier. We believe this is a reasonable ceiling which should meet the needs of the carriers concerned, while at the same time affording the Government protection against over-extension by individual carriers.

Inasmuch as there are only a few certificated all-cargo carriers, the permitted total would still not be very large.

In view of the much greater cost and longer life of turbine-powered cargo aircraft, we would also recommend, insofar as the all-cargo industry is concerned, a minimum term of 10 years for loan repayment, as distinguished from the maximum term of 10 years contained in the present law.

Finally, we recommend that guaranteed loan legislation for all cargo service include the guarantee of loans for the purchase of specialized components of a cargo airlift system. Modern cargo ground-

handling and related equipment is vitally needed to comprise a complete all-cargo service with modern flight equipment.

This ground equipment is highly expensive, and such of it is still in the development stage. Yet without it, the reduction in costs and rates needed in this industry cannot be achieved. These new large turbine-powered aircraft must be loaded quickly, by mechanized means, in order to achieve the maximum utilization and maximum economy of which they are capable. Accordingly, specialized components of a cargo airlift system are just as essential to the industry as the flight equipment itself. This interrelationship was recognized in previous all-cargo guaranteed loan legislation proposals, and should be recognized in current legislation.

In speaking of previous legislation, I am, of course, referring to S. 2774, introduced by Senator Monroney in the 2d session of the 86th Congress. This was a very fine bill which we wholeheartedly supported, and which should provide an excellent reference point for this committee's evaluation of the type of legislation needed.

#### CONCLUSION

The all-cargo industry needs immediate assurance of financial stability if it is to achieve its proper growth through modernization and expansion of service. This industry is not subsidized, and the all-cargo carriers do not even possess subsidy eligibility. The past and present plight of the industry is attributable in large part to inability to obtain capital on reasonable terms to finance modernization programs such as that of Slick Airways which I have described.

We accordingly strongly urge the inclusion of all-cargo service in renewed guaranteed loan legislation. We support the amendment proposed by Senator Smathers, with the several modifications I have discussed.

Senator BARTLETT. Thank you.

Senator THURMOND, do you have any questions?

Senator THURMOND. Thank you, Mr. Chairman.

I notice you state here that during the period 1946-57 Slick transported close to one-half billion ton-miles of airfreight, nearly one-fifth the total airfreight carried by the entire domestic industry during that period.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. In other words, your company transports one-fifth of all the airfreight?

Mr. RENTZEL. During that period, Senator, we transported approximately one-fifth.

Senator THURMOND. What about since that period?

Mr. RENTZEL. Since that period, in 1957 we were operating with aircraft which were totally incapable of making a profit in the movement of airfreight, and since 1957, with the permission of the Civil Aeronautics Board, beginning in February 1958, Slick suspended its common carrier service, has since applied to reinstate the service, and with the granting of the permanent certificate to Slick as well as to Flying Tiger and Riddle Air Lines, Slick plans to operate its common carrier service again with modern equipment on or before October 1 of this year.

Senator THURMOND. I noticed on page 5 of your statement you say Slick has been compelled to pay interest rates of up to 15 percent on new capital.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. Is that true?

Mr. RENTZEL. Yes, particularly with reference to the procurement of aircraft.

Senator THURMOND. Is that in this country?

Mr. RENTZEL. This is not unusual in the acquisition of aircraft on a lease-purchase agreement. Fifteen percent is not unusual.

Senator THURMOND. That is on money borrowed in this country?

Mr. RENTZEL. Sir?

Senator THURMOND. Is that interest on money borrowed in this country?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. In the United States?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. What State allows you to pay 15-percent interest?

Mr. RENTZEL. Well, I do not know which State is involved, but in the case of the acquisition of aircraft in the past under terms of a lease-purchase agreement, that has been an interest rate which might apply to New York or might apply to California.

Senator THURMOND. Generally, to get over about 7 or 8 percent is usury—

Mr. RENTZEL. Yes, sir.

Senator THURMOND. And against the law.

Mr. RENTZEL. Under the terms of the lease-purchase agreement, though, that amount has worked out to be 14 percent in instances I know of and 15 percent in extreme instances.

Senator THURMOND. I certainly agree with you that financing should be available at not over 6 percent.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. At the outside, 7 percent.

Now, I noticed on page 6 here you say that the loans amounted to \$40 million, and as of last month a total of 16 loans had been made under Public Law 85-307 without any cost to the Government whatever. Do you mean by that, by no cost to the Government, that they got the money back and did not lose any, or do you mean that—

Mr. RENTZEL. Under the terms of the present guaranteed loan legislation for the local service carriers, Senator, the Civil Aeronautics Board acting for the Government has guaranteed these loans. The loans have been made by various banks with this governmental guarantee.

What I am saying here is that this guaranteed loan legislation has operated now for 5 years during which time that amount of money has been loaned and no payments are in default. Some of the payments are still current.

Senator THURMOND. In other words, private banks or finance institutions loan the money, and the Government merely guarantees it?

Mr. RENTZEL. That is right, sir.

Senator THURMOND. And the Government has not lost any money by guaranteeing such loans?

Mr. RENTZEL. That is right, sir.

Senator THURMOND. I certainly agree with you that it is important that we have carriers for national defense. I am very much concerned now, if we have an emergency, with regard to the ability of the Defense Department to transport troops to the places where they are needed quickly enough.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. That disturbs me very much.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. Actually, several years ago I advocated enlargement of MATS. If we are not going to enlarge MATS, we must have some carriers in some way.

Of course, I am also disturbed and I am torn between that line of thinking and the philosophy of the Government entering any type of subsidization program.

You are a businessman and have been, have you not, for a number of years?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. What do you think about the Government going into the subsidy business?

Mr. RENTZEL. Well, I, of course, interpret—

Senator THURMOND. Of course, they have done it, and I presume you are in favor of it because you are here advocating it. But the question is: Is it a wise policy over a long period, or should it just be done in case of crisis or emergency, or should it just be done where it affects the national defense and the survival of this country, or should it just be a general policy to do it anyway without any of those factors entering into it?

Mr. RENTZEL. Senator, I am against the subsidy of any and all transportation entities. We are not suggesting and have not suggested that this is a subsidy program.

It is true that the local service carriers do receive subsidy. The cargo carriers and the major trunk airlines have not received subsidy for some years. The cargo carriers have never received it.

In a way you could term this, I suppose, a form of subsidy, but actually it is simply the guarantee, in the interest of national defense, for the acquisition of aircraft suitable to the national defense to be put into the civil reserve air fleet program as specified by the legislation.

Senator THURMOND. In other words, you do not consider this a subsidy where the Government just guarantees the loans and does not actually make a grant of money?

Mr. RENTZEL. No, sir, I do not.

Senator THURMOND. Is that the distinction you are making?

Mr. RENTZEL. Yes, sir. That is part of it. Part of it also is based on the fact that this aircraft is required, as you have said so well yourself, this type of aircraft is basically needed, in the Reserve program to aid MATS.

I think this is the reason that you can justify this type of guarantee which I do not consider a subsidy.

Senator THURMOND. Maybe not only in the Reserve program but too in the Regular Forces if we have an emergency that requires a large number of personnel to be moved quickly.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. There is serious question as to just how many can be moved and whether they can be gotten out quickly enough to prevent aggression before it gets a head start.

I am very much interested in these questions, and I certainly want to give considerable thought to them. I just wanted to get your views on these matters.

Mr. RENTZEL. Yes, sir.

Senator, while I was in Government, we developed a civil reserve air fleet program, and the one thing that has been apparent from the outset is the startling shortage of cargo or logistics type aircraft both within the Military Establishment and in the Reserve program. This certainly would be a step in the direction of answering some of the questions you and I have in our minds as to our ability to do what you are talking about.

Senator THURMOND. I think this would be of great assistance to our defense program to have these carriers available to transport these troops if they are needed.

Mr. RENTZEL. Yes, sir. I do, too.

Senator THURMOND. How would you distinguish between this type of program, which you say is merely a loan program and not a subsidy program, and other types of Government programs which do I believe fall under the category of subsidy for airlines?

Mr. RENTZEL. Well, in the case of the local air carriers, direct subsidy grants are given to them for operating deficits. In the case of the merchant marine—and I am not decrying any of these programs; I am simply stating the fact—subsidies have historically been granted both for the construction of the ships, outright grants, as well as operating subsidy.

Senator THURMOND. Excuse me for interrupting you. Those have been granted chiefly from the standpoint that they would fall in the category of defense or helping this Nation to survive if we were in a crisis of some kind, have they not?

Mr. RENTZEL. Certainly that is true in the case of the merchant marine, and I think we have had ample evidence that the availability of the merchant marine has been vital to the national defense.

Senator THURMOND. And they have rendered a vital service in that capacity, too?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. What about the other airlines? I mean the subsidy program.

Mr. RENTZEL. Well, all airlines—I believe I am stating this correctly—except the cargo industry have received at one time or another subsidy to assist in the development of that particular phase of the industry.

The trunklines, particularly the larger ones, who seem to think “subsidy” is a bad word now, used to enjoy quite a bit of it. They have obtained—

Senator THURMOND. Which airlines do you mean?

Mr. RENTZEL. All of the large airlines. All carriers, as a matter of fact. Through the assistance of subsidies for some 20 years, direct operating grants, they have achieved self-sufficiency and have been operating now since 1951 to 1954 without direct subsidy.

This is what we hope can be—well, as a matter of fact, in the case of the air cargo industry no such grant is suggested. As a matter of

fact, by the terms of the certificate granted by the Civil Aeronautics Board, the cargo carriers are not even eligible for such subsidy assistance.

Senator THURMOND. So what you are advocating here, then, is not a subsidy but just a proposal that would assist in the financing of cargo carriers which you feel are essential to the defense program of this country—

Mr. RENTZEL. Yes, sir.

Senator THURMOND. And other purposes?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. You would distinguish this clearly from a subsidy program, whether it is for airlines or whether it is for merchant marine or what not?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. In other words, you do make a distinction in that respect?

Mr. RENTZEL. Yes, sir; I do.

Senator THURMOND. Thank you.

Senator MONRONEY. Mr. Rentzel, I am sorry I am late. I was detained at the Office of the Secretary of Agriculture in a conference with the Oklahoma delegation. I did not get to hear your prepared statement.

But you were interested in, I believe, and one of the principal witnesses in behalf of, the development of an uncompromised all-cargo plane which would have been jointly usable for the military and for the breakthrough that we have all hoped for in the greater movement of cargo by air.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. This is about a billion-dollar program, is it not, that entails the complete development of a new aircraft?

Mr. RENTZEL. Yes, sir.

That program is underway under your auspices and under those of other members of this committee. The first aircraft under such a program will be available in the period 1965-66 for the modernization of MATS and, we hope for availability to the cargo carriers and the other carriers eligible to carry cargo.

Senator MONRONEY. But this is a billion-dollar program, and it emphasizes, does it not, the very urgent need for airlift that exists for meeting the limited type of war which we may again face in southeast Asia?

Mr. RENTZEL. Yes, sir; which we seem to face every year, Senator.

Senator MONRONEY. The Congress thought it perfectly logical to spend a billion dollars for the development and procurement of this type of military airlift plane. But that will not fly, as you say, or be available for logistical use until the year 1966.

Mr. RENTZEL. That is right, sir.

Senator MONRONEY. Here we are in the year 1962, and between now and 1966 America can lose any chance of participating in the worldwide competitive market on aircargo which many people feel may rival the oceanborne cargo that we so heavily subsidize for our merchant marine.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. So, therefore, now, with the huge, long-legged jets, the 707-321 and the DC-8C, many of the aircargo carriers feel

that they have a plane for their purpose that will bring us the same performance that we hoped we would get in the C-141 which the military is developing.

Mr. RENTZEL. Yes, sir.

If I may add just a point there, Senator, we consider the DC-8F and the Boeing 320C along with the VL-44D as interim aircraft aiming in the direction of some ultimate aircraft which may be available in the period 1966 and beyond. But both for the purposes of national defense and the development of the commercial cargo business, we cannot wait that long.

Senator MONRONEY. That is right. Someone else will develop it. Canada has developed the CL-44D.

Mr. RENTZEL. And a guaranteed-loan program.

Senator MONRONEY. And a guaranteed-loan program for American carriers. They have been forced to buy if they wished a long-range, heavy-duty, large-capacity, overocean aircraft of modern turbine design. They had to go to Canada to get it.

Mr. RENTZEL. And did so.

Senator MONRONEY. And did so. And this cost them not only the price of the plane but a 12½-percent tariff, did it not?

Mr. RENTZEL. That is correct, sir.

Senator MONRONEY. Then the only other uncompromised cargo plane that is made is the Argosy, I believe, that is made in England.

Mr. RENTZEL. That is right, sir.

Senator MONRONEY. For our shorter haul, intermediate-range cargo carriage for modern configuration of all cargo, American carriers had to buy the Argosy.

Mr. RENTZEL. That is right.

Senator MONRONEY. Also at 12½-percent tariff. This means that much more added to the cost of the plane.

Mr. RENTZEL. And also with the provision of financial aid from the British Government.

Senator MONRONEY. The terms are higher, as I understand it, and with a shorter payout period, under the guaranteed loan by Canada or Great Britain than would be available normally with Government insurance here with private industry buying the loan because of the guarantee.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. The figures we have on these feeder line planes, where it has been successfully in operation over 5 years without any loss to the Government, indicate that the interest rate varied between 5½ and 6 percent. Because of the 10-year payout, it makes the amortization slower, and, therefore, it makes it profitable to operate that plane as it pays for itself.

Mr. RENTZEL. It has been a tremendous asset.

If I may add one thing, I strongly urge the renewal of this guaranteed-loan legislation for the local carriers, because here, too, I think we can begin to see a breakthrough for an aircraft which might ultimately take these carriers off subsidy, and it is equally important for that purpose.

Senator MONRONEY. For the benefit of the record, you have often said, as one of the pioneers in aircargo, both as a Government official and later as an interested party in aviation, that the cost per ton-mile,

direct operating cost, is one of the keys, the most important key perhaps, to the breakthrough on aircargo.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. The present cost of the DC-6B or of a "Connie" or of the type of planes that were flying before the turbine-operated aircraft was available is around 10 to 12 cents a ton-mile?

Mr. RENTZEL. That is the cheapest aircraft that are available, sir.

Senator MONRONEY. This is the direct operating cost.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Measured by the same standards, we have had testimony here that the direct operating cost, cost comparable to the 10 to 12 cents per ton-mile for the older prop-driven aircraft, will be in the neighborhood of  $3\frac{1}{2}$  to 5 cents a ton-mile.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Do you feel it will be below 5 cents?

Mr. RENTZEL. I think it will. I think the aircraft that are available of the DC-8F or 320C type should be 4 or  $4\frac{1}{2}$  cents direct cost.

Senator MONRONEY. So if you can relate your ground-handling economies in proportion to what you would be able to do in your airborne part of the aircargo, you might even, with some experience and a volume of traffic, be able to hope for a 50-percent decrease in the cost of carrying cargo?

Mr. RENTZEL. Yes, sir. This is one of the reasons we were anxious to provide the ground-handling equipment as an integrated part of the system, because the key to operating costs will be the maximum utilization of these aircraft, getting them on and off the ground. They do not do anything but lose money for you on the ground.

So this is why we were so keen to do this.

Now, if we are able to achieve maximum utilization, we can easily make money with a 50-percent reduction in aircraft costs.

Senator MONRONEY. But with the huge planes and the huge weight and cubage that these will furnish, either the 707-321 or the DC-8B, or if Convair modifies its 990, with the rollers and the ball-bearing turntable at the door, we have had testimony that these can easily be loaded and unloaded in 1 hour's time by two men.

Mr. RENTZEL. Yes, sir.

I would also like to add that this is also a matter of some military significance, as, Senator Thurmond, I am sure you will agree, because here again the maximum utilization of the aircraft is even more importantly limited exposure to the best of our ability.

Senator MONRONEY. Aside from the battle mission, that is, air drop, which the C-141 will have, and certain other military things built into the plane because it is essentially a military plane, these planes would be available by 1963?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. This would give us a 3-year coverage on heavy airlift ahead of the time we can logically expect the delivery in quantity of the military lift. Is that not correct?

Mr. RENTZEL. Yes, sir. These aircraft are available, if ordered before June 30, within 12 months.

Senator MONRONEY. In 12 months? So you would gain at least 3 years on the availability. All these, which will go in the Civil Air Reserve Fleet, would be standard enough to where they could be

taken instantly by the military with crews and servicemen that are already skilled in the handling of traffic and converted instantly to military use on a charter or trip basis for the military?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. It is not possible, is it, with our present jet passenger fleet, to make use of the passenger fleet of jet liners without major conversion for heavy cargo?

Mr. RENTZEL. No, sir, it is not. They need a much heavier floor. They need much larger doors and certain other improvements in the landing gear and other accessories in order to make them a useful cargo plane.

In World War II, from force of necessity, we did a lot of this, but it took us nearly 2½ years to get a real airlift program into being. I do not think we will have 2½ months this time.

Senator MONRONEY. But as to these that we are talking about for this Government-insured loan bill, the minute they are delivered to your line and your crews are trained on them, they will be instantly available to fly any place in the world with any type of air cargo capacity that any presently designed plane or contemplated plane—I am speaking of the 141—would have in weight-lifting capacity?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Therefore, the small degree of risk, if any, that we take in the development of this cargo plane and the encouragement to our industry would be, therefore, a valuable asset to the military?

Mr. RENTZEL. I am sure it would, sir.

Senator MONRONEY. Furthermore, the jet passenger planes which we have in great numbers would, of course, be available if they could be taken off their regular transport lines without grave interruption to our transport system, which fact I rather doubt, and would be usable only for the movement of personnel—

Mr. RENTZEL. Yes.

Senator MONRONEY. And small express or emergency type of air cargo.

Mr. RENTZEL. We can move quite large quantities of troops, but we cannot move anything for them to fight with.

Senator MONRONEY. That is right. And these planes also, with their freight mission, if there were limited war, as I understand it can be converted quickly to personnel movement coming back or, with installation of litters, to hospital planes?

Mr. RENTZEL. That has been done very successfully during the Korean war and subsequently.

Senator MONRONEY. I see.

Senator THURMOND, do you have any questions?

Senator THURMOND. No more questions, Mr. Chairman.

Senator MONRONEY. Any further questions?

Regarding the purchase of foreign equipment, if we have to move in that direction, there is the tariff which is a deadweight penalty of 12½ percent. That figures out what? About \$600,000 or \$700,000 per plane?

Mr. RENTZEL. It is over \$500,000 in the case of the Canadian aircraft.

Senator MONRONEY. Yes.

Mr. RENTZEL. Between \$500,000 and \$600,000.

Senator MONRONEY. As as I understand it, the guarantee is for 90 percent?

Mr. RENTZEL. Yes, sir. It is a guarantee for 90 percent.

Senator MONRONEY. What is the amortization period?

Mr. RENTZEL. Seven years.

Senator MONRONEY. Seven years?

Mr. RENTZEL. Yes.

Senator MONRONEY. Generally, our terms are for 10 years?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. I see. You bought some of the CL-44's?

Mr. RENTZEL. Yes, sir; we have.

Senator MONRONEY. Do you expect that this new plane we are talking about here will produce lower ton-mile cost?

Mr. RENTZEL. It will, for two reasons. One is speed and size, and the other is because of the speed we can get greater utilization.

Senator MONRONEY. Assuming that the CL-44 is the only all-cargo-configured aircraft made that we know of today for heavy duty, what is the speed of the CL-44?

Mr. RENTZEL. Approximately 375 miles an hour.

Senator MONRONEY. And the speed of these others will be 500-plus?

Mr. RENTZEL. 550-plus.

Senator MONRONEY. That is nautical or statute?

Mr. RENTZEL. Sir?

Senator MONRONEY. Is that nautical miles or statute miles?

Mr. RENTZEL. That is statute miles.

Senator MONRONEY. Statute miles?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Therefore, in addition to their weight-carrying capacity, which I believe is greater than the CL-44—

Mr. RENTZEL. Yes, it is approximately 30,000 pounds; yes.

Senator MONRONEY. The use of the plane because of its air speed would give you probably 33 $\frac{1}{3}$  percent greater utilization than the prop-driven, slower speed aircraft?

Mr. RENTZEL. Approximately.

Senator MONRONEY. Again, it would take fewer of these planes to provide for military airlift if called upon to do that?

Mr. RENTZEL. Yes, sir. They would be more suitable to both commercial and military purposes.

But I would like to say that the CL-44 has turned out to be a very fine airplane.

Senator MONRONEY. Yes, sir.

Mr. RENTZEL. It has done everything that was said for it.

Senator MONRONEY. That is right. It is an interim aircraft, as this one perhaps would be, but both of them are great steps forward from the DC-3 or the DC-4 or the DC-6B or "Connies."

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. We should also say, while you are speaking from the airline operator's as well as from your own longtime belief in the feasibility of moving more things in the way of cargo by air, that these would also have a great and material effect on furnishing a usable workload, necessary for national defense, necessary for national transportation, to airframe companies, most of which are now on their last solid orders on production.

Is that not true?

Mr. RENTZEL. Yes, that is right. That is another alarming factor. I say "alarming" in the sense of making available any more of these

aircraft to the Reserve program and to the development of the air-freight industry. We are on the tag end of the jet production at the moment by several of the manufacturers, and I doubt very much that once these lines are stopped there would be very much production in this area.

Senator MONRONEY. We would stand somewhat in danger with at least some of them losing their aircraft capability?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. In other words, their employment will go down to almost zero. Their fine skills, which put America first in past years in aviation around the world, will be dissipated, and, consequently, we do not know when they will ever be revived?

Mr. RENTZEL. It will take some doing.

Senator MONRONEY. This is a good mobilization base to have.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. You have also interested yourself, although not necessarily for your own particular aircargo interest, in a replacement for the DC-3?

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Could you give the committee your feelings in that matter?

Mr. RENTZEL. Well, I think there are on the horizon here some real breakthroughs in the short-range aircraft. We have all been disturbed by the increasing amount of subsidy required for the local carriers, but they are rendering an increasingly important service. I think that the application of ingenuity here would be very timely.

There are aircraft available which I believe would do a great deal to replace the DC-3 and to make the local carrier service an economic operating entity without subsidy.

Senator MONRONEY. You mean available or could be made available?

Mr. RENTZEL. I mean by that the design and engineering have been completed on at least one such unit, and I believe with some incentive that other aircraft manufacturers would be interested in getting into this short-range, short-takeoff, high-lift type of aircraft.

Senator MONRONEY. Assuming that such a plane were developed and built, it would not only serve for passengers but for cargo. As I understand the contemplated nationwide traffic pattern for aircargo in the future, it would be probably uneconomic to land more often than one stop in a State.

Mr. RENTZEL. That is correct.

Senator MONRONEY. In some States there would not even be a landing.

Mr. RENTZEL. Yes.

Senator MONRONEY. Because your long haul with your jets is the economic haul for this huge type of aircraft.

Mr. RENTZEL. Yes.

Senator MONRONEY. Then to fully utilize the advantages of aircargo movement from New York, we will say, to Oklahoma City, our hometown, points would be established where the freight would be broken up and dispersed perhaps by a workhorse plane that could be a joint cargo and passenger plane, which might be very helpful to pulling the feeder lines up in their payloads. Would that not be true?

Mr. RENTZEL. That is entirely possible, Senator.

Senator MONRONEY. Such a plane probably should have a joint use of cargo and passenger service, and with a movable partition for the seats and the cargo, so it could be a mixed plane.

Mr. RENTZEL. It could be designed that way and should be.

Senator MONRONEY. That would make even that plane more economic, would it not?

Mr. RENTZEL. Yes, sir, it certainly would. It would also increase the numbers that would be able to be purchased and I think would have some special significance to the military for short-range cargo and passenger purposes.

Senator MONRONEY. It has been suggested, and there has been some evidence of support in certain military fields, that the DC-3's are wearing out. It is a 1936 design plane, a great workhorse, and now still the backbone of aviation throughout the world, but eventually old age is going to catch up with it.

Mr. RENTZEL. Old age and foreign competition.

Senator MONRONEY. That is right. As you mention, there is a great foreign market, is there not, in the short-haul, workhorse type of aircraft?

Mr. RENTZEL. Yes, sir; there is.

Senator MONRONEY. Some of these developing countries, it seems to me, would have a great deal more use for this in getting across a jungle of 200 miles from the capital to other towns and cities than they would have for the only plane we can now offer them, which would be a 707 or DC-8 or 880.

It is a great deal cheaper to get across a hundred miles of swamp or jungle to build an airport on one end and an airport on the other and fly over it rather than to furnish a hundred million dollars or so to build a highway across.

Mr. RENTZEL. I am afraid we bypass at least the railroad portion of some of these undeveloped nations, but an airplane of this type would certainly be valuable to them, and a lot of them would be in use. The DC-3 and the DC-4 are the backbone of Brazil and Colombia, I know. I am sure a great many other nations use them the same way.

Senator MONRONEY. I have no further questions.

Do you have any further questions?

Senator THURMOND. Yes, sir, Mr. Chairman.

Mr. Rentzel, you stated that you feel to have these carriers would be a great aid to our defense.

Mr. RENTZEL. Yes.

Senator THURMOND. Would you approve that cargo planes purchased under the terms of the loan bill be required to incorporate features specifically designed to meet the needs of the military?

Mr. RENTZEL. Yes, I would say in a general way, Senator, that that would be a desirable thing. I believe that the Department of Defense should have some control over the type of aircraft that are used.

I think one of the things we want to avoid, of course, is compromising the airplane so much in the area of military requirements that it is not a successful commercial aircraft.

But I believe the Department of Defense could be relied on not to take that narrow a view.

I think, in general, that the aircraft to be purchased under such a loan should definitely be approved by the Department of Defense as useful to the national defense and as capable of being incorporated into the Civil Reserve Air Fleet program and as being available to them in an emergency.

Senator THURMOND. Do you know of any reason why planes could not be built that would meet their requirements and also meet the requirements of commerce?

Mr. RENTZEL. I believe it is very probable that the C-141 now under development will do that, Senator, but it will not be available until 1965 and probably not until 1966 at the earliest for the airlines to purchase.

Senator THURMOND. Have you talked to the Defense Department or the Air Force about this, and do you know their views?

Mr. RENTZEL. Yes, sir. I believe the next witness will express their views in this regard, but I have talked to them, and I believe this is generally their view.

Senator THURMOND. You think they would go along with this plan that you are advocating?

Mr. RENTZEL. Yes, sir.

Senator THURMOND. Provided that the planes do have incorporated the features designed to meet their needs?

Mr. RENTZEL. I believe they have already indicated that, Senator, and I think if you ask them that question they can answer it more specifically.

Senator THURMOND. I think that is a very vital question on which this matter might turn. That is the reason I am asking.

Mr. RENTZEL. Yes, sir. Well, I am in hearty concurrence with it. I just cannot speak for them. I feel that the aircraft we are talking about here are all useful and acceptable to the national defense.

Senator THURMOND. Thank you.

Thank you, Mr. Chairman.

Senator MONRONEY. As a matter of fact, we have just appropriated a large sum of money to make cargo planes or to build cargo planes on the configuration of the KC-135, being designated as the C-135, which is generally the equivalent of the civilian 707.

The plane we are talking about here though is an enlarged version and a longer-range version and a heavier-haul version than that which the military has bought because of this very urgency—

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Of covering ourselves between 1962 and 1966.

Mr. RENTZEL. Yes, sir.

Senator MONRONEY. Therefore, they have already taken this step, and this would be a supplemental lift to them at a cost that perhaps would be zero, ever-ready, ever-available, being paid for and amortized but ever-ready for military use when needed.

Mr. RENTZEL. That is correct.

Senator MONRONEY. Do you recommend a minimum repayment period of 10 years?

Mr. RENTZEL. Yes, sir. I think it should be. It should be minimum instead of maximum.

Under the terms of the present bill you have a 10-year maximum. But these aircraft will cost, with the spare parts, in the vicinity of \$6½ to \$7 million, plus the ground-handling equipment. We are

anticipating an average cost of about \$81½ million per copy. So you are talking about a very expensive airplane but one which does tremendous amounts of work.

So I think 10 years is about as limited an amount of time as it is possible to pay one of them out and actually the life of the airplane will certainly be 10 years or more.

Senator MONRONEY. You have already answered by second question. The estimated life of the turbine-powered cargo aircraft would be beyond the 10-year period?

Mr. RENTZEL. I certainly feel that way, Senator. I do not believe there is anything that could obsolete the airplane. There is certainly nothing that is going to cause it to wear out.

Senator MONRONEY. If the airplane itself is being the security for the payment of the unpaid balance, it is ready and valuable security on which the Government would not be likely to take any loss?

Mr. RENTZEL. No, sir.

Senator MONRONEY. Under the 10-year amortization and the 90 percent guarantee?

Mr. RENTZEL. These aircraft should be readily salable in the event that there was any default, and in the event also that the national defense did not dictate their incorporation into the MATS program.

Senator MONRONEY. Would you limit this bill to United States-manufactured aircraft?

Mr. RENTZEL. I think that is the way it is certainly written at the moment, Senator.

Senator MONRONEY. In other words, other countries have their own programs for sales abroad, including ourselves?

Mr. RENTZEL. Yes. The British and the Canadian Governments have already done what we are talking about doing here.

Senator MONRONEY. That is right.

This plane cannot be built, as I understand it, unless the guaranteed loan program is passed. Is that correct?

Mr. RENTZEL. I think that is right, sir.

Senator MONRONEY. So the construction of and the improvement of this turbine-powered aircraft of this new performance—it is fan-jet as I understand it—would be contingent upon the passage of this bill?

Mr. RENTZEL. It would certainly be enhanced by it, Senator. I think it can be said that the number bought will depend a lot on whether this bill passes or not.

Senator MONRONEY. That is right. The \$15 million in the bill would be the very minimum, would it not?

Mr. RENTZEL. We recommend \$25 million here, Senator, because to acquire, let's say, four of these aircraft would involve under the terms of the bill approximately \$25 million of guaranteed loans plus approximately \$5 million to \$6 million of downpayment on the part of the carrier.

Senator MONRONEY. I see.

Any further questions, Senator Thurmond?

Senator THURMOND. Mr. Chairman, I might say that since I asked the question a few moments ago about the attitude of the Department of Defense I have noticed now a statement here of Mr. Driscoll, who is going to testify I presume next, in which he says that decisions as to whether specific aircraft purchase loans made to scheduled all-cargo carriers should be guaranteed by the Government will depend, among

other factors, upon whether the aircraft being purchased has been determined by the Department of Defense to be suitable to meet emergency needs of the Department of Defense. So their thinking is right in line with the question I was asking you a few moments ago.

Mr. RENTZEL. Yes, sir. That is one in which we heartily concur.

Senator THURMOND. It seems that they would have no objection if this is done, but they would want this done, as I understand it.

Mr. RENTZEL. I think they should.

Senator THURMOND. I do, too.

Mr. RENTZEL. Yes, sir.

Senator THURMOND. Thank you.

Senator MONRONEY. Thank you very much, Senator Thurmond.

Thank you, Mr. Rentzel, for your appearance here, and for your helpful interest in the matter of developing an all-cargo air industry.

Mr. RENTZEL. It is always a pleasure, Senator.

Senator MONRONEY. Thank you, sir.

Our next witness is Mr. Edward J. Driscoll, Deputy to the Assistant Secretary of the Air Force, Materiel, for Transportation and Communications, Department of Defense.

Mr. Driscoll, we are very happy to have you here, knowing of your interest in the development of this type of aircraft.

**STATEMENT OF EDWARD J. DRISCOLL, DEPUTY TO THE ASSISTANT SECRETARY OF THE AIR FORCE, MATERIEL, FOR TRANSPORTATION AND COMMUNICATIONS, DEPARTMENT OF DEFENSE, ACCOMPANIED BY COL. L. R. FERRISS, DIRECTORATE OF TRANSPORTATION**

Mr. DRISCOLL. Thank you, sir.

Mr. Chairman and members of the committee, my name is Edward J. Driscoll. I am Deputy to the Assistant Secretary of the Air Force, Materiel, for Transportation and Communications.

I appreciate this opportunity to express the views of the Department of Defense concerning S. 2815 and the amendment thereto proposed by Senator Smathers with respect to the Senate bill.

The Department of Defense has communicated its views to the chairman of this committee under date of May 11, 1962, and we interpose no objection to the enactment of S. 2815 or the proposed amendment on the assumption that decisions as to whether specific aircraft purchase loans made to scheduled all-cargo carriers should be guaranteed by the Government will depend, among other factors, upon whether the aircraft being purchased has been determined by the Department of Defense to be suitable to meet emergency needs of the Department of Defense.

To give a clearer understanding of the Department of Defense interest in guaranteed-loan legislation, I believe it would be helpful to review and describe for you our normal commercial airlift-procurement management practices.

As you are aware, the Military Air Transport Service, functioning as the Department of Defense executive agent for airlift services, has been responsible for the procurement and management of commercial airlift for both international and long-term domestic services for an extended period of time. Over the years we have modified our practices as we gained experience. Our efforts have consistently been

directed toward securing the most efficient and suitable air transportation services. The scope of this activity includes supplemental, all-cargo, and the regularly scheduled carriers.

In Secretary Imirie's appearance before the House Subcommittee on Military Operations of the Committee on Government Operations in June of the past year, Air Force aims with respect to commercial air transportation were spelled out in detail. It may be helpful to summarize them at this time, as follows:

- (1) To encourage civil participation in the civil reserve air fleet;
- (2) To insure an expanded capacity of both cargo and passenger civil airlift available to the Department of Defense for use in any limited or localized emergency which does not justify activation of the entire civil reserve air fleet;
- (3) To encourage the procurement by the air transportation industry of modern aircraft best adapted to Government emergency needs and committed to the Department of Defense; and
- (4) To provide stability to the air transportation industry so that they can properly program their resources and capabilities to the long-range needs of the Department of Defense in conjunction with their civil commitments and civil requirements.

In consonance with these objectives the matter of augmenting the Military Air Transport Service with commercial airlift has been and is a continuing practice of the Department of the Air Force and the Department of Defense. Although our reliance upon commercial carriers has grown in each of the past successive years, the arrangements concluded for fiscal year 1962 are the largest ever entered into by the Military Air Transport Service.

Some of the elements of this procurement are noteworthy. First, small business obtained approximately 80 percent of the awards. Secondly, if the successful carriers show positive signs of moving toward modernization, the Government has the option of extending the contracts for 2 successive years. This should be an incentive toward the modernization necessary to the civilian fleets and provide the carriers with a firmer basis for financial plans.

Finally, the contracts contain expansion features which provide the military a specific number of aircraft to be available in the event of an emergency.

The Military Air Transport Service is currently engaged in negotiating with the civil carriers for fiscal year 1963, and preliminary indications are that the Department of Defense has obtained a substantial increase in the civil cargo capacity of the civil airlines which would be available to the Department for peacetime performance.

We understand that at least two carriers have placed orders for modern turbine-powered cargo equipment and that others are in the process of negotiating with aircraft manufacturers for the acquisition of additional capacity.

It is in this latter area that guaranteed-loan legislation may enable carriers to acquire the modern turbine-powered cargo equipment on more reasonable terms and conditions.

I believe it correct to assume that the civil carriers will acquire modern turbine-powered equipment based, at least in part, on the quantity of MATS business that will be made available to these carriers, and, as the committee is well aware the volume for fiscal year

1962 as well as that projected for fiscal year 1963 is quite substantial.

One of our aims is to aid in the development of a sound commercial air transportation industry. Without guaranteed-loan legislation, carriers may acquire modern turbine-powered equipment on other than reasonable terms and conditions, and this aim may be aborted as the carriers' financial conditions may not improve to enable them to continue a modernization program for use not only to meet defense needs but also to meet civil requirements.

We feel that guaranteed-loan legislation would enable the acquisition of aircraft on reasonable terms and conditions, either by private financing or guarantee by the Government. We know there are carriers who have not used the Government's guarantee program as they were able to obtain financing from private sources at reasonable rates. However, we feel that most of the all-cargo carriers who are under contracts to MATS and who are endeavoring to develop and expand their commercial cargo service may be unable to obtain financing absent guaranteed loans at reasonable rates.

I would like to call the committee's attention to the fact that I have addressed myself mainly to the cargo capacity. With respect to S. 2815 without the Smathers amendment, while the Department of Defense interposes no objection to the enactment thereof, the Department does not have the same degree of interest as it would have in legislation authorizing guaranteed loans for the acquisition of modern turbine-powered cargo equipment.

I recognize that this has been a very brief statement of the Department of Defense interest, and I will be pleased to answer any questions the committee may have.

Senator MONRONEY. Following up on the question I asked Mr. Rentzel, the expected date of the operational capabilities of the C-141 is approximately that which we discussed?—namely, about 1966? Is that not right?

Mr. DRISCOLL. Yes, sir. That is when we would have our first squadron in operation—1966.

Senator MONRONEY. The present fleet that we gave you of the modified KC-135 to the C-135, which has meant only beefing up the floors, enlarging the doors, and perhaps putting loading facilities in, could not be considered to be adequate coverage for modernization of the long-haul air transport needs of the Department of Defense in the event of an emergency?

Mr. DRISCOLL. That is true, Senator.

Senator MONRONEY. So you would still have to rely basically on the C-124, which does not have over-ocean capabilities, which must use intermediate landing stops, or the DC-6's or the "Connies," which would be a very great handicap in the event of any emergency of considerable size?

Mr. DRISCOLL. Yes, sir.

During the interim period, until the C-141 comes into being, we will be using all of the aircraft currently in the inventory plus having to place great reliance on the civil carriers in the event of an airlift emergency.

Senator MONRONEY. I think you very wisely sought to encourage the civilian industry to modernize, and for that reason I believe you are to be greatly complimented, both yourself and your Department,

on insisting on modernization as a contingent precedent to the awarding of contracts on a longer-term basis to the successful bidders. Is that not correct?

Mr. DRISCOLL. Yes, sir. And our initial look-see at it indicates that it is on the track.

But we do know some of the carriers who are attempting to acquire the modern turbine-powered aircraft probably are having difficulty in the financial world trying to make their necessary arrangements.

Senator MONRONEY. Not only that, but they have to go abroad, do they not, or at least they have to go to Canada?

Mr. DRISCOLL. Some have gone and taken the CL-44.

Senator MONRONEY. There is no modern long-range plane today built by American manufacturers for all-cargo purposes?

Mr. DRISCOLL. No, sir. It is only the DC-8F, and the 707-320C, that is a year away once orders are placed for it.

Senator MONRONEY. It is contingent, as I understand it, upon a sufficient number of orders. It is not being built now except contingent upon the orders that will be placed, and most of the users or intended users of this plane have testified they cannot buy unless there is a loan guarantee providing for 10-year amortization at a reasonable cost of interest.

Mr. DRISCOLL. Yes, sir. We know of two carriers who have placed orders, sir, for it.

Senator MONRONEY. I believe one is a certificated passenger carrier.

Mr. DRISCOLL. Passenger and cargo, sir.

Senator MONRONEY. But primarily passenger?

Mr. DRISCOLL. Right.

Senator MONRONEY. When we talk of aircargo with the scheduled lines, we talk of 5 percent of gross revenue. They are 95 percent passenger and 5 percent cargo. They have rather steadfastly resisted any great forward step to try to correct this imbalance, even though their losses are pyramiding in the passenger field, while the rapidly growing volume of aircargo and the increase in aircargo at a very great rate reduction in the ton-mile rate might be developed through more modern aircraft.

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY. In other words, the silence from the scheduled airlines in behalf of modernizing the cargo end of their business is the most noticeable thing, I think, in our great free-enterprise system. They seem to feel that some way, somehow, the passengers will fill up the passenger planes. And we do have a truly great fleet of jets. But, as we heard earlier from Mr. Rentzel, these planes are not configured to be usable for the movement of heavy cargo in the event of war.

Mr. DRISCOLL. No, the jets are not, sir.

Senator MONRONEY. Do you feel that the planes we have discussed—I mean just offhand, because they have not been formally approved, but, in general, the 707-321 or the DC-8F—would be a suitable plane for the military?

Mr. DRISCOLL. Yes, sir. And MATS has so advised all of the carriers that are currently under contract to us in line with the modernization goals that we specified.

We did advise them. However, we did throw one word of qualification in that that was interim modernization to the 707-320C and DC-8F, because we are still looking for the day when the civil car-

riers will buy the truly uncompromised cargo aircraft similar to the C-141 or whatever airplanes may be available at that time.

Senator MONRONEY. Of course, there is considerable feeling on the part of the civilian operators that there are too many military requirements built into the C-141 to make it an efficient cargo plane which must be developed in order to get the cost of the ton-mile freight at the rate that they wish.

I mean that they do not criticize the military's use of it, but the air drop and other features the military felt necessary to build into the plane were things that have not at least yet caught their keen interest for a plane of today.

Mr. DRISCOLL. Actually, I think the manufacturer of that plane is now starting to get brochures out as far as the commercial version and to give briefings to the various airlines. According to the brochure information at least, it indicates that this will develop into a reasonably good commercial version as well as the military version.

Senator MONRONEY. But the earliest date that the commercial boys would have a hope of buying such a plane—

Mr. DRISCOLL. 1966.

Senator MONRONEY. Would probably be after 1966, when the military requirements are fully filled and available for your own emergency lift.

Do you expect the military to take priority on deliveries?

Mr. DRISCOLL. Yes. It will depend on the line that the manufacturer would build up and the numbers we take per month.

Senator MONRONEY. Then, for American prestige and maintenance of worldwide cargo service under the American-flag lines, it is a little bit of a gap commercially as well as militarily to have absolutely nothing except old-model propeller-driven aircraft for this need. Is that not correct?

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY. Would you expect that if the rate could be materially reduced—and we were talking in terms of maybe a 40- or 50-percent reduction, at least in contract carriage such as the military would probably engage these under—the numbers of things and the volume of cargo moving would be greater to a considerable degree?

Mr. DRISCOLL. It should be, sir. This should cause somewhat of a breakthrough in other items.

I think, as you well know, the Air Force is probably the greatest user within the Department of Defense of the movement of things by air. This may enable other items of ours as well as the great breakthrough there would be on the civil side to try to encourage a greater quantity of civil traffic to move. Because what we are trying to do under our program is tie the military and the civil operations together to enable the carriers to work in and out of the military and the civil and also have the equipment for their civil requirements.

Senator MONRONEY. In other words, you could use the military cargo in a half-plane charter so that you would furnish it as a seedbed for the growth of civil cargo? Is that not correct?

Mr. DRISCOLL. Yes, sir. We are doing that in two areas today, one international and one that will be started domestically.

Senator MONRONEY. This seems to me to be a great forward step, because frequency of service is a very important thing in the saving of time by air. If the cargo has to lay over a week to accumulate,

you have not utilized the greatest time element that would be available in shortening the pipeline or reducing the amount of idle goods moving in this slower fashion.

So anything that would make frequency of service, both civil and military, possible in split-plane use would be to the great advantage of developing the age of aircargo.

Mr. DRISCOLL. Yes, sir.

The other thing we are doing, as I think the Senator is well aware, is that we consider the great volume of passenger traffic that we are moving via the civils and use this also to try to stimulate them to acquire more modern cargo equipment where we get into the convertible feature.

Now, the 707-320C and the DC-8F are both convertible airplanes, passengers or cargo. They can be converted, I believe, in about 4 hours from cargo to passengers, or they can be used possibly in mixed configuration.

So I want the record to show that the passenger traffic, of which there is a substantial volume, we are also using in trying to stimulate the carriers to acquire modern equipment.

It might be interesting, Senator, if I gave you some of the figures to show the growth of the civil movement on the international side.

Senator MONRONEY. We would be glad to have it.

Mr. DRISCOLL. In fiscal 1960 there was about \$64 million. In fiscal 1961, there was \$81 million. In fiscal 1962, as of April 30, it is \$123.9 million we will have spent this year with the civil carriers.

I think under our fiscal 1962 program, when that is fully analyzed, it will show we got something for the \$123 million that we have expended.

Senator MONRONEY. I think the record should show that this increase in part, however, has been due to sharp-pencil figuring that the Department of Defense could move more items by air—

Mr. DRISCOLL. That is right.

Senator MONRONEY (continuing). At a cost very little greater than by surface—

Mr. DRISCOLL. Yes, sir. Many items.

Senator MONRONEY (continuing). Considering all the elements involved. Is that not correct?

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY. So this is not a subsidy or it is not a preference to the aircargo carriers or the supplementals or the others of the scheduled lines. This is merely a way of demonstrating that the lower the rates and with the convenience of originating the traffic perhaps at inland points where it is manufactured and through-shipment rather than transshipment from ground to sea and from sea to ground and then ground transportation on to its destination, with all elements considered, aircargo offers a possible breakthrough for the movement of a tremendously greater number of items that have heretofore been committed to surface?

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY. If these planes are procured and you are able to reduce the direct operating cost of the prop-driven aircraft of 10 to 12 cents a ton-mile to  $3\frac{1}{2}$  to 5 cents a ton-mile, and if handling on the ground can meet the economies that can be established in the

air, then this will open up a broader part of the spectrum of shipments from the Department of Defense that then can move more economically by air than they can by surface? Is this correct?

Mr. DRISCOLL. It should, sir.

Now, the specific analysis of what the items are would have to be done at that time, but I am sure there are many items as you get into a lower cost for movement that could be moved by air.

Senator MONRONEY. You have a group studying this all the time, I presume?

Mr. DRISCOLL. This is right, sir.

Senator MONRONEY. So on comparable costs, all things considered, crating the shipments, the weight, the dunnage, the delay, the pilferage, all these things could be short circuited by air movement of many things that are not now considered of high enough priority to move by air.

The priority movement by air is an important factor. But if the comparative cost is less, all things considered, then the Department of Defense would be willing to consider greater additions?

Mr. DRISCOLL. Yes, sir. And they have a program currently underway which will mostly apply to the other services. The Air Force has been on it for some time. It is known as Milstrip. This reduces the requisitioning time, the transportation time. Over a period of the next couple of years I think you will see some of the items formerly moved by surface going into the air.

Senator MONRONEY. This reduces the inventory at the other end?

Mr. DRISCOLL. It reduces the inventory at the other end. It reduces depots.

Senator MONRONEY. It shortens the pipeline of a month or so by surface.

Mr. DRISCOLL. Right.

Senator MONRONEY. What are the portions of the Department of Defense allocation? I think at the time of the last hearings we had the Air Force used about 50 percent of the airlift for transportation of cargo and the Navy and Army about 25 percent each.

Mr. DRISCOLL. I think ours is about 65 percent, sir.

I can get the figures for you. Colonel Ferriss, do you have those figures?

Colonel FERRISS. The Air Force is still approximately 50 percent. The Army is about 30 percent and the Navy about 20 percent I think.

Senator MONRONEY. That Navy perhaps, because it has sea supply for its vessels, would probably still lean stronger on ocean supply.

Colonel FERRISS. Yes, sir. They do not have the requirement for moving the number of people or amount of cargo to oversea locations.

Senator MONRONEY. In the event it could prove more profitable to move shoes, uniforms, or other items cheaper for the other branches of the service, then the Department of Defense would have those relative figures eventually incorporated?

Mr. DRISCOLL. Right, sir.

Senator MONRONEY. Fine.

As a materiel carrier, would these planes have the capacity to be useful in the lift of certain types of missiles or other parts of our military fighting equipment?

Mr. DRISCOLL. Yes, sir. I think we should try to define the role though, sir, of the commercial or the civil carrier versus the military.

When you get into the various types, the hard core versus the civil eligible, what we have planned for civil carriers is to actually maintain the logistic pipeline. And this is where we developed the program over the past year or year and a half, to get them into that.

When you get to missiles or some of the fighting equipment that has to go into an airhead, I think this breaks out into being a purely military mission, sir.

Senator MONRONEY. We have heard testimony before this committee that one of the things that holds back the greater use of airlift is the fear that if they become accustomed to it and that it should be pulled off for more urgent needs that then it would disrupt the supply lines of our three services. Therefore, they are somewhat reluctant to commit as much as they would like to to air carriage, because there are not sufficient reserve planes of modern design in the commercial fleet or the military fleet to maintain their bread-and-butter pipeline in the event of war or national emergency.

Mr. DRISCOLL. I think we have overcome that, probably not totally but at least have made a substantial step in that direction.

In the procurement program I mentioned, we get a certain number of airplanes to perform a peacetime mission. For that we ask the carriers to commit contractually to us what we call expanded capacity in time of an airlift emergency determined by the Secretary of Defense.

We have probably a 2-to-1 ratio with what we use in peacetime. We could probably get another 100 percent in time of airlift emergency, thus assuring the continuance, even though we pull some of the military planes out, of the logistic pipeline.

Senator MONRONEY. You have a secondary reserve, of course, for which I applaud the Department of Defense and the Air Force, in converting the Reserve Air components, the Air National Guard and Air Force Reserve, in utilizing older planes such as the KC-97—or is it KC-95—

Mr. DRISCOLL. KC-97.

Senator MONRONEY. I was right the first time—with beefed-up cargo configuration so you will also have an ever-ready reserve that could be committed to your military needs.

Mr. DRISCOLL. That is right.

Senator MONRONEY. I think this is very fine utilization both of very fine fliers and equipment to give us a Standby Reserve in that capacity.

We would still need the experience and the pipeline supply that could be maintained by an ever-growing and ever more modern cargo fleet.

Mr. DRISCOLL. That is right, sir.

Senator MONRONEY. You would prefer this bill, I presume, to apply only to American-made aircraft?

Mr. DRISCOLL. Yes, sir.

Again talking about the bill and our assumptions here, we would like to make sure that on any of the aircraft to be acquired should this bill be enacted, for the all-cargo carriers or whatever it is enacted for, the Department of Defense does have a responsibility to signify which planes meet defense needs and that they only be used on the all-cargo side for that type. I do not believe this was objectionable to any of the carriers.

Senator MONRONEY. But in doing that you would not require battle-field capabilities? You would require the logistic supply——

Mr. DRISCOLL. This is right, sir.

Senator MONRONEY (continuing). Requirement for capacity, range, speed, and durability?

Mr. DRISCOLL. That is right, sir.

Senator MONRONEY. So you would not even expect eventually if the C-141 were available that they would all have to carry airdrop capability and things of that nature?

Mr. DRISCOLL. No, sir.

The other thing, Senator, on that, insofar as having the airplanes available to us in time of an airlift emergency, is that most of the carriers that we have under contract have signed agreements to give us that expanded capacity in time of airlift emergency and are entering into no-work-stoppage agreements with the unions. But for anyone outside that, airlines not under our contract, we would hope suitable provisions would be in the bill requiring that it be made available to Defense.

Senator MONRONEY. You fully support the Smathers amendment to the extent that you have qualified here, that it must meet the approval of the basic needs of the Department of Defense?

Mr. DRISCOLL. Yes, sir. That is why we interposed no objection—because of our assumptions. We wanted to make sure those are correct. And, consequently, we would support the guaranteed loan as an additional adjunct, as we see it, to our already developing procurement program.

Senator MONRONEY. You mentioned here in the next to the last paragraph the feeder lines. This, of course, is not of as great urgency abroad. But sometimes modern short-range aircraft could be desirable, as it is in your logair operation today, so that only those firms that acquired modern all-cargo planes are given a preference in an option for longer term bids.

So you do have an interest in the development of a short-range cargo aircraft, do you not?

Mr. DRISCOLL. Yes, sir. And we have been looking at what is available today as a possible replacement for the C-46. We have not come to any firm conclusion yet on it, but there are certain American-manufactured airplanes available that might be suitable as replacement.

Senator MONRONEY. Could you name them?

Mr. DRISCOLL. We have been looking at the F-27, for example. That is a 12,000-pound-capacity airplane which has about an 800-mile range. While it has a side-loading capability, it is not the true modern piece of equipment such as straight-in loading, and so forth, it does have some attractive features.

Senator MONRONEY. But it is a million dollars a copy or so.

Mr. DRISCOLL. That is right.

Senator MONRONEY. It is out of the range of the intertheater use and for short-haul cargo lift and things of that kind, is it not? It is a longer legged plane and a very fine plane——

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY (continuing). But if it were possible for us to develop something more nearly the size but with greater lift capacity

and greater speed in the turbine-powered class, it would be of interest to the Department of Defense?

Mr. DRISCOLL. Yes, sir.

As far as the logair program, that is where I talked about the F-27. Insofar as the Department is concerned, they have got a continuing evaluation, as you probably know, going on as far as the short-range airplanes are concerned.

Senator MONRONEY. Have you evaluated or seen the preliminary drawings on the so-called Aerojet replacement?

Mr. DRISCOLL. I have not seen the preliminary drawings. I have had some information on it. I understand it is about an 18-seater.

Senator MONRONEY. About an 18-seater; 8,000-pound payload.

Mr. DRISCOLL. 8,000 pounds.

Senator MONRONEY. To be built, if built, with cargo floors, with swing-tail rear loading, front-entrance loading for passengers. It is quickly convertible to a cargo or a joint cargo-passenger use plane. It is about a 250-mile-an-hour aircraft with about a 450-mile range that could be improved with wing tanks. Very short take off. It breaks ground at 400 feet. It clears a 50-foot obstacle at 1,000 feet. It can land on beaches and rough terrain for a, you might say, dispersement of the central cargo depots into the theaters of operation, for which today I do not believe there is any such plane built.

This committee has been urging for some 5 years some development of a short-haul aircraft that we feel could have great military capabilities along with the longer legged turbofan plane such as Senator Smathers' amendment indicates.

So you do have interest in it but are not ready to commit to that portion of the bill of the extension of feeder line service?

Mr. DRISCOLL. No, sir. On the feeder line the only qualification we put—well, in fact, when you get into the feeder lines it is more in the province of either the Board or whoever administers the guaranteed loan rather than Defense. We have concentrated on our internal as well as the international. This is why we say we do not have the same degree of interest and would have to defer to the other agencies' judgments who are more akin to the commercial side as distinguished from the military side we were talking of.

Senator MONRONEY. Anything that would beef up airlift internally or externally on short haul would eventually redound to the benefit of the Department of Defense?

Mr. DRISCOLL. Yes, sir, especially if it is cargo capacity.

Senator MONRONEY. That is right. But you insist on it having a cargo capacity?

Mr. DRISCOLL. Yes, sir.

Senator MONRONEY. Thank you.

Senator Smathers is the author of the amendment that we have been endorsing. We just had endorsement of your amendment, Senator Smathers, by the Department of Defense.

Would you have any questions?

Senator SMATHERS. Mr. Chairman, thank you, no. I appreciate the statement of the Department of Defense as I read it here, sir. I am sorry I have not been able to be here more regularly. I think it is a good amendment. I am glad the Department of Defense thinks so too.

I have no questions.

Senator MONRONEY. We thank you very much, Mr. Driscoll, not only for your testimony but for the very tireless and thoughtful consideration that you have long given to filling of the gap of the airlift and for the progress that you have made so far.

We are grateful to you for your experience and for your endorsement of the Smathers Amendment.

Thank you very much.

Mr. DRISCOLL. Thank you.

Senator MONRONEY. The committee will stand in recess until Tuesday, May 29, at which time we hope to hear from the Federal Aviation Agency.

The committee will stand in recess at this time.

(Whereupon, at 11:38 a.m., the subcommittee was recessed, to be reconvened on Tuesday, May 29, 1962.)

(The following statement was subsequently supplied:)

STATEMENT OF LOS ANGELES AIRWAYS, INC., IN SUPPORT OF S. 2815

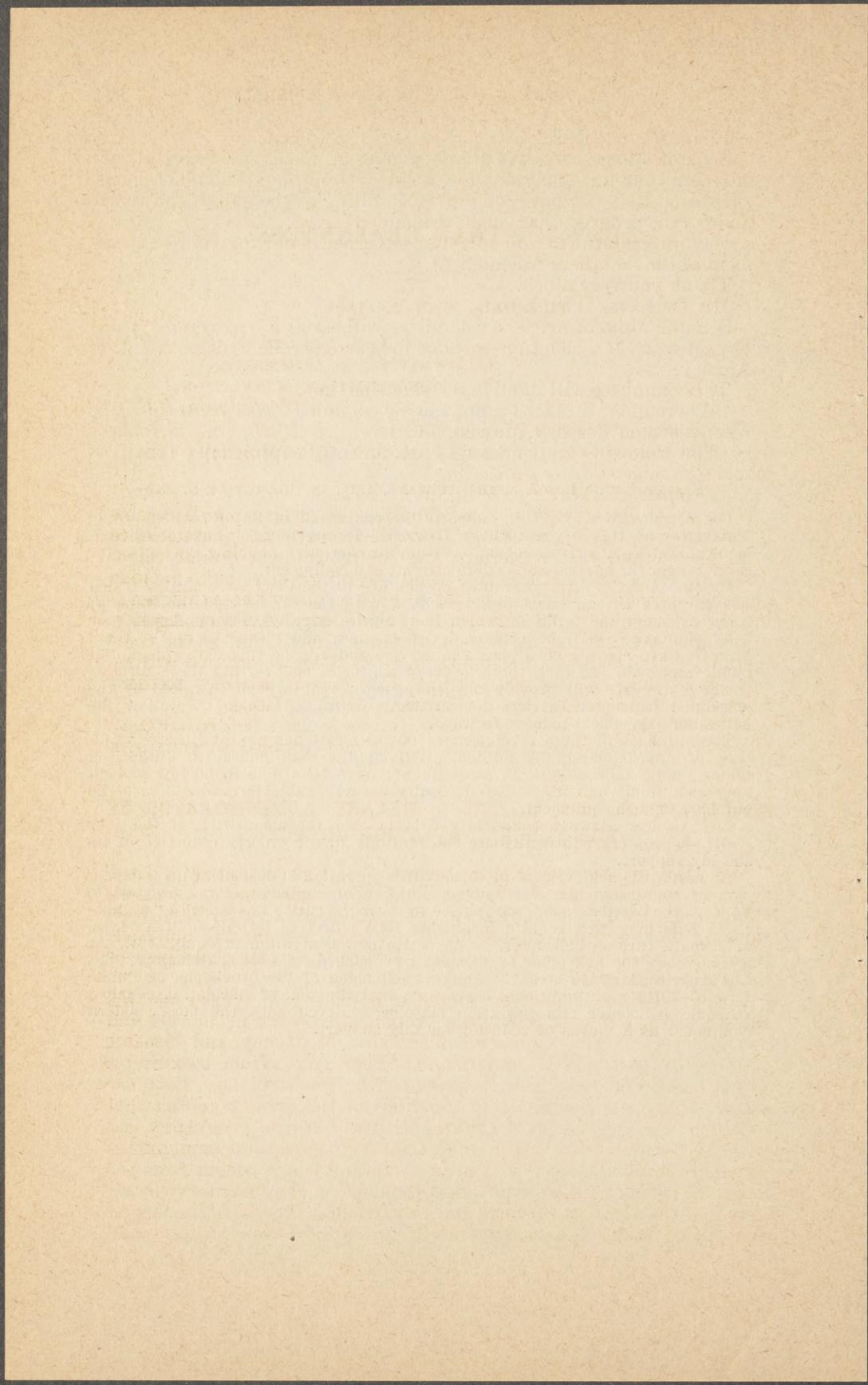
Los Angeles Airways, Inc., supports the enactment of S. 2815 which would extend for another 5 years Public Law 85-307 providing for Federal Government guarantee of private loans to certain air carriers (including the helicopter carriers) for the purchase of modern aircraft and equipment.

By the terms of loan guarantee docket LG-19 the Civil Aeronautics Board has executed a loan guarantee agreement with the carrier and the Bank of America under the terms of which Los Angeles Airways has purchased four fully equipped S-61L helicopters, spare engines, and parts. Three of these aircraft have already been placed in service and are meeting with substantial public approval. In fact, there is every reason to believe that these turbine-powered aircraft will provide the equipment "breakthrough" awaited by the scheduled helicopter carriers for so many years and which will allow the helicopter experiment to move forward.

The purchase of these revolutionary new aircraft has required the expenditure of approximately \$3 million. Without the loan guarantee authorized under Public Law 85-307, LAA would not have been able to borrow enough long-term funds or raise sufficient equity on reasonable terms to finance the purchase of such equipment.

Los Angeles Airways confidently expects that the acquisition of the four S-61L helicopters will contribute substantially to the orderly reduction of its subsidy support.

However, the achievement of subsidy-free operation is dependent upon expansion of route structures and implementation of similar factors designed to improve the carrier's suburban service to cover the entire Los Angeles "megapolis." This may well require increasing LAA's fleet to include a fifth, sixth, or seventh turbine helicopter, or an entire new generation of equipment. At a time when the helicopter experiment has reached its most challenging stage, Los Angeles Airways strongly supports extension of the provisions of Public Law 85-307 for an additional 5 years so that the goal of efficient, economical schedule helicopter transportation may be achieved with the most modern equipment as a means of reducing subsidy support.



## AIRCRAFT LOAN GUARANTEES

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TUESDAY, MAY 29, 1962

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON AVIATION,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 10:20 a.m., in room 5110, New Senate Office Building, Hon. A. S. Mike Monroney (chairman of the subcommittee) presiding.

Staff counsel for hearing: William T. Beeks.

Senator MONRONEY. The Subcommittee on Aviation will resume its hearings on the bill S. 2815, to provide aircraft loan guarantees to local service and feeder carriers, and the amendment thereto introduced by Senator Smathers to extend the program so as to include all-cargo carriers. We are pleased to have as our witness this morning the distinguished Administrator of the Federal Aviation Agency.

I might mention for the benefit of those present that at the completion of Mr. Halaby's testimony on S. 2815 the committee will receive a briefing on the recent tragic Continental Airlines accident from Civil Aeronautics Board Chairman Allan S. Boyd.

Mr. Halaby, we are happy to have you back again before our committee on this important measure. You may proceed in your own way.

### STATEMENT OF HON. NAJEEB E. HALABY, ADMINISTRATOR OF THE FEDERAL AVIATION AGENCY

Mr. HALABY. Senator Engle, members of the committee, I have flanking me today Mr. J. Thomas Tidd, from our General Counsel's Office and Mr. Frank Lloyd, two of my associates who have been working on this problem specifically. For answering any questions requiring detailed expert knowledge, I have some other members of the agency with me.

I would like to thank you for an opportunity to appear on this subject because it is of very great importance to the promotion and development of air commerce as Senator Monroney and Senator Engle will particularly understand. They come from two States which have been very greatly developed by the airplane. Both are active airmen and particularly conscious of the great potential that continues for aviation in the States with widespread geography and with the population in the industrial and farming communities. These areas use all parts of aviation including which benefit from the long-haul trunk carriers who are dependent on the local service carriers and the aircargo carriers, and in particular they have the largest segment of aviation, general aviation, growing in their States apace.

Of course, in line with the responsibilities laid on the Federal Aviation Agency, we are anxious that all of the aviation community grow in step and in pace with the needs of the 1960's.

In particular, in the last 2 weeks I have been on a field trip in the South and Southwest and West and Middle West. This is the area of the country I think that stands to benefit very greatly from the legislation before you. But I believe it is fair to say that we must do something better, both in industry and in the Government, to develop the local service transportation and the air cargo part of the aviation community.

This opportunity to testify on S. 2815, a bill to extend the act of September 7, 1957, which provides for Government guarantee of private loans to certain air carriers for the purchase of aircraft and equipment, is welcome.

Distinguished members of the executive branch and others have testified already and this legislation of course was proposed by the CAB in 1956.

The committee, in reporting out the bill at that time, stated that its purpose was—

to enable the feeder and short-haul type carrier to purchase equipment that will result in an economical and profitable operation, and to encourage the development of a suitable aircraft designed for that purpose.

I think it fair to state that this purpose has not been fully achieved.

Something more and better must be done by industry with Government support.

The subsidy for local service carriers has increased from approximately \$24 million in fiscal 1956 to approximately \$66 million in fiscal 1962.

Senator MONRONEY. This is exclusive of the helicopters?

Mr. HALABY. Yes, sir. The helicopter amount in 1962 I think would have been an additional \$5 million.

Senator MONRONEY. I thought it was \$6 million.

Mr. HALABY. For the helicopters?

Senator MONRONEY. Yes. I may be wrong.

Mr. HALABY. I will supply an accurate figure.

Senator MONRONEY. Helicopters, of course, are eligible for loans under this program.

Mr. HALABY. Yes, sir.

Many factors contribute to this increase, such as extended routes and improved service to the public. The fact remains, however, that the local service carriers have not yet achieved "an economical and profitable operation" which they, as well as you, desire.

Nor have any new aircraft been developed for local service use as a result of this legislation? When this legislation was under consideration, the Fairchild F-27 was the only new aircraft then on the horizon for the short and medium haul market. That aircraft has since become operational and 35 of them are now in service, most of them brought into service through the assistance of the legislation which this committee passed.

I have flown in that aircraft, visited the Hagerstown plant, and am familiar with their proposals for solutions in this area.

The Grumman Gulfstream which the FAA operates rather extensively, has been developed since that time but it was not designed for the local service airline problem. It was designed more for the executive transport problem and to my knowledge it has not been supported by the provisions of this act.

Various aircraft have been developed abroad by manufacturers who have recognized more clearly and boldly the market that appears ahead for this part of aviation. I can go into detail on those if the committee desires, at a later date.

In a critical evaluation of the legislation it seems to me that the conclusion that it has failed fully to achieve its stated objective nevertheless permits you also to conclude that the availability of Government guarantees has enabled the local service carriers to modernize their fleets, improve their services, and reduce operating costs. So long as the local service carriers remain on subsidy, it would seem to be in the Government's interest to improve their operations wherever possible through such devices as loan guarantees which, to date at least, result in no cost to the Government. For this reason, we favor extension of the act.

In supporting an extension, however, we think we should return to and focus rather sharply on the basic purposes of the act as originally conceived by the Congress. The act has not permitted the carriers to achieve economic independence; it has not provided the new aircraft envisioned. If we are to realize the original purposes of the act, clearly other steps must be considered.

As to the development of a new local service aircraft, I must quite frankly admit that, at the moment, I do not know the specifications for such an aircraft. I am writing the Civil Aeronautics Board and the Association of Local Transport Airlines and requesting them in a rather formal way to give us in the FAA their specifications for that aircraft that would meet the market and achieve the intended purposes.

There is a variety of opinion as to what this aircraft should look like.

Secondly, I do not know its cost, nor its market potential. I have some estimates and I would be glad to, in the question-and-answer period, go into this.

Thirdly and finally, I am not at all sure that the new aircraft, by itself, will assure a profitable subsidy-free local service air transportation system.

I suspect that more than a new aircraft is required. To permit us to resolve some of these questions, to permit us to continue the studies leading to a supersonic transport problem, to permit us to assist small-plane aviation in developing cockpit and other safety factors I have recently established within the FAA the Aircraft Development Service and recruited from the Civil Aeronautics Board, and formerly the National Advisory Committee on Aeronautics, Mr. Mel Gough, to head that service. He is familiar to this committee as one of the leaders in aeronautical research and aircraft development.

One of the first tasks will be to study the feasibility of developing a local service aircraft.

This study, which I will discuss in more detail, will embrace the aircraft's characteristics, its marked potential, its possible military use, propulsion system, and design. Evaluation of this data will permit a reasoned decision as to whether, and in what manner, the Government should further proceed in encouraging its development.

We would hope to present our findings to this committee in the next session of Congress.

We feel, Mr. Chairman, as we do with the supersonic transport, that there is a great deal of research and development, a body of technology in the Department of Defense that is directly applicable to this purpose.

Two weeks ago, with the Deputy Secretary of Defense, I launched a study between FAA and DOD with a view to seeing if we could meet both the DOD, FAA, and other Government requirements, and the requirements of the local service airlines. I do not state that there are any miracles, but I believe a concentrated attack on this by CAB, the local service carriers, the Department of Defense, and FAA might show a market of substantial proportions that can be met by one or at most two types of aircraft.

The matter is timely because the Department of Defense is considering replacement of DC-3, C-54, and C-131, and the FAA is considering replacement of the DC-3 and related aircraft in its fleet, and other Government agencies are buying new or replacement aircraft.

Senator MONRONEY. Do you have any idea how many DC-3's are in the fleet?

There are 250 in the feeder line fleet, we know. When we passed this bill 5 years ago there were only 200. So while the bill was in the direction of more modernization, apparently the lack of a plane to meet the short-haul needs, their fleet increased in the unguaranteed loans on purchases of DC-3's by 50. The FAA extensively uses the DC-3 as a training vehicle for air traffic controllers to acquire air experience, and they must have a considerable number in their fleet.

Mr. HALABY. Yes, sir. We have approximately 65, and they are used for training, for administrative support, and for inspection of the airways' facilities.

Elsewhere in the civil part of the Government, we estimate there are some 35 or more. We believe that there is a market within the Department of Defense for somewhere between 250 and 500 aircraft to replace DC-3's, C-54's, and related types of aircraft.

If, as you suggest, there was a market of 250 to 350 in the local service field, you would have a potential market in the range of 750 to 1,000 aircraft for the Government, plus the local service carriers.

Senator MONRONEY. This is only for our own use. There is no way of knowing, I guess, how many of these old DC-3's are still the backbone of aviation on a worldwide basis in the underdeveloped countries and on the small short-haul local runs in Brazil, Argentina, and Latin American countries.

Mr. HALABY. I think it is fair to say that this program, if successful here, for what you might call our underdeveloped aviation, could be very useful in countries such as Latin America, Africa, southeast Asia, in the decade ahead, and it would enhance our prestige and the

long-held view of American aviation in most countries of the world that we have leadership in technology.

If this works here there is no reason why it is not an acceptable asset abroad. I have limited it to just U.S. Government and local service requirements.

Senator MONRONEY. Abroad, it seems to me, we should be very anxious to keep the U.S.-made aircraft in the skies and not yield that to the Potez from France or the Heinkel from Germany, or to have no other plane that we can possibly sell as a modern plane to the underdeveloped nations excepting the \$6 million 707 or DC-8 in countries like Nigeria, Ghana, or the developing African nations which need a fast, heavy jet for international operations like we need a "hole in the head."

What they need is to get 250 miles from the capital of the nation to probably the No. 2 city. Today there is no intercountry transport available, and no roads exist in many of these places, and the construction of roads would cost in the hundreds of millions of dollars, whereas two airports at the starting and finishing point could provide the necessary transportation links between the various communities of newly developing countries.

Mr. HALABY. Senator, you cannot go in the South and Southwest and West without realizing what the airplane has done for us. If you travel abroad, as all of us do, you can see many opportunities for using this exportable surplus of talent and this great accumulation of ability, particularly in Latin America, Africa, and southeast Asia.

With regard to the Potez and the other foreign-built aircraft, I have to say that I don't think we want to erect a kind of barrier to those manufacturers. I think we want to outdo them.

It seems to me we should not deny to our carriers a more efficient aircraft simply because it was not made in the United States.

What we should do is have our airframe manufacturers and our powerplant manufacturers meet that competition and excel it. I believe in the long run we will be better off if we have a free, competitive market in aviation, and that our manufacturers are capable—our laborers and engineers are capable of meeting this task.

That is my own personal view, and I think it is in line with the tariff bill and other policies of the administration.

Senator MONRONEY. Incidentally, on this line, the staff has made a study of the DC-3-type aircraft in use by foreign air carriers throughout the world.

The recap shows that in Asia and Oceania, 194; Latin America, 389; in the Near and Middle East, 86; in southwest Asia, 99; Africa, 81; Europe, 150. And then the U.S. local service carriers, 250, for a total replacement possibility there of 1,249 DC-3's or their equivalent.

If you add the 65 in use by FAA, the 35 in other civil branches of the Government, and 250 military you will get another 350 to that list which will bring it up to 1,600.

That constitutes quite a potential market. I doubt if there is another type plane that will come even close in numbers, operational numbers in terms of replacement potential.

I want this entire list put in the record at this point.

(The list referred to follows:)

\*STAFF MEMORANDUM, SENATE COMMITTEE ON COMMERCE, MAY 28, 1962

Present use of DC-3-type aircraft by foreign airlines which should be considered in addition to the 250 units in use presently by the local service airlines. Most of these will have to be replaced within the next several years.

Asia and Oceania :		Europe :	
Burma Airways -----	9	Air Lingus -----	5
Burma Cooperation -----	1	Air France -----	31
Royal Air Camboge -----	1	Alitalia -----	4
Cathay Pacific Airways -----	1	BEA -----	19
Garuda Indonesian Airways -----	17	BUA -----	3
Indonesian Business -----	8	Finnair -----	8
Korean National Airlines -----	2	Iceland -----	3
Air Laos -----	2	KLM -----	4
Malayan Airways -----	11	Olympic -----	13
Philippine Airlines -----	27	Sabena -----	27
Civil Air Transport -----	3	Swissair -----	6
Asiatic Aeronautical Co. -----	4	TAI (France) -----	1
China Airlines (Taiwan) -----	1	THY (Turkey) -----	21
Thai Airways -----	7		
Air Vietnam -----	6	Subtotal -----	150
Trans Australian Airlines -----	14		
Ansett-ANA-Con. (Australia) -----	25	Latin America (DC-2, DC-3, and C-47) :	
Mac Robertson-Miller (Australia) -----	6	Argentina -----	22
East-West Airlines (Australia) -----	4	Bolivia -----	10
Quantas -----	3	Brazil -----	160
Papuan Air Transport, Ltd. -----	1	Chile -----	19
Australian General Aviation -----	15	Colombia -----	35
New Zealand National Airways -----	26	Costa Rica -----	3
		Cuba -----	8
Subtotal -----	194	Dominican Republic -----	2
		Ecuador -----	3
Southwest Asia :		Guatemala -----	5
Afghanistan -----	4	Haiti -----	3
Ceylon -----	3	Honduras -----	9
India -----	78	Mexico -----	41
Nepal -----	4	Nicaragua -----	7
Pakistan -----	10	Panama -----	2
		Peru -----	19
Subtotal -----	99	Uruguay -----	12
		Venezuela -----	29
Africa :		Subtotal -----	389
Algeria -----	7		
Angola -----	7	Near and Middle East :	
East Africa (Kenya, Uganda, Tanganyika, and Zanzibar) -----	10	Aden -----	7
Federation of Rhodesia and Nyasaland -----	4	Iran -----	13
Ghana -----	2	Israel -----	11
Liberia -----	2	Jordan -----	1
Malagasy Republic -----	11	Lebanon -----	7
Morocco -----	4	Saudi Arabia -----	9
Mozambique -----	3	Sudan -----	7
Nigeria -----	7	Turkey -----	21
Tunis -----	3	Egypt -----	7
Union of South Africa -----	20	Yemen -----	3
West Africa -----	1		
Subtotal -----	81	Subtotal -----	86

\*This memorandum was prepared, for internal staff use only, for the purpose of providing a rough estimate of DC-3-type aircraft presently in use by foreign carriers. Time did not permit verification of all figures.

Recapitulation:		Recapitulation—Continued	
Asia and Oceania.....	194	Europe .....	150
Latin America.....	389	U.S. local carriers.....	250
Near and Middle East.....	86		
Southwest Asia.....	99	Total .....	1,249
Africa .....	81		

Mr. HALABY. If, in the next 3 years, aircraft tailored to the needs of local service carriers can be developed, we believe the Government's guarantee should be limited to loans for their purchase. Accordingly, it is recommended that the act be extended for only 3 years rather than the 5 years now proposed. This will permit reevaluation in light of aircraft coming into production at that time.

As indicated, I do not believe that the development of a new aircraft, regardless of its efficiency, will solve all of the economic problems of the local service carriers. The ultimate solution is not to be found in reduction of direct operating costs alone. What the industry must look to now is a reduction in indirect operating costs, such as reservation service, ticketing, baggage, and so on, as well as in more efficient route structure. It seems to us that these are fertile areas for a breakthrough. The time afforded by 3-year extension of the act will be ample to explore this frontier.

Senator MONRONEY. I quite agree with you that the indirect operating costs should be thoroughly examined that some innovations in the feeder service may well be necessary if subsidy costs are to be reduced. It is clear that more efficient aircraft is not the whole answer. As you say, ticketing, baggaging, things of that kind must be taken into account.

Many of my colleagues in the Senate have suggested that on the very thin runs, where the boarding is light but where nevertheless several full-time employees are required, that some of these personnel costs should be absorbed by the local community. Perhaps other arrangements could be made by use of fixed base operators to perform certain needed functions.

Some of these costs, unloaded from the smaller low-density traffic points, would perhaps help to relieve the feeder lines of the loss that they suffer in trying to develop traffic in these thin areas.

Would that be defensible in your way of thinking?

Mr. HALABY. Sir, it seems to me to be worth a great deal of thought. We could have a very austere, a very bare but safe and economical operation here, and I think a lot of ingenuity, both toward austerity and toward marketing of this service is in order.

As you know, Mr. Boyd and I have worked hard during the past months, on the regional airport concept. We feel that one of the problems here that has sort of built itself into the air carrier industry is a multiplicity of airports, often solely for civic pride reasons, and if we could reduce the number of maintenance, ticketing, baggage, reservation, et cetera complexes, that the carriers have to provide, and yet still give the traveling public reasonably convenient locales for boarding and deplaning, we think this offers another area. Of course, this is hard to come by.

The New England Council has a very interesting study of this matter. They have taken a responsibility and initiative with respect to the carriers serving that area that is worth very careful observation and cooperation.

It is in these areas that we suggest there should be work, as well as in the support of a new airplane.

Senator MONRONEY. This committee—I think I can speak for their feeling—feels that the airplane is not a one-purpose bird that can only fly great distances at sonic or supersonic speeds; that it is also a work-horse of great potential and in this modern age where we can orbit the world every 88 minutes and do other things as fantastic, that somebody, somewhere, can crack the short-haul lower speed heavy-duty aircraft for which there has been established a need of 1600 replacements for the DC-3 or its equivalent.

If it were possible to bring out a plane at roughly \$500,000 per copy, this could mean a market potential of \$800 million in aircraft sales alone, not to mention the parts and spares which would be required. Such a potential exists in no other field of aviation.

For that reason our committee has been most concerned with the stagnant position of the American aviation in this very vital field.

On top of that, the testimony has developed that the feeder service is about 50 percent geared to feeding, actually feeding, passengers on the long-haul aircraft of the trunklines, and that this origination of traffic from various parts of the country to the trunkline terminals serves a very vital link in helping to keep the trunkline carriers filled with more seats than they would otherwise have.

So it all knits together.

What we need is I think not the spectacular Super Chief or the 20th Century Limited on the New York Central, but we actually need a system or a combination of systems that will blanket the country and make aviation available to not just those in the metropolitan areas but to the smaller communities as well.

Mr. HALABY. Mr. Chairman, that is music to the ears of all of us in aviation who feel that it is just taking off and not getting ready to land.

We need a national aviation system. It should have the high speed, high density, for long-haul, and it should have a supersonic transport. At the low speed end, which has been a neglected area, it seems to me we need this kind of airplane that you are talking about.

I am just trying to explain from our point of view that we won't solve it all even if we do get this very excellent vehicle that I believe you have in mind.

For example, if you leave the indirect costs and the revenues unchanged, and reduce the direct operating costs 10 percent, you can cut the subsidy only \$9.7 million. If you could get the direct operating costs cut 20 percent, the subsidy cut will only be \$19.4 million.

So with the advantages of this legislation, with the development of a more productive airplane in terms of direct operating costs, the DC-3, at 67 cents direct operating cost per mile, compared with the 707 at \$1.87 per mile, and of course per available seat mile, \$2.88 for the DC-3 and \$1.68 for the 707, you spread the spectrum out.

We just feel that we have to look to other parts of the problem for solution as well as to the direct operating costs.

Senator MONRONEY. I quite agree with you.

I believe under the state of the art, where we are now talking about VTOL and military aircraft, and we are talking about STOL, and we have better motors than we have ever had, the only thing that I fear is that we have so many engineers and others that have been spoiled by high-priced Government work that they can't look down

to tie their shoes, so to speak, with a low-cost aircraft that can bring into being these many, many breakthroughs that could be instituted in mass production and really lower the cost of the plane.

With the simplification of controls and the gradual improvement of air traffic procedures, it might be possible sometime to operate some of these runs, VFR at least, with a single pilot and no copilot nor stewardess to further reduce the cost of operation on your low density runs, what we call perhaps today third-level service. Experiments with frequency of service could be tried to see if these runs could be built up to be more economic than they are today.

These are matters on which I think we have been sitting on dead center for 5 years, frequency and route patterns, indirect operating costs should be reevaluated with views toward maximizing efficiency—both as to costs and services. Shuttle-type should be explored.

Someplace in this spectrum there must be an opportunity for bold experimentation as there was at the beginning of civil aviation. I think more imagination, some fresh new approaches would be welcomed by the Congress which grows more concerned over the continually mounting subsidy costs.

Mr. HALABY. I agree with you, sir. I think that in this field we need simplicity rather than sophistication. It is a challenge to the engineer, to the laboring man, and to the management of our airframe companies to produce this kind of article, to reduce their overhead on such a project as this for the volume you envisage, and to simplify.

For example, it looks to me as though most of these requirements, not all but most of them, could be met without pressurization. Many of these aircraft you are talking about never go above 8,000 feet.

Another area would be not to redesign every system and control in the airplane so it will be different from every other airplane ever built, so the pilots won't be able to understand how to manipulate in the cockpit, but to adopt some proven, simple, straightforward controls that are already designed, tooled up, and available. Simple little things like that, that we used to know how to do very well, but have gotten so fancy and sophisticated we no longer seem to be doing as well.

The challenge here is that a train fare costs somewhere around 4 cents a mile and up, a bus fare costs about 2.7 cents per mile, and the air fare in the lower ranges is about 7 or 8 cents—for travel distances, stage lengths of about 92 miles, which was the average in 1961, and passenger trips of about 208 miles.

The whole range of things we are talking about here is going to have to be solved before you really, honestly, and candidly can expect subsidy-free enterprise transportation, which I think the carriers want just as much as you do.

The fact is that the improved passenger load factor is the best solution because you get more revenues.

In 1961 the local service operators flew 3.2 billion seat-miles, and they did it at a load factor of only 41.6 percent. If you could regionalize some of your airport system, if you could have a more modern and comfortable airplane—not necessarily a fancier one—and if you had safe and reliable service, then you could begin to increase that load factor.

I still believe, Mr. Chairman, that one of the inhibiting factors in our business is that people are anxious about flying, and that only 1 out of 10 of our population flies for both safety and cost reasons. If we could establish higher safety standards, more security in the air, fewer drunks, fewer psychotics, fewer suspicious-looking characters, then I think we would make a breakthrough here as well as in the trunklines.

Senator MONRONEY. Would it be possible to effect savings if this plane we are talking about were built on a uniform basis? In other words, the Association of Local Transport Airlines has appointed a committee. The president of Allegheny is chairman, and many distinguished men in this field are working hard on this, with others, to come up with ideas as to the number of seats required, the general operating characteristics necessary, and so forth, based upon their widespread experience, for such a plane. In the perfection of development of the plane, if everything was sold, as the old models were once sold, on an assembly line basis, and the airframe, its motors and essential flyable parts are all included, it could be delivered then with bare interiors and cabin arrangements so that the local service airline shops or other smaller operators could hand tailor the interiors and the plush parts to their own requirements, thus avoiding the very expensive and slow procedure of the airframe manufacturer having to put in all of these gadgets and variations that each airline would require for the expression of its own personality.

Mr. HALABY. I certainly agree with you, Mr. Chairman.

I think all you have to do is ride on a Swiss or German train or bus or aircraft to see how you could do it simply and austere.

One of the greatest universities in the United States is Stanford, I think Senator Engle will agree. And one of its most distinguished economists was a man named Thorsten Veblen. He had a very interesting book which is timeless called "The Theory of the Leisure Class." One of his contributions was the phrase "conspicuous consumption."

If you recall, he pointed out that many, many Americans and other residents of highly developed nations consume conspicuously. I think that is one of our problems here.

We are consuming more conspicuously than we are efficiently in many areas, and this is one.

It is my judgment that the manufacturers and operators might very well look hard at giving just hard, safe, efficient service. All you have to do is look at the record of the past year of the shuttle service between Washington and New York to see how some fresh thought on this problem will work.

I am informed, and I can get the exact figures, I believe, that the total air travel between Washington and New York has increased somewhere between 30 and 40 percent. I am also advised that the carrier who innovated, by giving hard, safe, efficient service, has increased his share of the market by approximately 40 percent.

Senator MONRONEY. Let's don't keep innovators anonymous. Let's say it was Eastern Airlines that had the courage to put in every-hour-on-the-hour shuttle bus service with a standby plane to take care of any oversell so that no one would be left at the ramp.

This is a forward step in experimentation in the economics of aviation. It seemed so hard to get a breakthrough there, while we can get a breakthrough of the sonic barrier and other things quite easily.

Senator ENGLE. Would the chairman yield?

Senator MONRONEY. Yes.

Senator ENGLE. I would like to put in a plug for my California outfit. PSA has done precisely that sort of thing for I don't know how long.

As you know, Mr. Halaby, they operated the Lockheed Electras out of San Diego.

I've asked time and time again why it was that the major airlines couldn't do the same sort of thing. It seems to me the last ticket I bought out of Los Angeles to San Francisco was \$12.99, or close to it; this is quite a bit less than the fares charged by the trunk carriers serving these points.

So they were doing it. And I suppose Eastern took a look at what PSA was doing and undertook to do the same thing. They get right out and go. They only have four airplanes, and sometimes they have some problems, I think, in keeping their schedule put together. But the last time I was there they were full to the brim and you couldn't stuff another passenger in.

It is unsubsidized, and I suspect—I don't know, I had a suspicion that the reason we couldn't get the major trunklines to undertake that kind of operation was because they are balled up in too much redtape.

PSA, out of San Diego—San Diego-Los Angeles-San Francisco—isn't in interstate commerce and doesn't have to put up with a lot of nonsense from the CAB. It has to meet the safety requirements of the FAA, and should. But this is the kind of thing I would like to see. I am glad that we developed this shuttle service, and I am delighted to hear the testimony you have just given with respect to the success of it between Washington, D.C., and New York. Certainly it is long overdue.

This is no derogation of the praise given by the chairman to Eastern Airlines for undertaking to do it in interstate commerce.

Senator MONRONEY. I understand Piedmont is also doing the same thing, in service to Virginia and the South.

Mr. HALABY. I think that Mr. Boyd has encouraged it—Eastern, Piedmont, and the others—and has sought not to handicap or inhibit these innovations which seem to me to be in the right direction, as they apparently do to you.

I think the foreign challenge, as the chairman has pointed out here, is important. The French Brequet-941, the Potez-804, the Fokker F-28, upcoming, and a variety of other foreign designed and built aircraft, point toward what we think of as the local service market. They point not only here in the United States, but all around the world.

I think our manufacturers and our Government have to recognize and meet this foreign challenge. I believe we can do it if we really get going on it.

Senator MONRONEY. One thing that has not been brought out that I think must be considered: as you try to work up the idealized design of this so-called DC-3 replacement, this plane I feel should be built with a combination cargo-passenger capacity, so that the seats could be totally stripped out in a few minutes to make the plane suit-

able for aircargo lift—I am not referring to airexpress, but to aircargo—with a capacity of 8,000 to 10,000 pounds cargo lift, to fan out from the various central points where the large-haul cargo ships would stop, to carry on the distribution of this cargo by air throughout the feeder line network.

Certainly as the plane is built it could be designed with this capacity very easily. So that on thin density routes combinations of 10-place passenger, perhaps, with 4,000-pound cargo capacity, could be available, the loss that is now experienced with empty seats could be reduced if some utilization was realized for movement of things as well as people.

Would you agree that such a feature should be built in?

Mr. HALABY. Yes, I think that's right.

I think, however, we will have to be careful in thinking about this bird that it does not become all purpose, all geography, everything to everyone. That is one of the problems the military have to face. They have to operate in the arctic and in the desert. They have to operate at high altitudes and at low altitudes. They have to operate with all kinds of different handling equipment and personnel.

The tendency is, for at least commercial purposes, to have an over-designed, too multipurpose an aircraft. That will be one of the obstacles to overcome in translating the military designs and technology into civil utility.

But it seems to me that for most of the purposes, that a cargo or passenger compartment on an austere, safe, efficient basis, is compatible.

Senator MONRONEY. Senator Engle, do you have any further questions on this feeder?

Senator ENGLE. No, sir.

Senator MONRONEY. Thank you very much. Why don't you move on to the testimony on all-cargo which you were about to start, on page 4.

Mr. HALABY. We have considered with great care the amendment to S. 2815 proposed by Senator Smathers which would bring scheduled all-cargo carriers within the scope of the act. While we do not object to the amendment, I must say it raises in my mind some serious questions which I believe the committee should consider before adopting it.

I think we can all agree that the guarantee by the Government of loans to private borrowers is an exceptional method of achieving national policies. It is not the norm. There is a strong national policy to encourage the scheduled local service carriers which at present are the principal beneficiaries of the act. The local service carriers and the metropolitan helicopter carriers both receive subsidies authorized by the Congress, which is a clear indication of Congress' feeling that fostering local air service is in the national interest. Furthermore, operations within Hawaii, Alaska, and the Commonwealth of Puerto Rico pose special problems for the United States which deserve special considerations. One of the things that makes this country strong and contributes to the national integration of our distant States and territories is a fast, safe, reliable transportation system promoting a free flow of persons and goods.

In my opinion, entirely different considerations are involved in weighing the national interest served by extension of the guarantee loan benefits to scheduled all-cargo carriers. The Nation does not

depend on them in the same manner or for the same reasons as it depends on the local service carriers. The service that scheduled all-cargo carriers render is to a large extent also available from scheduled passenger carriers who carry freight, both in their passenger aircraft and in special all-cargo aircraft. In addition, a substantial amount of cargo, particularly under contract with the military, is carried by supplemental carriers. If we are to have a supplemental carrier industry there must be some customers to permit safe and break-even or better operations.

Granting that the all-cargo carriers do contribute to the Nation's air transport system and national defense capability, as previous witnesses have emphasized, we believe it is a basic and sound principle that they stand on their own, and that their operations meet the test of competition. It was with this understanding that the Civil Aeronautics Board certificated these carriers.

One of the things about this amendment that troubles me is that it selects for benefits under the act only four of the many carriers which are engaged in cargo transportation. The committee has already received testimony to the effect that in 1961 only 20 percent of the revenues of scheduled domestic all-cargo carriers was derived from scheduled operations. The balance of revenues was derived primarily from military charter and contract work. This indicates that, from the standpoint of transportation services rendered, most of these carriers are quite similar to the 32 certificated supplemental carriers. This leads me to wonder whether the line distinguishing between the carriers eligible for benefits under the amendment and those not eligible can be so sharply drawn in any meaningful manner.

There is in my mind a more basic problem. Loan guarantees have been advocated as facilitating improved emergency airlift capability, increased civil capacity for movement of military cargo in peacetime, and development of the aircargo market. If these are the objectives, it is difficult to argue against extending the act not only to supplemental carriers but also to scheduled combination carriers. Certainly, substantial improvement in emergency airlift capability cannot be achieved by extending guarantees to only four carriers.

We do not, however, endorse extension of the act to the other classes of carriers. We believe all three classes should compete without special Government assistance. Failure to adhere to this principle, in time, may well lead to requests for subsidization of the marginal competitors. In any event, no case has been made that the trunk carriers require a guarantee in order to obtain financing. Certainly until the reevaluation of the supplemental carriers, contemplated by this committee in its amendments to S. 1969, has been completed we believe extension of loan guarantees to such carriers would be premature, to say the least.

As you will remember, the Federal Aviation Agency strongly supported the cargo aircraft loan guarantee bill introduced by Chairman Monroney and considered by this subcommittee in 1960 (S. 2774). That bill was designed to encourage the manufacture of efficient, newly developed, modern cargo aircraft and to facilitate the acquisition of such aircraft by the carriers. Another principal motivation was the belief that the national security of the United States would be sub-

stantially strengthened if our civilian air carriers had available, and could make available during time of emergency, efficient powerful aircraft especially designed to haul large and heavy cargo.

However, circumstances have changed since 1960. U.S. airlines have acquired foreign-made turbine-powered cargo aircraft, the Canadian CL-44 and the British AW-650, and apparently these planes have proved to be satisfactory. Furthermore, the program to develop and build the Lockheed C-141 has commenced and, hopefully, this will give to the United States a specially designed all-cargo aircraft, as envisioned, suitable for both military and commercial use. Finally, both Boeing and Douglas will begin deliveries within the next year of cargo versions of the 707 and DC-8. The need for a guarantee loan program to spur development and increase the acquisition of modern cargo aircraft is thus not as great as it was 2 years ago.

There were other provisions of the 1960 bill which are not included in this amendment—specifically, the requirements that the aircraft purchased be modern and found suitable for defense purposes, and that they be made available to the Department of Defense in times of war or emergency. Should the committee report favorably this amendment, we would urge that it include these requirements.

As you know, the Project Horizon report dealt with this problem and is now being considered and acted upon by the executive branch. Our Aircraft Development Service has begun to determine how certain events occurring subsequent to the report affect its recommendations. Included in this task is a study of the extent to which the Canadian CL-44, which can be purchased with loans guaranteed by the Canadian Government, is meeting the needs of our present all-cargo carriers; also, the extent to which the proposed C-141 can be expected to meet those needs when it becomes available in 1965 or 1966. When the Horizon report was issued no CL-44's had been delivered to American all-cargo carriers; since that time a substantial number have been put into service, and we propose to investigate just how efficiently they are operating. Also since that time, the C-141 has become a much more precisely described aircraft, and the DC-8 and 707 cargo types are close to reality. Any recommendation by this Agency to embark on a guarantee loan program to help purchase modern cargo aircraft for all-cargo carriers will depend in large part on the results of these inquiries.

In summary, we endorse the extension of the act for an additional 3 years. At the end of that time we would propose a general review of the legislation in light of new aircraft then available and other developments which will lead to improved economy and financial independence of the local service carriers. Similarly, without objecting to the inclusion of the all-cargo carriers, we question whether a line can be meaningfully drawn between them and other carriers, whether their inclusion will give us any really significant improvement in the Nation's emergency airlift capability, and whether the bill can be expected to spur the development of any new cargo aircraft not already being delivered or being developed.

Senator MONRONEY. Thank you very much, Mr. Halaby.

You referred to the C-141. The operational date of that for the military is 1966, is it not, and there will be few, if any, cargo planes of this design available until the military commitments are first met?

Mr. HALABY. That is right, sir. That would be 1966.

Senator MONRONEY. How long, may I ask you, can the United States afford to yield the air cargo field to foreign countries? How long can the U.S. airframe industry remain on dead center before foreign manufacturers will have completely captured the market?

We fight this all the time in the maritime business, which always seems to have us bringing up the rear and for that reason we have not only subsidized the purchase of cargo vessels for our flag lines but we have equalized by bonuses the differential in the cost of construction here in America to keep our oceanborne shipping modern and available, and we have subsidized the operation by crew pay for these movements by surface. Yet here is a sparkling new advent of worldwide commerce that is bound to find its place sooner or later, and we say air is different, air must not be encouraged even though it has the very definite potential to relieve the Federal Government of overcapacity standby in its heavy cargo movements, which otherwise it will have to fill with the purchase of its own cargo planes far beyond the capacity they need for current movements to be ever ready for an emergency that would require double or triple the size of the cargo fleet.

Mr. HALABY. Sir, I have no quarrel whatsoever with the need for encouragement and support of American aviation. Naturally it is part of the job that you have advised and consented to my doing.

The CL-44 is built by a Canadian corporation which is a subsidiary of General Dynamics, an American corporation. They had the initiative and ability and the overhead rates that would permit them to build roughly a 60,000-pound payload swing-tail aircraft with a high floor. The direct operating costs were estimated by the manufacturer to be between 4.2 and 4.9 cents per available ton-mile for domestic operations, and 4.7 to 5.4 cents for international operations. These aircraft were in anticipation of the market which is being considered by the committee today. They were there firstest with the mostest, I guess, it is fair to say. Whether our manufacturers were preoccupied with military contracts, the long-range jets and other matters, is of course the whole working of the free marketplace.

I would not deny to our carriers the benefits of those lower direct operating costs merely because this aircraft was built by the Canadian subsidiary of an American corporation.

With regard to the C-141, that airplane has a civil version being offered by the Lockheed Aircraft Corp. at the present time. It is called the L-300. It is a turbofan powered 80,000 to 90,000 pounds payload airplane. It has end loading with truckbed height floor. We spent several hours going over the mockup in Atlanta.

They estimate direct operating costs of 3.8 to 4.4 cents per available ton-mile for domestic operation and, as you would note, that would be between 0.4 and 0.5 cent per ton-mile lower direct operating costs than the CL-44.

It is quite true, Mr. Chairman, that this airplane will not be available until 1966. If there is an outfit that wants to step up and place an order for it in advance, I think the manufacturers would be quite happy to receive that order and might very well expedite deliveries.

Senator MONRONEY. They would have a little trouble not knowing what the cost is right now.

Mr. HALABY. I think that is right. And that is true of all development airplanes. But they are well along with that airplane. It does have very great economic potential. We don't sell the airplane; we just certify it. We tried very hard to enable the manufacturer to convert readily and cheaply and quickly from his military purpose to his commercial purpose. This hasn't been a perfect job. My predecessor and some of the military officers have done a unique and I think quite commendable job for the first time, at least in recent history, of getting double duty out of many hundreds of millions of defense dollars. There it is. It is being marketed by one of our major airframe manufacturers.

The operators, I guess, are looking at it with some scepticism. Most of them were consulted in the specifications for its conversion. It is the best thing in sight for the long-range 75,000 to 95,000 pounds payload.

Senator MONRONEY. The CL-44, of course, is a good aircraft, as demonstrated by the purchase of 10 by Flying Tiger and 4 by Slick and I don't know how many by Seaboard. The other all-cargo carriers are also interested in the plane.

Is it not true that one of the reasons our cargo carriers are buying it is because of financing available through guaranteed loans by the Canadian Government?

Mr. HALABY. I believe that is one of the reasons, Mr. Chairman.

Senator MONRONEY. So the lack of any loan availability on a domestic-made plane, even though it might have better flight characteristics or equal, would be penalized to the degree to which one could be financed over a long term.

Secondly, I will call your attention to the fact that we must pay, much to my disgust and opposition, we must have our carriers pay a 12.5-percent import duty from Canada in order to operate this Canadian-made plane, or if they buy the British-made plane there is a 12.5-percent duty there, which penalizes the value of the plane by just that much added burden.

It is doubtful that American manufacturers would have to demand a 12.5-percent premium on their cost in order to build the same type or a plane of similar usage. Those two things seem to bear heavily against it.

By the same token, the planes we are talking about, the Boeing 707, or the Douglas DC-8, or the C-141, all would be available for an insured cargo carrier bill on the same terms. The operator would have the free choice of the marketplace not only of the Canadian plane or the British plane but also the Lockheed, Boeing, or Douglas, or Convair, if it chooses to get into it here, that plane in the same degree.

For that reason airplanes are not bought like hairpins in the 5 and 10. The availability of the C-141, which is likely to be a good plane when delivered, or the immediate availability or the availability within 1 year of the current planes which many of these men know and understand, it seems to me that we are handicapping our own people, particularly if we can sell these planes on a long-term Government-financed loan to any foreign operator, if they choose to buy it, guaranteed and financed by the Export-Import Bank with taxpayers' dollars—but only the European market can find an adequate financing plan to help the American-flag line competitors secure this.

For that reason we seem to be in somewhat of a dilemma of having Canadians having their loan plan available to the American or British or others, but not available to the Canadian operators, while at the same time our loan plan is available to Canadian or British or Swiss or French and not available to ourselves.

It seems a little inconsistent to me to be having this available abroad and leave us trailing.

Mr. HALABY. Mr. Chairman, we are faced by these dilemmas, as you pointed out. I guess what I am trying to say is that the softer horn of this central dilemma is that we ought to use our military reservoir of research and development and requirements, convert that technology into civilian use as we are trying to do with the 141, take advantage of their requirements, other Government requirements, local service requirements, and do not distinguish in a synthetic way between the three different classes of cargo operators, and proceed with the experiment trying to get more aircraft developed for the purposes required.

Senator MONRONEY. Those are the only reservations I have about this bill. As I understand it there is an application before the CAB, to which the military is ready to agree, for mixed cargo of military and civilian for the all-cargo operators or for our scheduled airlines, if they choose to buy the plane.

This it seems to me is the seedbed to grow a genuine all-cargo business at brandnew low rates—to break through in a hundred ways new cargo which heretofore has not moved by air because of the excessive 20 to 28 cents per ton-mile rate.

If this be true, it would seem to me—and my mind is wide open on it—I would have no hesitancy in making this cargo loan guarantee for cargo planes apply to our scheduled passenger carriers who are also, may I remind you, certificated for freight over regular route structures, the same as the all-cargo are certificated for freight over regular route structures.

I have been through an exercise since January trying to help the supplementals. But if the bill goes through, as it appears it will, the supplementals are going to have very little that they can depend on for regular revenue between their military or their civilian charters.

For that reason the prospects do not look too bright on the supplementals.

The previous bill as drawn—they did not like it. I for one, if there was interest in the scheduled carriers—they are also supposed to carry freight and they have been carrying air express and not airfreight throughout most of their history. If they want to get into this business and really get after aircargo to have these planes so that they could be sold to the scheduled carriers, passenger carriers on the same basis, I would have no objection. I would insist on writing a provision in such an act, that they had to be used 66⅔ or 75 percent of the airtime in cargo, to prevent the use of this loan bill from giving us still more seating capacity in the passenger jets.

I would not want this to be an invasion for the so-called purpose of the cargo-configuration plane which could work solely for passenger use.

It seems to me that we could get this thing off the ground and quit dangling our toes in the water and thinking we are swimming when all we are moving is a lot of air express packages, ladies' hats and orchids, instead of cylinder blocks and industrial equipment and many other things that belong in the air instead of on the slow, tedious, and more wasteful surface transportation system.

Senator Engle?

Senator ENGLE. I have no questions.

Senator MONRONEY. Senator Thurmond?

Senator THURMOND. No questions, Mr. Chairman.

Senator MONRONEY. Senator Hartke?

Senator HARTKE. No questions.

Senator MONRONEY. Thank you very much, Mr. Halaby.

I have one further question.

I had the pleasure of going through Lockheed last Monday. It is my understanding, aside from the C-141, they have no civilian transport aircraft in their inventory, lines, or are contemplating them.

Mr. HALABY. I think for the air transport industry, that is correct. They of course are building at a very slow rate the Jetstar which they are offering to executive transports and some of the executive fleets.

The Electra line I understand is pretty much down. Except for studies of supersonic transport, their small sort of bush airplane that they built in Mexico, and their little helicopter which might have some subsequent small helicopter application, I believe your observation is correct.

Senator MONRONEY. But no commercial transport?

Mr. HALABY. I believe that is right.

Senator MONRONEY. Excepting in 1966 making deliveries on the C-141. What is Convair building in the transport line when they finish the deliveries on the 880 and the 990?

Mr. HALABY. Subject to correction if I may by amending the record, Convair except for proposals on the supersonic transport, is substantially out of the civil transport business with the ending of the 880 and 990 line.

Senator MONRONEY. What civilian transport is Douglas building other than finishing off their present orders on DV-8's?

Mr. HALABY. Other than paper airplanes and a study contract which we awarded last week to Douglas and McDonnell on supersonic transport, they are making presentations.

I believe they were in town last week with a presentation on what they call their model 2086, which is a pure jet competitor for the BAC-111. It is a fairly expensive airplane but it would be highly efficient for the longer range of the local service problem.

Senator MONRONEY. This is of the Caravelle type?

Mr. HALABY. Yes, sir; it is.

Senator MONRONEY. They have nothing excepting on paper. Boeing, when they finish their line on the 707's and 707-321 order, the two that Pan-American has bought, do they have any new model planes for civilian transport?

Mr. HALABY. I think Boeing, like all other good airframe manufacturers, has been looking at this market.

I think the only thing that they have building is the 727, which, as you know, is a trunk-carrier-type of medium-range all-jet passenger

airplane. I don't know whether they have any cargo or passenger-cargo ships in contemplation except the 707-321.

Senator MONRONEY. Looking at the future of aircargo from American-made planes, unless there are some orders that are stimulated and the testimony before the committee and privately of these airframe manufacturers is without a loan guarantee, they can't hope to make more than a very, very few, if they make them at all.

Therefore, we will have to yield this manufacturing market to those countries that have been smart enough to have loan guarantees from abroad.

Is that correct?

Mr. HALABY. I think unless the Congress takes action on this front, and authorizes us to proceed with the studies with Defense to help industry, that that is the real danger that we face.

Senator MONRONEY. I was amazed to find out yesterday in talking to several operational men that the interest rate that many of our blue ribbon trunklines carriers pay on many of the jets that they are now buying is  $6\frac{1}{2}$  percent.

This is a rate of interest that even in the cash-short Oklahoma area is exorbitant for a small businessman to buy motorized equipment for his own business.

Usually he can get it at about 5 percent. Yet this shows the market on the passenger craft which has a better operational revenue reputation than the cargo field has.

Therefore, it would seem to me that with the heavy load presently experienced by our trunk carriers and by the purchases of these CL-44's, that we must admit that we will be dormant in manufacturing and putting on the lines this type of aircraft until perhaps the C-141 is available in 1966.

Mr. HALABY. I inquired of the Chairman of the Civil Aeronautics Board, who knows much more about these matters we have been discussing than I do, about the interest rate.

I notice that on the local service carriers who have gotten loans from lenders with the assistance of this legislation, that the average was about 5.4 to 6.2 percent over recent years.

I asked him about the interest rate on the trunklines borrowing to buy jets, and he said that was more directly related to the prime rate of interest which, as you know, has been rising in the last 3 years, and the credit of the borrowing airline.

I believe some of those loans have been as low as  $3\frac{1}{2}$  percent, and they have been edging up to the figure you apparently received from someone who knows.

Senator MONRONEY. You would feel that a guaranteed loan bill, either for the feeder lines and/or the cargo carriers, would have an interest in lowering the interest rate at payout time, which would make possible lower direct operating costs.

Mr. HALABY. I am not sure of that, sir. The interest rate is determined by the demand and supply of money in the money market. There is a minimum below which, despite a Government guarantee, no lender will go. So I would suggest that it would relate more to the money market and the credit of the individual borrower. But it is certain that a guaranteed loan would be at a lower interest rate than an unguaranteed loan in the case where the financial position of the

borrower and its future in relation to subsidy and so on was in doubt.

Senator MONRONEY. I believe the testimony regarding Bonanza, which had used up their full allocation, is that they had to pay about 1 percent above the former interest rate that they had been borrowing at on the guaranteed loan.

I think that will hold fairly true, that there will be a 1 percent additional and a longer amortized time.

Would that be about your guess?

Mr. HALABY. It sounds quite reasonable, sir. I don't know.

Senator MONRONEY. Are there any further questions?

Senator THURMOND. I have a question. What provisions are being made, if any that you know of, for helicopter service from the city of Washington out to the new airport?

Mr. HALABY. Senator Thurmond, the Civil Aeronautics Board has before it applications from several companies who provide and want to provide helicopter services in this area. I think most of them propose to serve Washington downtown, Washington National Airport, Washington International Airport, and I think some of them go over as far as Baltimore and Friendship. So they have their applications there.

The Examiner, as I understand it, is working on this, and will report back.

From the point of view of the efficient utilization of that airport in which all the taxpayers have so much invested, it would be desirable to have higher speed airport to city center and airport-to-airport service than can be provided on the highway.

Whether this will come about I think will largely depend on the findings of the Civil Aeronautics Board which would have to authorize such a service. They would of course take into account whether you can do it without subsidy, because they are under very heavy pressure from Congress to reduce and phase out all subsidy to these carriers.

The new twin-turbine helicopter is more efficient and carries more people. Maybe they can get in the black. I would say, sir, that it is very doubtful, and probably unlikely that there would be a helicopter service there this fall when the airport is scheduled to open.

Senator THURMOND. That is being considered in relation to the International Airport and Friendship, and integrated service so to speak, where the whole problem would be considered together?

Mr. HALABY. It is my understanding those who have applied to the CAB have been suggesting such a service.

As the statutory and reluctant landlord of the two Federal airports here it would be very desirable to have safe, efficient, frequent helicopter service so that we could increase the flow of passengers through those airports and therefore increase the revenue and therefore see the day when we could operate in the black for you.

Senator THURMOND. Are any arrangements being made about helicopter service in cities like New York, Pittsburgh, and other places?

Mr. HALABY. Many cities now have helicopter air taxis, sir, and they are on call, and some of them are even semischeduled.

There are three cities that have scheduled helicopter services with subsidy amounting to several million dollars each year.

The most highly advanced, I guess it is fair to say, are in New York and Los Angeles. They are just commencing operations with twin-turbine helicopters.

In New York you can go from the Wall Street heliport to La Guardia, Idlewild, and Newark. In the airport stream you can go from the West Side on the Hudson River and I think you can go as far north as Bridgeport, Conn., and as far south as Newark.

But until they get the twin-turbine helicopter in, get their costs down, and their loads of passengers up, it is a subsidized operation.

Senator THURMOND. Thank you.

Senator MONRONEY. Mr. Halaby, thank you very much for your testimony on this bill. The chairman would like to remind the subcommittee members of the briefing on the Continental aircraft crash, as well as the briefing on Russian and European civil aviation, with particular emphasis on supersonic development, which will take place immediately following the conclusion of this hearing.

This concludes the committee's hearings on S. 2815. However, in the event that any interested parties are desirous of submitting additional comments on this legislation, the record will be held open for 5 days.

(The following statement was subsequently supplied:)

STATEMENT OF GERALD P. O'GRADY, GENERAL COUNSEL, PACIFIC NORTHERN AIRLINES, INC.

My name is Gerald P. O'Grady. I am general counsel of Pacific Northern Airlines, Inc., a certificated airline operating between points within the State of Alaska and between points in the State of Alaska and Portland, Oreg. and Seattle-Tacoma, Wash.

Pacific Northern Airlines, Inc., endorses the proposed legislation embodied in S. 2815, which would have the effect of renewing for a further 5-year period the provisions of Public Law 85-307, authorizing the guarantee of loans to certain airlines for the purchase of modern aircraft. Pacific Northern Airlines is one of the carriers which qualifies for the benefits of the existing and, presumably, the proposed legislation. Last fall Pacific Northern Airlines received from the Civil Aeronautics Board, pursuant to the legislation then in effect, a guarantee of a loan from a group of banks for the purchase of one Boeing model 720 jet aircraft, representing a total investment of approximately \$4,250,000. At the same time, the company was able to obtain additional unguaranteed financing for the purchase of a second aircraft of the same type. Delivery of the two aircraft was obtained in March and April, and the two aircraft are presently in service on the company's routes.

It now appears that within the next few years, Pacific Northern Airlines may well need an additional aircraft of the same type, if business develops as expected. We do not believe that it will be possible to obtain financing for the purchase of a third Boeing Model 720 aircraft without the assistance of a Government guarantee. Yet, such a guarantee would not be available under the terms of Public Law 85-307, if the same were extended unchanged for a period of 5 years, because of the \$5 million limitation therein on the amount of guarantees available for loans to a single carrier. In short, Pacific Northern Airlines has already used up the total amount of the loan guarantee available to it. For this reason, Pacific Northern Airlines strongly endorses the suggestions which have been made by other witnesses that the maximum limitation on the amount of loans to a single carrier which may be guaranteed by the Civil Aeronautics Board be substantially increased. Although it now appears that a limit of \$10 million on guaranteed loans to a single carrier might satisfy the company's requirements, Pacific Northern Airlines believes that an even higher limit would be practicable. The provisions of section 4 of the act provide sufficient protection to the Government against the assumption of unreasonable risks in issuing such guarantees. We must assume that the Civil Aeronautics Board, in exercising its power under this legislation, will not guarantee loans for the purchase of aircraft which are not needed or which are unsuitable for use by the carrier concerned. If the Board should find that a guarantee of loans in the amount of \$15 million to a single carrier is necessary and desirable in order to promote the development of aviation, it should have the authority to guarantee loans in that amount.

It must be remembered that new aircraft are becoming more and more expensive with the passage of time. At the same time, financing for the beneficiaries of the legislation in question is much more difficult to obtain than financing for the larger trunkline carriers. If these smaller carriers are to continue their development and ultimately attain subsidy-free status, they must have assistance from the Government in the form of the proposed legislation. In this connection, it is noteworthy that Pacific Northern Airlines and the Civil Aeronautics Board both expect that the operation of the two Boeing 720 aircraft, one of which was purchased with the guaranteed loan, will enable Pacific Northern Airlines to achieve subsidy-free status by 1965. The Board has already issued an order fixing future mail rates for the company on a declining basis, which will result in the complete elimination of subsidy by May 1965. If renewal of this legislation with higher limits can have such salutary results for Pacific Northern Airlines and other affected carriers, then it certainly should be continued in effect for the foreseeable future.

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WANTED: MORE U.S. CARGO AIRCRAFT

JUNE 1, 1962.

To: The Aviation Subcommittee, Senate Committee on Commerce.

From: A. J. Rome, vice president, Riddle Airlines, Inc., Washington, D.C.

As the record closes on the pending bill to extend the Aircraft Loan Guaranty Act of 1957 for another 5 years, Riddle Airlines wishes to offer this brief addition to our statement on May 10, 1962.

The great weight of testimony by official and industry witnesses was for the Smathers amendment, to include the certificated all-cargo airlines in the loan guarantee program. This indeed, was the main point of interest in these hearings.

Only two witnesses took a different position—the FAA Administrator and a spokesman for the supplemental air carriers. Let us say this in rebuttal.

Solid support for the Smathers amendment was voiced by top-level men from the CAB, the Department of Defense, the Department of Commerce, and leading aircraft manufacturers. Most agreed that the loan limit should be increased above the present \$5 million, or the \$10 million asked by the local transport airlines, so jet aircraft may be purchased for cargo use. Commerce and Riddle asked \$15 million; Seaboard World Airlines \$20 million; and the Boeing Co. \$25-million.

The Horizon report, accepted by the President for action by the FAA Administrator, favored loan guarantee for the cargo airlines. But the Administrator declared that new aircraft since had changed the situation. He mentioned Canadian and British planes now in cargo line use. We submit that this is completely extraneous to a bill to facilitate the purchase of new U.S. aircraft, from our own airframe industry, hard pressed to keep developing in the commercial field.

He further mentioned a U.S. cargo plane not expected to be ready until 1966, which would be after the 3-year extension he recommends.

Belittling the U.S. cargo lines, he said it would be of limited avail to extend the law to only four companies. Yet he raised no objection to inclusion of the few certificated helicopter airlines. The number of companies is not the point here.

The fact is that these four airlines carry more than half of the contract military traffic of this Nation, around the world, through no reason but their merit and enterprise in open competition with all the other airlines in the country, scheduled and nonscheduled.

He says the Nation does not depend on these carriers for the services they render, ignoring the fact that they were certificated after pioneering cargo service before the passenger airlines went heavily into this field. He lumps them with the supplementals, despite the fact that the cargo lines hold certificates of long standing while the supplemental certificates, for more recent, are still moot in the courts pending action in Congress on what their operating authority shall be.

He says the all-cargo airlines should stand on their own and meet the test of competition. This is exactly what they have done. Unsubsidized, they would otherwise be out of business.

There is confusion between the idea of Government aid in the development of a true cargo aircraft and the pending bill. Such development has been officially favored ever since World War II. Riddle favors it. But the urgent needs of the cargo lines, we repeat, cannot wait. We must buy the aircraft that are soon to be ready.

Out of present economic need and for military flexibility, we need something more than planes for cargo alone. We need modern transport convertible between cargo and passenger use, or both together.

The wait-and-see policy of the Administrator would be ruinous to our branch of the industry. We have had too many years of wait and see. The jets about to be available can greatly advance our military to get payload traffic and to build our airlift reserve potential.

It is reported that strong arguments are being made behind the scenes by agents or international airlines in fear that we will compete with them. When these airlines are temporarily on the red side of the balance sheet, they are so oversensitive to alleged competition that I sometimes think they would take toy airplanes away from children in fear that they will grow up to start new air services.

It may be hoped that the improving situation of the big airlines will ease their fears. The cargo lines are creating new markets rather than robbing old ones. Any competition is mainly with the foreign lines that are eating so deeply into American-flag business.

As for the supplemental air carriers, the Senate heard from their newest trade association, recently split from a group that has included carriers now under suspension or facing suspension proceedings, after twice uniting from previous splits.

They complain that the cargo lines have secured more military business than they have. We consider this fact to the credit of the cargo lines for reasons made clear in the Riddle brief. To say that the cargo lines should not have loan guarantee unless the supplementals get it too is like saying that there should be no reward for proven merit.

Let us say in closing that aircargo is still a difficult business since traffic moves mainly at night, often in one direction without return loads, and with seasonal ups and downs. To fill the gaps and achieve the aircraft utilization necessary to make a living, the aircargo industry must continue to diversify by use of passenger cargo convertibility.

The Smathers amendment is an important means to this end, and the evidence for it is overwhelming.

(The following letters and reports have been received:)

DEPARTMENT OF THE AIR FORCE,  
OFFICE OF THE SECRETARY,  
Washington, June 22, 1962.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate.

DEAR MR. CHAIRMAN: Reference is made to your request to the Secretary of Defense for the views of the Department of Defense with respect to the proposed amendment of Senator Hartke to S. 2815, 87th Congress, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees. The Secretary of Defense has delegated to the Department of the Air Force the responsibility for expressing the views of the Department of Defense.

The purpose of the Hartke amendment to S. 2815 is to expand the provisions of the act of September 7, 1957, so as to make certain air carriers eligible for guaranteed loans whose operations are between the United States and the Caribbean area, the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico.

The act of September 7, 1957 (71 Stat. 629; Public Law 85-307), declares it to be the policy of Congress to promote development of local, feeder, and short-haul air transportation, and authorizes governmental guarantee of aircraft purchase loans made to any air carrier holding a certificate of public convenience and necessity to provide these types of air transportation. By its terms Public Law 85-307 expires September 7, 1962. The purpose of S. 2815 is to amend Public Law 85-307 so as to extend the provisions of the act for an additional 5 years. A subsequent amendment to S. 2815, proposed by Senator Smathers, would expand the scope of Public Law 85-307 to authorize governmental guar-

antee of aircraft purchase loans made to air carriers holding a certificate of public convenience and necessity for scheduled all-cargo service. The Department of Defense position on S. 2815 and the Smathers amendment was forwarded to your committee on May 10, 1962.

With respect to the Hartke amendment, the Department of Defense submits similar reservations as to the type of aircraft procured under the program because the type of equipment required to operate successfully in the Caribbean area would probably have overocean capability.

Department of Defense interest in guaranteed loan legislation stems from the requirement to develop within the civil air transportation industry modern, turbine-powered cargo capability to meet the transportation requirements of the Department of Defense during periods of emergency.

The Department of Defense assumes that decisions as to whether specific aircraft purchase loans made to scheduled all-cargo carriers or to carriers operating between the United States and the Caribbean area (overocean capability) should be guaranteed by the Government will depend, among other factors, upon whether the aircraft being purchased has been determined by the Department of Defense to be suitable to meet emergency needs of the Department of Defense. Subject to this understanding, the Department of Defense interposes no objection to the enactment of S. 2815 or the two proposed amendments to the bill.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Bureau of the Budget advises that, while not objecting to the extension of existing authority for 5 years, it is unable to support expansion of the program to the other carriers, at least until a more adequate determination of their need for improved equipment has been made, the suitability of available or prospective equipment for commercial use has been investigated, and the efficacy of this program for financing it has been more fully explored.

Sincerely,

JOSEPH S. IMIRIE,  
*Assistant Secretary of the Air Force.*

DEPARTMENT OF THE AIR FORCE,  
OFFICE OF THE SECRETARY,  
*Washington, May 10, 1962.*

HON. WARREN G. MAGNUSON,  
*Chairman, Committee on Commerce,  
U.S. Senate.*

DEAR MR. CHAIRMAN: Reference is made to your request to the Secretary of Defense for the views of the Department of Defense with respect to S. 2815, 87th Congress, and with respect to an amendment thereto proposed by Senator George A. Smathers. S. 2815 would amend the act of September 7, 1957, relating to aircraft loan guarantees. The Secretary of Defense has delegated to the Department of the Air Force the responsibility for expressing the views of the Department of Defense.

The act of September 7, 1957 (71 Stat. 629; Public Law 85-307), declares it to be the policy of Congress to promote development of local, feeder, and short-haul air transportation and authorizes government guarantee of aircraft purchase loans made to any air carrier holding a certificate of public convenience and necessity to provide these types of air transportation. By its terms Public Law 85-307 expires September 7, 1962. S. 2815 would change the date of expiration to September 7, 1967. The amendment to S. 2815 proposed by Senator Smathers would expand the scope of Public Law 85-307 to authorize governmental guarantee of aircraft purchase loans made to air carriers holding a certificate of public convenience and necessity for scheduled all-cargo service.

Department of Defense interest in guaranteed loan legislation stems from the requirement to develop within the civil air transportation industry modern, turbine-powered cargo capability to meet the transportation requirements of the Department of Defense during periods of emergency.

The Department of Defense assumes that decisions as to whether specific aircraft purchase loans made to scheduled all-cargo carriers should be guaranteed by the Government will depend, among other factors, upon whether the aircraft being purchased has been determined by the Department of Defense

to be suitable to meet emergency needs of the Department of Defense. Subject to this understanding the Department of Defense interposes no objection to the enactment of S. 2815, or the enactment of the proposed amendment to S. 2815.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Bureau of the Budget advises that, while not objecting to the extension of existing authority for 5 years, it is unable to support expansion of the program to the all-cargo carriers, at least until a more adequate determination of their need for improved equipment has been made, the suitability of available or prospective equipment for commercial use has been investigated, and the efficacy of this program for financing it has been more fully explored.

Sincerely,

DONALD R. JACKSON,  
*Deputy Assistant Secretary.*

THE SECRETARY OF COMMERCE,  
*Washington, D.C., May 8, 1962.*

HON. WARREN G. MAGNUSON,  
*Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter requesting the views of the Department on S. 2815, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees, and an amendment to S. 2815 intended to be proposed by Senator Smathers.

The act of September 7, 1957, authorized Government guarantee of private loans to certificated short-haul air carriers for purchase of aircraft. By terms of the act, this authority expires 5 years from the date of enactment. The purpose of S. 2815 is to extend the authority contained in section 3 of the act for another 5 years from the present expiration date of September 7, 1962. The proposed amendment to S. 2815 would make "scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guarantee program."

S. 2815 was introduced at the request of the Civil Aeronautics Board. The Board, in proposing the bill, noted that although much use had been made of the act, not all of the eligible carriers had reequipped, and, in many cases, these carriers must acquire modern equipment if their subsidy needs are to be reduced in the long run. Extension of the authority under section 3 of this act for another 5-year period would provide a means by which the smaller carriers who have not as yet taken sufficient advantage of the act could obtain loan guarantees for the purchase of aircraft to improve their service and efficiency.

The benefits accruing from the loan guarantee program since its inception in 1957 have been measurable both to the carriers receiving the loans and to the traveling public. Under the act of September 7, 1957, no guarantee shall be made unless it is found that the air carriers cannot otherwise obtain funds needed on reasonable terms, and that the aircraft purchased are required for improvement of the service and efficiency of the operations of the air carrier. By reequipping, the carriers are in a position to improve their operations by using aircraft that are efficient and can be operated at a lower cost per passenger-mile. The traveling public benefits directly from the operation of modern equipment that would not otherwise be operated.

If subsidy-free status is to be achieved passengers must be attracted to the airlines. Yet without the proper equipment a service that will attract passengers and thereby broaden the passenger base cannot be achieved. The carriers, in many cases, do not have the resources to break out of this circle and achieve self-sufficiency. It is recognized that loan guarantees are not a panacea, but they can be used as a tool by the carriers and the Government to improve the problem of subsidy. Without a doubt, subsidy cannot be reduced unless the carriers have a product to sell; namely, service. However, synonymous with the word "service" is the type of equipment that produces the service. The public has become sophisticated in its demands, and unless a type of equipment is used that will attract the traveling public they will not use air travel to the extent that will make air carrier operations self-sufficient.

The proposed amendment to S. 2815, according to its sponsor, would "render scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guarantee program." The Department is of the opinion that the addition of

four certificated scheduled air cargo carriers, such as Riddle Airline, Slick Airways, Flying Tiger Line, and Seaboard World Airlines, to those carriers presently covered by the loan guarantee program would be in the national interest. Such a program could afford the scheduled all-cargo carriers the opportunity of obtaining aircraft designed for their special need. The Task Force on National Aviation Goals (Project Horizon) in its report stated: "While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of air cargo transport vehicle development, the expanded use of air cargo service for mail and military cargo \* \* \*, and guaranteed loan legislation, subject to the most detailed scrutiny \* \* \* of the characteristics of the aircraft as an economic vehicle, before approval for such loans is granted."

The requirements channeled into this Department, as a result of its responsibility in the field of civil mobilization planning, indicate the need for increased cargo capability. A suitable aircraft that could be developed or purchased for the use of the scheduled all-cargo carriers would aid the U.S. air cargo capability to meet the civil and defense needs during an emergency.

In order to make it possible for the carriers to purchase the higher cost aircraft that are suitable for use in all-cargo operations, it is believed that the present limitation of \$5 million to any one carrier should be increased to \$15 million.

As the President pointed out in his message of April 5, 1962, on "The Transportation System of Our Nation," if the loan guarantee program is extended it should be transferred to the Department of Commerce. This recommendation was based on the fact that this Department is a focal point for Government transportation activities and in the interest of program coordination these activities should be further consolidated. The Department in transmitting its legislative recommendations to implement the President's message, which was transmitted to the Congress on May 1, contained language which would transfer the loan guarantee programs presently administered by the Civil Aeronautics Board and the Interstate Commerce Commission to the Department of Commerce.

We are enclosing proposed amendments to S. 2815 which would extend the act of September 7, 1957, for another 5-year period, extend its coverage to include scheduled all-cargo carriers, increase the minimum allowable amount that can be guaranteed to any one carrier to \$15 million, and provide for transfer of the loan guarantee function from the Civil Aeronautics Board to the Department of Commerce.

The Department supports enactment of this legislation if it is amended as we have recommended.

The Bureau of the Budget advises there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

C. D. MARTIN, Jr.,  
Secretary of Commerce.

#### PROPOSED AMENDMENTS TO S. 2815, 87TH CONGRESS

Amend S. 2815 by adding the following new sections at the end thereof:  
"SEC. 2. Section 1 of the Act of September 7, 1957 (71 Stat. 629), is amended by adding immediately after the words 'development of' in the first sentence the following: 'scheduled all-cargo and'.

"SEC. 3. Subsection (a) of section 2 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the words 'Board' and 'Civil Aeronautics Board' and inserting in lieu thereof the words 'Secretary' and 'Secretary of Commerce', respectively.

"SEC. 4. Section 3 of the Act of September 7, 1957 (71 Stat. 629), is amended by—

"(1) Striking out the word 'Board' where it appears the first and third times therein and inserting in lieu thereof the word 'Secretary'; and

"(2) Inserting the words 'Civil Aeronautics' immediately before the word 'Board' where it appears the second time therein; and

"(3) Striking the period immediately following the word 'service' at the end of the first sentence and adding the following: 'or (g) for scheduled all-cargo service'.

"Sec. 5. Section 4 of the Act of September 7, 1957 (71 Stat. 629), is amended by—

"(1) Striking out the amount '\$5,000,000' in subsection (d) and inserting in lieu thereof the amount '\$15,000,000'; and

"(2) Striking out the word 'Board' in subsections (e) and (f) and inserting in lieu thereof the word 'Secretary'.

"Sec. 6. Section 5 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board' and inserting in lieu thereof the word 'Secretary'.

"Sec. 7. Subsection (a) of section 6 of the Act of September 7, 1957 (71 Stat. 629), is amended by—

"(1) Striking out the word 'it' where it appears the first time therein and inserting in lieu thereof the word 'him'; and

"(2) Striking out the word 'it' where it appears the second time therein and inserting in lieu thereof the word 'he'; and

"(3) Striking out the word 'Board' and inserting in lieu thereof the word 'Secretary'.

"Sec. 8. Section 7 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board' wherever it appears therein and inserting in lieu thereof the words 'Department of Commerce'.

"Sec. 9. Section 410 of the Federal Aviation Act of 1958 (49 U.S.C. 1380) is amended by replacing the period at the end of the last sentence with a colon and adding the following: '*Provided, however,* That the provisions of this section shall not be applicable to the guaranty of loans by the Secretary of Commerce under the provisions of the Act of September 7, 1957 (71 Stat. 629), as amended, but the Secretary of Commerce shall consult with and consider the views and recommendations of the Board in making such guaranties.'

"Sec. 10. (a) All orders, determinations, rules, regulations, permissions, approvals, agreements, rulings, directives, and privileges which have been issued, made, or granted, or allowed to become effective, by the Civil Aeronautics Board or any court of competent jurisdiction, under any provision of law amended by this Act, or in the exercise of duties, powers, or functions which, under this Act, are vested in the Secretary of Commerce, and which are in effect at the time this Act takes effect, shall continue in effect according to their terms until modified, terminated, superseded, set aside, or repealed by the Secretary of Commerce or by any court of competent jurisdiction, or by operation of law.

"(b) The provisions of this Act shall not affect any proceedings pending at the time this Act takes effect before the Civil Aeronautics Board; but any such proceedings shall be continued before the Secretary of Commerce, orders issued therein, and payments made pursuant to such orders, as if this Act had not been enacted; and orders issued in any such proceedings shall continue in effect until modified, terminated, superseded, or repealed by the Secretary of Commerce, or by operation of law.

"(c) The provisions of this Act shall not affect suits commenced prior to the date on which it takes effect; and all such suits shall be continued by the Secretary of Commerce, proceedings therein had, appeals therein taken, and judgments therein rendered, in the same manner and with the same effect as if this Act had not been enacted. No suit, action, or other proceeding lawfully commenced by or against the Civil Aeronautics Board or officer of the United States, in relation to the discharge of official duties, shall abate by reason of any transfer of authority, power, or duties from the Board or Commission or officer to the Secretary of Commerce under the provisions of this Act, but the court upon a motion or a supplemental petition filed at any time within twelve months after such transfer, showing the necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the Secretary of Commerce.

"Sec. 11. (a) The officers, employees, and property (including office equipment and official records) of the Civil Aeronautics Board which the Bureau of the Budget, after consultation with the Board, shall determine to have been employed by the Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify: *Provided,* That the transfer of such per-

sonnel shall be without reduction in classification or compensation, except that this requirement shall not operate after the end of the fiscal year during which such transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned.

"(b) Such of the unexpended balances of appropriations available for use by the Civil Aeronautics Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify, and shall be available for use in connection with the exercise and performance of the powers and duties vested in and imposed upon the Secretary of Commerce by this Act.

"(c) All records transferred to the Secretary of Commerce under this Act shall be available for use by him to the same extent as if such records were originally records of the Secretary."

THE SECRETARY OF COMMERCE,  
*Washington, D.C., June 12, 1962.*

HON. WARREN G. MAGNUSON,  
*Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in further reply to your request for this Department's comments on the amendment intended to be proposed by Senator Hartke to S. 2815, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The amendment would provide for inclusion in the classes of certificated air carriers otherwise eligible under the act of September 7, 1957, for Government guarantee of private loans for the purchase of aircraft those with certificates "(g) providing for operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico."

Such amendment would, in effect, enlarge the act to include a domestic trunk-line air carrier as well as a carrier whose principal operations are between the United States and Puerto Rico. It would not appear that this proposed amendment would encourage purchase of aircraft of those types in inadequate supply for possible mobilization needs, nor does it appear that the amendment would result in any lessening of subsidy payments by the Government. Moreover, the Department does not have information which would lead us to believe that the carriers affected by the proposed amendment would be unable to modernize their equipment if the amendment were not adopted. For these reasons we are unable to endorse the proposed amendment.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

EDWARD GUDEMAN,  
*Under Secretary of Commerce.*

S. 2815

DEPARTMENT OF JUSTICE,  
*February 21, 1962.*

By telephone today, Mr. Herbert Hoffman, of the Attorney General's Office, advised Mr. Baynton that the Department has no recommendation to make on this bill.

## S. 2815, HARTKE AMENDMENT

DEPARTMENT OF JUSTICE,  
May 17, 1962.

By telephone today, Mr. Herbert Hoffman, of the Attorney General's Office, advised Mr. Baynton that the Department has no recommendation to make on this bill.

THE GENERAL COUNSEL OF THE TREASURY,  
Washington, May 11, 1962.HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2815, to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The bill would extend for 5 years the authority of the Civil Aeronautics Board to guarantee loans for the purchase of aircraft by local service air carriers.

The Department is of the opinion that, if the guarantee authority is to be extended, it should not continue to be vested in a quasi-judicial body. The duty of the Civil Aeronautics Board to protect the interests of the Government as a guarantor of an air carrier creditor, or as an air carrier creditor itself when funds have been paid out as a consequence of a guarantee, would conflict with the duties of the Board to the public in discharging its quasi-judicial functions.

In that connection, the President in his message of April 5, 1962, relative to the transportation system of our Nation, stated that if the aviation loan guarantee is extended, it should be transferred to the Department of Commerce. He further stated that this problem is not regulatory in nature and is clearly separable from the chief functions of the Civil Aeronautics Board and can be acted upon more expeditiously by an executive agency.

The Department has also noted that an amendment has been proposed to S. 2815 which would extend the guarantee authority to aircraft suitable for scheduled all-cargo air transportation. As a general policy, this Department is opposed to the extension of existing guarantee programs into new areas, except where such extension is considered highly essential to implement impelling national policy objectives. Guarantee programs, by placing the credit of the Government at the disposal of particular groups, clearly gives these groups an advantage in competing for available funds over others who are not so favored. If this disruption of the normal market processes proves costly, it is the taxpaying public, not the receiver of funds, that must bear the major share of the loss. In order to be justifiable, therefore, the extension of guarantee programs should involve a comparable return to the Nation as a whole. It has not been demonstrated to this Department that the extension of the guarantee program to scheduled all-cargo aircraft meets this requirement.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

FRED B. SMITH,  
Acting General Counsel.

THE GENERAL COUNSEL OF THE TREASURY,  
Washington, June 18, 1962.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on an amendment intended to be proposed by Senator Hartke to S. 2815, to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The proposed amendment would extend the authority to guarantee loans for the purchase of aircraft contained in the act of September 7, 1957 (71 Stat. 629), to any air carrier holding a certificate of public convenience and necessity issued by the Civil Aeronautics Board providing for operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico.

On May 11, 1962, the Department submitted a report to your committee on S. 2815 which, among other things, opposed an amendment to the bill to extend the guarantee authority to aircraft suitable for scheduled all-cargo air transportation. The reasons given for opposing that amendment would appear equally applicable to the present amendment.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, March 14, 1962.

B-132127.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate.

DEAR MR. CHAIRMAN: Further reference is made to your letter of February 9, 1962, acknowledged on February 13, requesting the comments of the General Accounting Office concerning S. 2815, 87th Congress, 2d session, entitled "A bill to amend the act of September 7, 1957, relating to aircraft loan guarantees."

In our report dated July 8, 1957, addressed to your committee, concerning S. 2229, 85th Congress, 1st session, entitled "A bill to provide for Government guaranty of private loans to certain air carriers for purchase of aircraft and equipment, and for other purposes," we recommended favorable consideration of the proposed legislation, and in so doing we stated as follows:

"In our report on audit of the Civil Aeronautics Board, dated October 1955, we referred to the report of the President's Air Coordinating Committee entitled 'Civil Air Policy' issued in May 1954, and commented as follows:

"Therefore, as stated in the President's report, to ease the transition to a subsidy-free status for air carriers, temporary financial relief, including loans, loan guarantees, or other interim measures may be justified in lieu of outright subsidy grants to meet situations in which these carriers face temporary financial difficulties, and are unable to obtain private credit on reasonable terms."

The anticipated results of the act of September 7, 1957, during the past 5 years appear to have been realized, since it is reported that the local service and other air carriers have been enabled thereby to procure the necessary funds on reasonable terms for the purpose of modernizing their equipment. In view thereof, and since it is further reported that the development of air transportation would be delayed if the smaller carriers could not continue to borrow funds to purchase more efficient equipment on reasonable terms without loan guarantees, we have no objection to favorable consideration of S. 2815 which proposes to extend the provisions of the above-mentioned act an additional 5 years.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, April 2, 1962.

B-132127.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate.

DEAR MR. CHAIRMAN: Further reference is made to your letter of March 9, 1962, acknowledged on March 12, requesting the comments of the General Accounting Office concerning S. 2815, 87th Congress, 2d session, entitled "Amendment intended to be proposed by Mr. Smathers to the bill (S. 2815) to amend the act of September 7, 1957, relating to aircraft loan guarantees, \* \* \*"

It appears that the purpose of the amendment is to include within the act of September 7, 1957 (71 Stat. 629), authority for the Government to guarantee private loans to cargo carriers which presently are excluded from the act.

In our report dated March 14, 1962, to your committee commenting upon S. 2815, we stated that we had no objection to favorable consideration of the bill which proposed to extend the provisions of the act of September 7, 1957, an additional 5 years. In that letter we also called attention to our report on audit of the Civil Aeronautics Board, dated October 1955, wherein we referred to the report of the President's Air Coordinating Committee entitled "Civil Air Policy" issued in May 1954, and we commented as follows:

"Therefore, as stated in the President's report, to ease the transition to a subsidy-free status for air carriers, temporary financial relief, including loans, loan guarantees, or other interim measures may be justified in lieu of outright subsidy grants to meet situations in which these carriers face temporary financial difficulties, and are unable to obtain private credit on reasonable terms."

In that case, however, it should be noted that we were referring to the so-called subsidized carriers who were unable to obtain private credit on reasonable terms; and we also were of the view that loan guarantee legislation to enable such carriers to meet situations in which they faced temporary financial difficulties would be justifiable in lieu of outright subsidy grants.

In view thereof, and since the matter of extending these loan guarantees to cargo carriers which are not presently subsidized, as contemplated by the proposed amendment, is a matter of policy for determination by the Congress, we make no recommendation with respect to its enactment.

Sincerely yours,

JOSEPH CAMPBELL,  
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, May 21, 1962.

B-132127.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate.

DEAR MR. CHAIRMAN: Further reference is made to your letter of May 10, 1962, acknowledged on May 11, requesting the comments of the General Accounting Office concerning S. 2815, 87th Congress, 2d session, entitled "Amendment intended to be proposed by Mr. Hartke (by request) to the bill (S. 2815) to amend the act of September 7, 1957, relating to aircraft loan guarantees," etc.

We have no special information or knowledge as to the desirability of or need for the proposed legislation and, therefore, we make no recommendation with respect to its enactment.

Sincerely yours,

JOSEPH CAMPBELL,  
Comptroller General of the United States.

CIVIL AERONAUTICS BOARD,  
Washington, D.C., May 24, 1962.

Hon A. S. MIKE MONRONEY,  
Chairman, Aviation Subcommittee, Committee on Commerce,  
U.S. Senate, Washington, D.C.

DEAR SENATOR MONRONEY: When the Board testified before your subcommittee on May 8, 1962, in support of S. 2815, a bill to extend the Loan Guaranty Act for an additional period of 5 years, we were requested to furnish additional information for the record.

There is attached as table A, a statement showing recent market prices of Convair and Martin aircraft.

With respect to extending the applicability of the Loan Guaranty Act to the certificated route carriers for the purchase of all-cargo aircraft, the Board sees no need for such an extension, but would interpose no objection if the committee feels that this is desirable. Nor do we see any reason why the use of guarantee loan funds should be restricted to the purchase of American-made all-cargo equipment. However, if the committee determines such a restriction to be desirable and in the public interest, the Board would not object to it.

The amendment proposed by Senator Hartke would amend section 3 of the Loan Guaranty Act by adding a new subsection (g) to extend the applicability of the law to carriers providing operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico. We understand that the purpose of this amendment is to extend the applicability of the Loan Guaranty Act to Trans Caribbean Airways. The Board is not aware of any such need on the part of Trans Caribbean and is therefore opposed to the amendment. Moreover, the amendment as drafted is ambiguous and would appear to make eligible for guaranteed loans several certificated route carriers in addition to Trans Caribbean.

Subsequent to the presentation of our testimony on May 8, the Board was advised by the Bureau of the Budget that there is no objection to the presentation of whatever statement the Board deems desirable on S. 2815 and the proposed amendment extending the loan guarantee program to all-cargo carriers, but that the Bureau, while not objecting to the extension of existing authority for 5 years, would be unable to support expansion of the program to the all-cargo carriers, at least until a more adequate determination of their need for improved equipment has been made, the suitability of available or prospective equipment for commercial use has been investigated, and the efficacy of this program for financing it has been more fully explored.

Sincerely yours,

ALAN S. BOYD, *Chairman.*

TABLE A.—Reported recent market prices of Convair (CV-240, CV-340, and CV-440), Canadair (CV-540), and Martin (M-202A and M-404) aircraft

Aircraft manufacturer and model	Purchase and sale prices reported on CAB form 41 during 12 months ended Dec. 31, 1961				Market reporting in Aircraft Exchange as at Sept. 28, 1961 <sup>1</sup> (range)
	Number of aircraft	High	Low	Weighted average	
Convair:					
CV-240.....	22	\$230,000	\$132,000	\$158,000	\$140,000 to \$160,000.
CV-340.....	10	492,000	347,000	438,000	\$375,000 to \$625,000.
CV-440.....	2	444,000	404,000	424,000	\$425,000 to \$510,000.
CV-340/440.....	1	414,000	414,000	414,000	\$500,000 to \$550,000.
Canadair: CV-540.....	1	784,000	784,000	784,000	\$1,300,000.
Martin:					
M-202A.....	3	91,000	82,000	86,000	\$75,000 to \$130,000.
M-404.....	27	131,000	47,000	99,000	\$155,000.

<sup>1</sup> Aircraft Exchange, a weekly market report published by Aircraft Exchange, 60 East 42d St., New York, N.Y. Includes amounts shown as either bid, asked, adjusted, or approximate last known price, as at Sept. 28, 1961.

Source: CAB form 41, schedules B-7 and B-8, and Aircraft Exchange.

LOCKHEED AIRCRAFT CORP.,  
Burbank, Calif., May 4, 1962.

Senator A. S. MONRONEY,  
Chairman, Aviation Subcommittee, Senate Commerce Committee,  
Senate Office Building, Washington, D.C.

Mr. CHAIRMAN: In response to your request, I am pleased to submit the following as our position regarding S. 2815, a bill relating to aircraft loan guarantees.

U.S. aircraft manufacturers are presently confronted with aggressive competition in the commercial, passenger, and cargo air transport field from foreign competitors who receive governmental subsidy in the development of their aircraft and governmental guarantee of export loans. S. 2815, in providing governmental loan guarantees, will to some degree offset the financial advantage now enjoyed by foreign manufacturers and thus enable U.S. airlines to purchase equipment manufactured in this country on a comparable basis.

Apart from the competitive aspects with subsidized foreign manufacturers, we believe it is in the general public interest for our Government to lend assistance in the development of a modern transport fleet in order to provide strong U.S. airlift for both civil and military use.

We believe, however, that the competitive conditions mentioned and the need for a strong national airlift pertain to the entire air transport industry and not just to a portion. For this reason, we recommend that S. 2815 be modified to extend to all certificated scheduled carriers. We also feel that the size of the economic problem cannot be successfully met with the presently proposed limitation of \$10 million, since the present unit cost of modern transport and cargo aircraft is counted in the millions of dollars and because development of economic transportation service by any airline requires a substantial fleet of aircraft. In recognition of these factors, we would suggest that the dollar limit be expanded to at least \$50 million for any single carrier.

We appreciate the opportunity to make these comments to you and are pleased to add our voice of endorsement with the modifications suggested.

Sincerely yours,

COURTLANDT S. GROSS, *Chairman.*

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