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PROPOSED INTERNATIONAL AIR SHUTTLE

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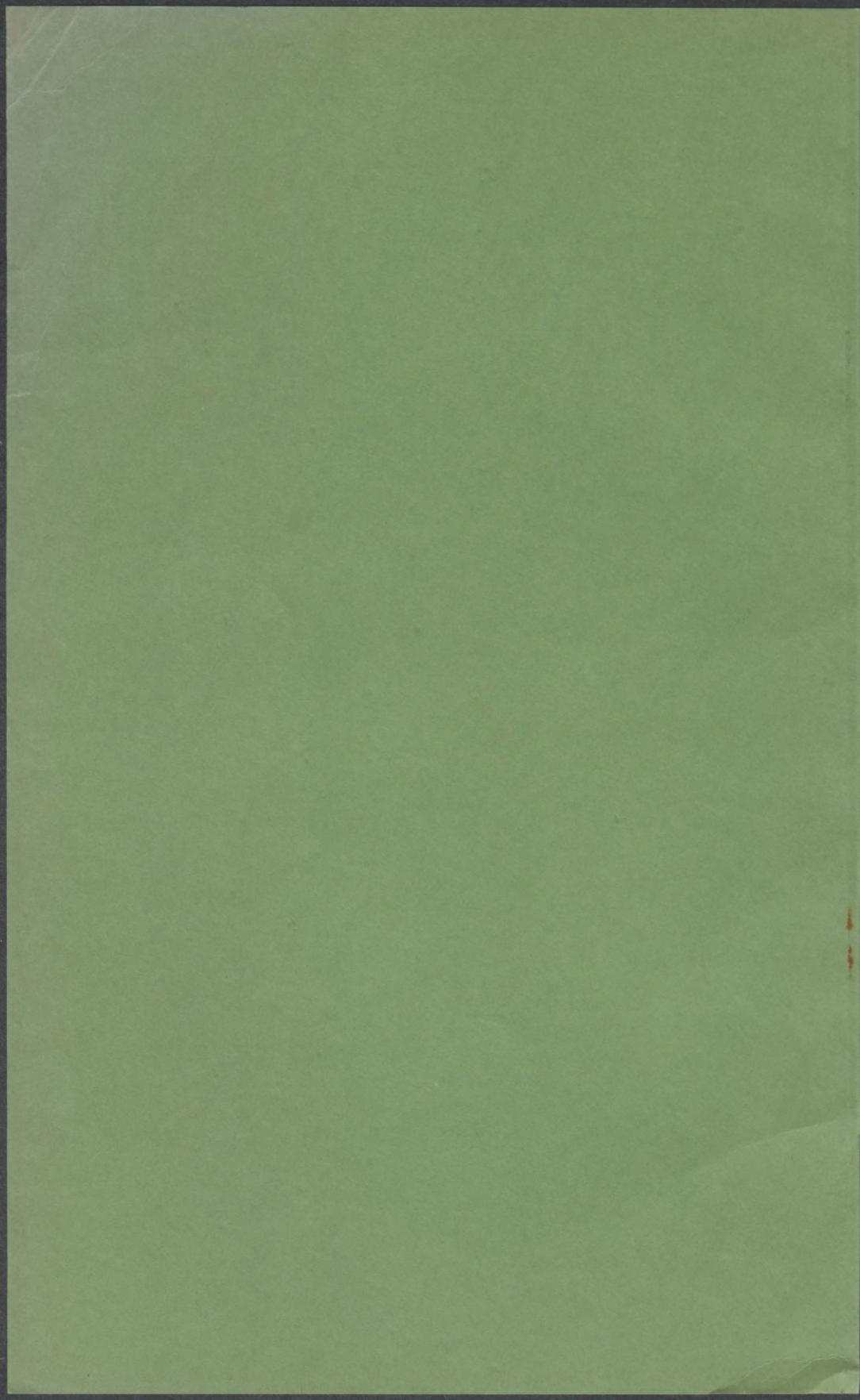


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93^d CONGRESS, SECOND SESSION

Fiscal Year 1975

SPECIAL HEARING



PROPOSED
INTERNATIONAL AIR SHUTTLE

A
HEARING
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT
OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
NINETY-THIRD CONGRESS
SECOND SESSION

Printed for the use of the Committee on Appropriations



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DEPARTMENT OF THE TREASURY, U.S. POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1975

WEDNESDAY, MARCH 20, 1974

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 4:35 p.m., in room 1224, Everett McKinley Dirksen Office Building, Hon. Joseph M. Montoya (chairman) presiding.

Present: Senators Montoya, Bayh, Eagleton and Bellmon.

PROPOSED INTERNATIONAL AIR SHUTTLE

STATEMENT OF CONGRESSMAN WILLIAM S. MOORHEAD, CHAIRMAN, FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE, COMMITTEE ON GOVERNMENT OPERATIONS

ACCOMPANIED BY:

WILLIAM G. PHILLIPS, STAFF DIRECTOR OF THE SUBCOMMITTEE ON FOREIGN OPERATIONS AND GOVERNMENT INFORMATION

HAROLD F. WHITTINGTON, PROFESSIONAL STAFF MEMBER

PROPOSAL OF GSA TO IMPLEMENT INTERNATIONAL SHUTTLE FOR GOVERNMENT TRAVELERS

Senator MONTAYA. The subcommittee will come to order. The subcommittee will take testimony today on the proposal of the General Services Administration to implement an international shuttle for Government travelers.

The Committee on Government Operations of the House of Representatives has issued a report number 93-599 entitled "Economy and Efficiency of International Air Travel by Government Officials."

DISCOUNT CATEGORY Z RATES

This report reflects that committee's longstanding concern about the discount category Z rates authorized by the CAB for travel by personnel of the Department of Defense on regularly scheduled flights at tariff rates lower than those paid by other agencies of the Government.

As a result of hearings held, the House Government Operations Committee recommended that, (1) GSA should immediately issue directives to permit the Department of Defense to place a chartered air shuttle service into operation and require the Government's official travelers to use such system; (2) the Secretary of Defense should direct that the Military Airlift Command establish and operate under charter a worldwide air shuttle system for the overseas transportation of all official overseas travelers.

The scheduled air lines, Pan American and Trans World, are deeply concerned about the establishment of an international air shuttle system which would duplicate much of the international air services they now furnish. Further, the implementation of a new Government-operated air shuttle system would obviously have a great impact on the economic well being of the scheduled air lines at a time when they are having serious economic problems.

Of particular concern to the airlines is the fact that the operations of an international air shuttle system would involve expenditure of additional fuel which is now in extremely short supply.

On February 8, 1974, Chairman McClellan wrote to the Administrator of GSA, Mr. Sampson, and requested that plans for the international shuttle system be held in abeyance until hearings could be held on the appropriations proposal by the Senate, Treasury, Postal Service, and General Government Subcommittee.

On February 28, 1974, Mr. Sampson responded that GSA would withhold further action on the implementation of his proposal until such time as the subcommittee hearings have been held. So we are now at that stage.

This afternoon we have Congressman William Moorhead with whom I served in the House of Representatives and whom I esteem highly. He has a longstanding interest in this matter.

INTRODUCTION OF WITNESSES

Congressman Moorhead, we welcome you before the committee. You may proceed to present your testimony, sir.

Mr. MOORHEAD. First, Mr. Chairman, I want to express my appreciation for your hearing me out of order, as it were. I also want to apologize to the other witnesses. We do have a matter of considerable importance on the floor of the House today.

Senator MONTOYA. I see you have Mr. Phillips with you.

Mr. MOORHEAD. Yes.

Senator MONTOYA. I have known him for a long time. Mr. William G. Phillips is the staff director of the Subcommittee on Foreign Operations and Government Information. Mr. Harold F. Whittington of the staff of that subcommittee is also present.

Both of you gentlemen are certainly welcome.

You may proceed, Mr. Moorhead.

Mr. MOORHEAD. Mr. Chairman, I will try to limit my oral presentation to some of the written testimony. I hope that I can get unanimous consent to have the full statement included.

PREPARED STATEMENT

Senator MONTROYA. Yes. Without objection the prepared statement of Congressman Moorhead will be made a part of the record at this point.

[The statement follows.]

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I APPRECIATE THIS OPPORTUNITY TO APPEAR HERE TODAY. AS YOU WILL RECALL, YOU INVITED ME TO TESTIFY IN FEBRUARY OF LAST YEAR TO SHARE WITH YOU THE FINDINGS OF OUR SUBCOMMITTEE'S INVESTIGATION OF POLICIES OF THE INTERNAL REVENUE SERVICE DURING YOUR HEARINGS ON THAT SUBJECT. THIS I WAS MOST PLEASED TO DO BECAUSE I BELIEVE IN THE FULLEST POSSIBLE COOPERATION BETWEEN THE TWO LEGISLATIVE BODIES, PARTICULARLY IN THE INVESTIGATIVE AND OVERSIGHT FIELDS.

IT IS IN THIS SAME SPIRIT THAT I HAVE ASKED FOR TIME TO SHARE WITH THIS SUBCOMMITTEE THE RESULTS OF MORE THAN THREE YEARS OF INVESTIGATIONS AND HEARINGS BY OUR FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE INTO ALL ASPECTS OF THE DEFENSE DEPARTMENT'S INTERNATIONAL PLANE LOAD CHARTER SYSTEM TO INCLUDE ALL OFFICIAL OVERSEAS TRAVELERS OF THE U.S. GOVERNMENT. THESE ACTIVITIES BY OUR SUBCOMMITTEE RESULTED IN THE UNANIMOUS ADOPTION BY THE HOUSE GOVERNMENT OPERATIONS COMMITTEE OF H. REPT. 93-599 LAST OCTOBER. THAT BIPARTISAN REPORT RECOMMENDED THAT THE ADMINISTRATOR OF GENERAL SERVICES ADMINISTRATION DELEGATE AUTHORITY UNDER EXISTING LAW TO THE SECRETARY OF DEFENSE TO PERMIT ITS MILITARY AIRLIFT COMMAND TO ESTABLISH AND OPERATE, UNDER CHARTER WITH U. S. AIR CARRIERS A WORLDWIDE AIR SHUTTLE

SYSTEM FOR THE OVERSEAS TRANSPORTATION OF ALL OFFICIAL TRAVELERS OF THE FEDERAL GOVERNMENT. AS YOU KNOW, THE INITIAL PHASE OF THE EXPANDED DOD SYSTEM IS TO COMMENCE ABOUT MAY 1, 1974. OUR SUBCOMMITTEE HAS MET PERIODICALLY WITH OFFICIALS OF THE DEFENSE DEPARTMENT, THE STATE DEPARTMENT, AND GSA DURING THE FORMULATION OF THESE PLANS TO IMPLEMENT THE COMMITTEE'S RECOMMENDATIONS. I TRUST THAT YOU SHARE OUR OBJECTIVE THAT THE ESTIMATED TAX SAVINGS OF SUCH AN INTERNATIONAL AIR CHARTER, ESTIMATED AT FROM \$20 TO \$30 MILLION ANNUALLY, NOT BE DELAYED ANY LONGER. THE AMERICAN TAXPAYER IS LONG SUFFERING AND USUALLY PATIENT. BUT WHEN A COMMITTEE OF THE CONGRESS SHOWS HOW THIS MUCH MONEY CAN BE SAVED BY OUR GOVERNMENT AND WHEN -- TO THEIR CREDIT -- THE EXECUTIVE DEPARTMENT OFFICIALS ACT PROMPTLY TO CARRY OUT THAT CONGRESSIONAL MANDATE, MANY TAXPAYERS WOULD NOT UNDERSTAND WHY SUCH SAVINGS SHOULD NOT BEGIN PROMPTLY.

BEFORE PROCEEDING FURTHER, I WOULD LIKE AT THIS POINT TO NOTE FOR THE RECORD THAT I SEE MANY FAMILIAR FACES HERE IN THIS HEARING ROOM --

MR. GEORGE SAUNDERS - GSA'S ASSISTANT COMMISSIONER FOR TRANSPORTATION;

MR. JOHN PERRY - AIR FORCE'S DEPUTY ASSISTANT SECRETARY FOR TRANSPORTATION;

MR. LEAMON HUNT - STATE DEPARTMENT'S DEPUTY ASSISTANT SECRETARY FOR OPERATIONS, WHO REPLACES JOHN THOMAS OF STATE AND WHO IS A NEWCOMER TO THIS SUBJECT MATTER,

MR. JOHN THOMAS, I AM HAPPY TO SAY, HAS BEEN ELEVATED TO THE POSITION OF ASSISTANT SECRETARY FOR ADMINISTRATION AT STATE--A PROMOTION WELL DESERVED AND WHICH HE HONESTLY EARNED.

MR. DON MANSFIELD OF STATE DEPARTMENT'S SUPPLY AND TRANSPORTATION DIVISION, WHO ACCOMPANIES MR. HUNT, HAS BEEN INVOLVED IN THIS SUBJECT MATTER FOR WELL OVER 10 YEARS NOW AND HE IS UNDOUBTEDLY STATE DEPARTMENT'S MOST KNOWLEDGEABLE INDIVIDUAL ON THIS SUBJECT.

THESE ARE THE GENTLEMEN WHO HAVE APPEARED MANY TIMES DURING THE PAST THREE YEARS BEFORE THE HOUSE FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE, WHICH I CHAIR, TO TESTIFY ON THE "ECONOMY AND EFFICIENCY OF INTERNATIONAL AIR TRAVEL BY GOVERNMENT OFFICIALS."

THESE GENTLEMEN AND THEIR AGENCIES ARE TO BE HIGHLY COMMENDED FOR DEVELOPING AN AIR SHUTTLE SYSTEM WHICH WILL RESULT IN TRUE ECONOMY AND EFFICIENCY IN GOVERNMENT AIR TRAVEL FOR YEARS TO COME. THE TAXPAYERS -- FOR WHICH WE IN GOVERNMENT ALL SUPPOSABLY WORK -- SHOULD BE VERY THANKFUL THAT WE STILL HAVE GOVERNMENT OFFICIALS LIKE THESE WHO ARE TRULY CONCERNED WITH ECONOMY AND EFFICIENCY IN GOVERNMENT.

OF PRIMARY INTEREST TO YOU WILL BE THE ECONOMY AND EFFICIENCY OF THIS AIR SHUTTLE SERVICE AND ITS FAVORABLE EFFECT ON FUTURE APPROPRIATION OF FUNDS TO SUPPORT THE OPERATIONS OF GOVERNMENT. AS WE ALL KNOW, APPROPRIATION OF THE REVENUE FOR SUPPORT OF THE GOVERNMENT -- SUBJECT TO THE POWER OF OTHER COMMITTEES TO REPORT AUTHORIZING LEGISLATION RELATING THERETO -- IS A JURISDICTIONAL CONCERN OF THE HOUSE AND SENATE COMMITTEES ON APPROPRIATIONS. THE HOUSE AND SENATE COMMITTEES ON GOVERNMENT OPERATIONS, ON THE OTHER HAND, HAVE COMPLETE JURISDICTIONAL RESPONSIBILITY FOR STUDYING THE OPERATION OF GOVERNMENT ACTIVITIES AT ALL LEVELS TO DETERMINE THE ECONOMY AND EFFICIENCY OF ALL GOVERNMENT EXPENDITURES OF ALL APPROPRIATED MONIES.

PURSUANT TO THE JURISDICTIONAL RESPONSIBILITY ASSIGNED TO THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS, THE SUBCOMMITTEE WHICH I CHAIR HAS THOROUGHLY STUDIED THE ECONOMY AND EFFICIENCY OF INTERNATIONAL AIR TRAVEL BY GOVERNMENT OFFICIALS DURING THE PAST THREE YEARS. PUBLIC HEARINGS WERE HELD DURING JULY 1972 AND AGAIN IN MAY 1973. THE RESULTS OF OUR THREE YEAR STUDY AND THE HEARINGS HELD ARE REFLECTED IN HOUSE REPORT 93-599 WHICH, AS I PREVIOUSLY MENTIONED, WAS UNANIMOUSLY APPROVED AND ADOPTED BY THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS ON OCTOBER 19, 1973. COPIES OF THESE HOUSE DOCUMENTS ARE PROVIDED FOR INCLUSION

IN YOUR RECORD IMMEDIATELY FOLLOWING MY STATEMENT SHOULD YOU SO DESIRE. I COMMEND THESE HOUSE DOCUMENTS TO YOUR CAREFUL READING.

HOUSE REPORT 93-509 WILL CONVEY TO YOU THE EVENTS WHICH LED THE GOVERNMENT TO THE NEED FOR EXPANSION OF THE DOD PLANE LOAD CHARTER SYSTEM. ONCE THE DOD AIRLIFT SYSTEM IS COMPLETELY EXPANDED TO CARRY ALL THE GOVERNMENT'S OVERSEAS TRAVELERS, THE SAVINGS SHOULD REACH SOME \$20 - 30 MILLION YEARLY.

THE HOUSE REPORT ALSO CLEARLY SHOWS THE DISCRIMINATORY WAY IN WHICH THE CIVIL AGENCIES OF OUR GOVERNMENT HAVE BEEN TREATED BY THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS. DURING THE PAST 13 YEARS, A HIDDEN SUBSIDY OF MORE THAN A QUARTER BILLION DOLLARS HAS BEEN PAID FROM CIVIL AGENCIES' APPROPRIATIONS TO THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS -- PAN AMERICAN, TRANS WORLD, NORTHWEST ORIENT, AND BRANIFF.

THIS HIDDEN SUBSIDY IS THE DIRECT RESULT OF THE CIVIL AERONAUTICS BOARD PERMITTING TWO SUBSTANTIALLY DIFFERENT RATES FOR OFFICIAL GOVERNMENT TRAVELERS BEING TRANSPORTED ON REGULARLY SCHEDULED FLIGHTS OF THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS. LET ME GIVE YOU A CLEAR EXAMPLE:

--AS SHOWN IN PAN AM'S WHITE PAPER - WHICH THEY HAVE BEEN USING IN THEIR LOBBYING EFFORT DURING THE PAST TWO MONTHS ON

THE HILL, AND WHICH YOU HAVE ALL PROBABLY SEEN - THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS CHARGE TWO SUBSTANTIALLY DIFFERENT RATES FOR THE BUSINESS THEY DO WITH THE GOVERNMENT. I SPECIFICALLY CALL TO YOUR ATTENTION ATTACHMENTS D-1 AND D-2 OF PAN AM'S WHITE PAPER. YOU WILL NOTE TEN EUROPEAN CITIES LISTED ON ATTACHMENT D-2. ON ATTACHMENT D-1, YOU WILL FIND THESE SAME TEN CITIES LISTED ALONG WITH OTHERS. ON EACH OF THESE ATTACHMENTS YOU WILL ALSO FIND A COLUMN HEADED "SCHEDULED SERVICE COST." AS YOU COMPARE THE TWO ATTACHMENTS, YOU WILL NOTE THE "SCHEDULED SERVICE COST" SHOWN ARE ENTIRELY DIFFERENT. LET ME READ THEM FOR YOU:

<u>BETWEEN</u>	<u>DOD/CG</u>	<u>NON-DOD/CG</u>
<u>WASHINGTON AND:</u>	<u>PASSENGERS</u>	<u>PASSENGERS</u>
LONDON	\$156.87	\$280.60
DUBLIN	151.07	259.80
PARIS	157.87	296.70
BRUSSELS	164.77	296.70
AMSTERDAM	163.97	296.70
COPENHAGEN	165.97	324.90
OSLO	159.47	317.40
FRANKFURT	172.07	317.40
GENEVA	172.37	317.40
ROME	188.57	364.00

--THE LOW FARES SHOWN ON PAN AM'S ATTACHMENT D-2 APPLY TO BOTH CIVILIAN AND MILITARY PERSONNEL OF THE DEPARTMENT OF DEFENSE AND THE COAST GUARD SEGMENT OF THE DEPARTMENT OF TRANSPORTATION

AND THE DEPENDENTS OF THESE EMPLOYEES BEING TRANSPORTED TO OR FROM THESE LOCATIONS UNDER OFFICIAL GOVERNMENT TRAVEL ORDERS. THE HIGHER FARES SHOWN ON PAN AM'S ATTACHMENT D-1 APPLY TO THE CIVILIAN PERSONNEL OF THE NON-DOD AGENCIES AND THEIR DEPENDENTS ALSO BEING TRANSPORTED UNDER OFFICIAL GOVERNMENT TRAVEL ORDERS. THUS, PAN AM, IN ITS "WHITE PAPER" READILY ILLUSTRATES THE DISCRIMINATORY PRICING PRACTICE WHICH CURRENTLY EXISTS.

GENTLEMEN, I CANNOT RATIONALLY EXPLAIN TO THE VOTERS AND TAXPAYERS OF THE DISTRICT WHICH I REPRESENT WHY IT SHOULD COST THEIR GOVERNMENT \$317 TO SEND A GS-14 AUDITOR WORKING FOR THE STATE DEPARTMENT OR THE GENERAL ACCOUNTING OFFICE TO FRANKFURT, GERMANY, WHEN WE CAN SEND A GS-14 AUDITOR WORKING FOR THE DEPARTMENT OF DEFENSE TO FRANKFURT FOR ONLY \$172. ESPECIALLY WHEN, IN MANY INSTANCES, THEY WILL TRAVEL TOGETHER ON THE SAME PLANE AND RECEIVE PRECISELY THE SAME SERVICE FROM THE U.S. SCHEDULED INTERNATIONAL AIR CARRIER.

CAB READILY ADMITTED DURING OUR MAY 1973 HEARINGS THAT THERE IS ABSOLUTELY NO DIFFERENCE IN THE MODE OF TRAVEL OF THESE DOD AND DOT TRAVELERS AND OTHER GOVERNMENT TRAVELERS BEING TRANSPORTED ON THE SAME REGULARLY SCHEDULED INTERNATIONAL FLIGHTS. THIS POINT IS ALSO ILLUSTRATED ON PAGE 17 OF HOUSE

REPORT 93-599 AND I WOULD QUOTE FROM AMBASSADOR ELLSWORTH'S LETTER FROM BRUSSELS, DATED SEPTEMBER 3, 1970:

"IT IS SOMEWHAT INCONGRUOUS TO HAVE TWO OF MY OFFICERS FLY TO WASHINGTON ON THE SAME PLANE WITH THE GOVERNMENT PAYING \$541.00 FOR THE ROUNDTRIP OF ONE, AND \$270.80 FOR THE OTHER."

I WOULD BE AMAZED IF ANY OF YOU COULD CONVINCE THE VOTERS AND TAXPAYERS OF YOUR STATES OF THE PROPRIETY AND WISDOM OF THIS TWO RATE SYSTEM.

GENTLEMEN, THE LOW RATES WHICH ARE REFLECTED ON PAN AM'S ATTACHMENT D-2 COME FROM A SPECIAL CAB-APPROVED TARIFF WHICH IS KNOWN AS A "CATEGORY Z" TARIFF. THESE CATEGORY Z TARIFFS WERE FIRST ESTABLISHED WITH THE APPROVAL OF THE CIVIL AERONAUTICS BOARD BACK ABOUT 1961. AS SHOWN ON PAGE 6 OF HOUSE REPORT 93-599, CAB -- WITH THE HELP OF THE AIR CARRIER INDUSTRY AND THE DEPARTMENT OF DEFENSE -- HAS REVIEWED THE U.S. INTERNATIONAL AIR CARRIERS COSTS OF DOING BUSINESS FOR THE PAST 13 YEARS AND HAS SET CAB APPROVED MINIMUM RATES FOR ONE-WAY AND ROUNDTRIP PASSENGER SERVICES WHICH HAVE BEEN ACCEPTED AS FAIR AND EQUITABLE BY BOTH THE GOVERNMENT AND THE U.S. INTERNATIONAL AIR CARRIER INDUSTRY. THE CATEGORY Z TARIFFS -- WHICH REFLECT THE ONE-WAY RATES DEVELOPED BY CAB -- ARE THUS BASED ON THE CARRIERS COST OF PRO-

VIDING SERVICE TO THE GOVERNMENT. BUT, BECAUSE OF UNUSUAL LANGUAGE IN THE CATEGORY Z TARIFFS, NOT ALL GOVERNMENT OVERSEAS PASSENGERS ARE CARRIED AT THE CATEGORY Z RATES. THOUGH THE AIRLINES INCUR NO ADVERTISING OR PROMOTIONAL EXPENSE, PAY NO AGENCY COMMISSIONS, NOR INCUR NORMAL CREDIT COSTS ON THE CIVIL AGENCY BUSINESS WHICH THEY RECEIVE FROM THE GOVERNMENT, THEY CONTINUE TO TRANSPORT THE CIVIL AGENCY PASSENGERS AT FULL COMMERCIAL RATES.

SUBSEQUENT TO OUR 1972 HEARINGS, I URGED THE GSA OFFICIALS TO AGAIN ATTEMPT TO OBTAIN FAIR AND EQUITABLE RATES FROM THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS FOR ALL GOVERNMENT BUSINESS. THIS GSA ATTEMPTED TO DO, DURING THE EARLY MONTHS OF 1973, WITHOUT SUCCESS. IN REALITY, BOTH PAN AM AND TWA CONSIDERED THE GOVERNMENT PASSENGERS OF THE CIVIL AGENCIES AS "CAPTIVE TRAFFIC" AND THOUGH THE GOVERNMENT WAS DOING A HALF BILLION DOLLARS WORTH OF BUSINESS YEARLY WITH THE U.S. INTERNATIONAL CARRIERS, LITTLE THOUGHT WAS GIVEN TO TREATING THE GOVERNMENT AS A PREFERRED CUSTOMER. THE SCHEDULED CARRIERS WANT UNCLE SAM'S BUSINESS BUT ONLY AT RATES WHICH ARE CLEARLY EXCESSIVE AND DISCRIMINATORY.

GENTLEMEN, HAD THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS WANTED TO CONTINUE TO TRANSPORT THIS GOVERNMENT BUSINESS ON

THEIR REGULARLY SCHEDULED FLIGHTS, IT WOULD HAVE BEEN SIMPLE ENOUGH FOR THEM TO HAVE DONE SO. ALL THEY NEEDED TO DO WAS REVISE SPECIAL RULE 2 OF THEIR CATEGORY Z TARIFFS TO PROVIDE FOR THE "FARES, CHARGES, AND PROVISIONS IN THE TARIFF TO APPLY TO TRANSPORTATION OF PERSONS AND BAGGAGE UPON PRESENTATION OF A U.S. GOVERNMENT TRANSPORTATION REQUEST BILLABLE TO A U.S. GOVERNMENT DISBURSING OR CERTIFYING OFFICE." SHOULD THEY HAVE HONESTLY BELIEVED THAT THE RATES REFLECTED IN THEIR CATEGORY Z TARIFFS WERE NOT FAIR AND EQUITABLE TO THE AIR CARRIER INDUSTRY, THEN, BY ALL MEANS, THEY SHOULD HAVE RETURNED TO THE NEGOTIATING TABLE INSTEAD OF TRYING TO PULL THEIR CHESTNUTS OUT OF THE FIRE BY LOBBYING HERE ON THE HILL.

THE GOVERNMENT HAS A RIGHT TO HAVE ITS TRAVELERS TRANSPORTED AT A MINIMUM OF EXPENSE CONSISTENT WITH THE CARRIERS' RECOVERING THEIR COST OF PROVIDING THE SERVICE AND EARNING A REASONABLE PROFIT. WE IN THE CONGRESS SHOULD ALSO EXPECT THE CIVIL AERONAUTICS BOARD TO IMPARTIALLY CARRY OUT ITS RESPONSIBILITIES AND ASSURE THAT WHATEVER RATES ARE SET COVER ALL GOVERNMENT BUSINESS AND ARE IN FACT FAIR AND EQUITABLE TO BOTH THE GOVERNMENT AND THE U.S. AIR CARRIER INDUSTRY.

IN ADDITION TO THE CATEGORY Z ARRANGEMENT, THE DEPARTMENT OF DEFENSE -- DURING THE PAST 13 YEARS -- HAS USED WHAT IS KNOWN

AS "CATEGORY B" SERVICE. THESE SERVICES PROVIDE FOR CHARTERED PLANE LOAD MOVEMENT OF DEPARTMENT OF DEFENSE AND DEPARTMENT OF TRANSPORTATION (COAST GUARD) MILITARY AND CIVILIAN PERSONNEL AND THEIR OFFICIAL DEPENDENTS BETWEEN LOCATIONS IN THE UNITED STATES AND OVERSEAS UNDER GOVERNMENT CONTRACTS WITH U.S. INTERNATIONAL AIR CARRIERS.

THE CATEGORY B SERVICES ARE PROVIDED AT THE ROUND TRIP RATES SET BY THE CIVIL AERONAUTICS BOARD -- WHICH AS PREVIOUSLY STATED ARE BASED ON CAB'S REVIEW OF THE CARRIERS COSTS OF DOING BUSINESS WITH THE GOVERNMENT AND WHICH HAVE BEEN REPEATEDLY ACCEPTED, DURING THE PAST 13 YEARS, AS FAIR AND EQUITABLE BY BOTH THE GOVERNMENT AND THE AIR CARRIER INDUSTRY.

THE CONTRACTS BETWEEN THE GOVERNMENT AND THE U.S. INTERNATIONAL AIR CARRIERS PERMIT THE GOVERNMENT TO ORDER ADDITIONAL TRANSPORTATION SERVICES UNDER THE CONTRACT SUBJECT ONLY TO THE CONTRACTOR'S OFFERING CAPABILITY. THE GOVERNMENT ALSO HAS THE RIGHT TO DIVERT ANY FLIGHT TO A ROUTE OR AREA OF OPERATION OTHER THAN AS SPECIFIED IN THE CONTRACT, SUBJECT TO NOTICE GIVEN NOT LESS THAN 24 HOURS PRIOR TO DEPARTURE.

IT IS MY CLEAR UNDERSTANDING THAT THIS IS PRECISELY WHAT THE GOVERNMENT PLANS TO DO. FOLLOWING THE MANDATE SET FORTH IN

HOUSE REPORT 93-599, THE GENERAL SERVICES ADMINISTRATOR HAS DELEGATED AUTHORITY TO THE SECRETARY OF DEFENSE TO PROVIDE CHARTERED AIR TRANSPORTATION SERVICES TO ALL EXECUTIVE AGENCIES OF GOVERNMENT. THE SECRETARY OF DEFENSE, IN TURN, HAS RE-DELEGATED THIS AUTHORITY TO THE AIR FORCE'S MILITARY AIRLIFT COMMAND.

THE MILITARY AIRLIFT COMMAND, WHICH WAS DESIGNATED AS SUCH BY PUBLIC LAW 89-37, HAS BEEN AUTHORIZED UNDER THE AUTHORITY SET FORTH IN TITLE 10 U.S.C. 2208 TO USE A "WORKING CAPITAL FUND" TO PROVIDE AIR PASSENGER TRANSPORTATION SERVICES FOR THE DEPARTMENTS AND AGENCIES OF THE DEPARTMENT OF DEFENSE. ADDITIONALLY, UNDER THE AUTHORITY OF 10 U.S.C. 2208, SUBSECTION (H), THE SECRETARY OF DEFENSE, WHEN OTHERWISE AUTHORIZED BY LAW, IS FURTHER AUTHORIZED TO PERMIT SUCH SERVICES TO BE RENDERED FOR PERSONS OUTSIDE THE DEPARTMENT OF DEFENSE. THE AUTHORITY OF THE SECRETARY OF DEFENSE TO PROVIDE SERVICES TO OTHER AGENCIES OF GOVERNMENT IS FURTHER CLARIFIED AND STRENGTHENED BY TITLE 31 U.S.C. 686.

STATUTORY AUTHORITY FOR THE MILITARY AIRLIFT COMMAND TO CONTRACT FOR AND PROVIDE MASS AIR TRANSPORTATION SERVICES FOR ALL AGENCIES, IN THIS INSTANCE, IS ALSO CLEARLY DERIVED FROM THE FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949.

UNDER SECTION 201 OF THE ACT, THE GENERAL SERVICES ADMINISTRATOR HAS THE STATUTORY AUTHORITY TO PRESCRIBE POLICIES AND METHODS OF PROCUREMENT OF TRANSPORTATION SERVICES FOR ALL EXECUTIVE AGENCIES OF GOVERNMENT. HE ALSO HAS THE STATUTORY RIGHT TO PROCURE SUCH SERVICES FOR THE USE OF EXECUTIVE AGENCIES IN THE PROPER DISCHARGE OF THEIR RESPONSIBILITIES. UNDER SECTION 205, SUBSECTION (D) THE ADMINISTRATOR IS CLEARLY AUTHORIZED TO DELEGATE AND TO AUTHORIZE SUCCESSIVE REDELEGATIONS OF AUTHORITIES VESTED IN HIM BY THE ACT TO THE HEAD OF ANY OTHER FEDERAL AGENCY.

GENTLEMEN, AFTER THREE YEARS OF STUDYING THIS SUBJECT MATTER, THERE IS NO DOUBT IN MY MIND AS TO THE ECONOMY AND EFFICIENCY OF THE PROPOSED EXPANSION OF THE DOD PLANE LOAD CHARTER SYSTEM NOR IS THERE ANY DOUBT OF THE STATUTORY AUTHORITY FOR THE GOVERNMENT TO PROCEED IN THIS DIRECTION. THE PLANE LOAD CHARTER SYSTEM HAS WORKED ECONOMICALLY AND EFFICIENTLY FOR THE DEPARTMENT OF DEFENSE FOR 13 YEARS NOW AND I FIND NO REASON WHY IT WON'T WORK EQUALLY AS WELL FOR THE REST OF THE GOVERNMENT. LET THERE BE NO DOUBT ABOUT IT, WE IN THE HOUSE ARE FIRMLY CONVINCED OF THE WISDOM AND NECESSITY FOR THIS ACTION AND FULLY EXPECT THE EXPANDED DOD PLANE LOAD CHARTERED SERVICE TO EUROPE TO BE IN OPERATION BY MAY 1ST OF THIS YEAR.

ESSENTIALLY WHAT THIS MEANS IS THAT OFFICAL GOVERNMENT TRAVELERS WILL BE TRANSPORTED IN PLANELOAD GROUPS BETWEEN, SAY DULLES AIRPORT AND MAJOR AIRPORTS OVERSEAS SUCH AS LONDON, FRANKFURT, MADRID, ROME, ATHENS, ISTANBUL, ANKARA, TOKYO, HONG KONG, SAIGON, BANGKOK, PANAMA, AND SAN JUAN. MANY OF THE GOVERNMENT'S TRAVELERS ARE TRAVELING ON OFFICIAL BUSINESS TO THESE PRECISE POINTS. OTHERS MAY BE GOING TO OTHER NEARBY CITIES IN CONNECTION WITH THEIR OFFICIAL DUTIES. IN THOSE CASES, THEY WILL BE TRANSPORTED TO ONE OF THE FOREGOING MAJOR AIRPORTS -- AT A COST OF 2-1/2 CENTS PER PASSENGER-MILE -- FROM WHICH THEY WILL PROCEED TO THEIR FINAL DESTINATION ON REGULARLY SCHEDULED FLIGHTS AT REGULAR COMMERCIAL RATES. FOR EXAMPLE, A STATE DEPARTMENT OFFICIAL ASSIGNED TO OSLO, NORWAY, WOULD BE TRANSPORTED TO LONDON, ENGLAND -- 3,658 MILES -- AT 2-1/2¢ PER MILE -- ON THE GOVERNMENTAL AIR SHUTTLE AT WHICH POINT HE WOULD TRANSFER TO PAN AM FLIGHT 102 AND CONTINUE ON TO OSLO --730 MILES, AT 7-1/2 CENTS PER MILE. SHOULD THIS OFFICIAL INSTEAD BE ASSIGNED TO MOSCOW, WHY, OF COURSE, HE COULD CONNECT WITH A PAN AM FLIGHT FROM LONDON TO MOSCOW.¹ CURRENTLY, OUR GOVERNMENT IS PAYING \$201 TO TRANSPORT THIS STATE DEPARTMENT OFFICIAL TO OSLO. UNDER THE EXPANDED DEPARTMENT OF DEFENSE AIRLIFT SYSTEM, WE WILL BE PAYING

¹ SEE OFFICIAL AIRLINE GUIDE, INTERNATIONAL EDITION, JANUARY 1974 EDITION, pp. 660 and 740.

LESS THAN \$150. SAVINGS ON TRANSPORTING OUR OFFICIALS TO LOCATIONS IN THE FAR EAST ARE EVEN MORE IMPRESSIVE BECAUSE OF THE INITIAL LONGER DISTANCES INVOLVED -- WASHINGTON TO TOKYO EQUALS \$207 AS COMPARED TO OUR CURRENT COST OF \$585.

AS U.S.-FLAG CARRIERS SERVICE THE MAJOR OVERSEAS AIRPORTS MENTIONED, I FORESEE NO INCREASED USAGE OF FOREIGN-FLAG CARRIERS TO TRANSPORT OUR GOVERNMENT TRAVELERS. NATURALLY, I WILL EXPECT THE GENERAL ACCOUNTING OFFICE TO MONITOR THIS EXPANSION OF THE DEPARTMENT OF DEFENSE AIRLIFT SYSTEM TO INSURE FULL USE OF U.S.-FLAG CARRIERS.

LIKewise, I FORESEE NO INCREASED COST TO THE GOVERNMENT AS A RESULT OF LAYOVERS WHILE TRAVELERS WAIT FOR ONGOING TRANSPORTATION. UNDER CURRENT GOVERNMENT REGULATIONS, OFFICIAL GOVERNMENT TRAVELERS ARE PERMITTED A REST STOP IN CONNECTION WITH MOST INTERNATIONAL FLIGHTS BECAUSE OF THE LONG DISTANCES INVOLVED. IT IS NOT UNREASONABLE FOR AN OFFICIAL TRAVELER -- AFTER HAVING FLOWN FOR MORE THAN 17 HOURS ON HIS WAY TO AN OFFICIAL DUTY STATION IN THE ORIENT -- TO BE PERMITTED A REST STOP IN, SAY, TOKYO BEFORE COMPLETING HIS TRIP. HERE AGAIN, I WOULD EXPECT THE GENERAL ACCOUNTING OFFICE TO MONITOR THIS EXPANSION OF THE DEPARTMENT OF DEFENSE SYSTEM TO INSURE THE UTMOST OF ECONOMY AND EFFICIENCY. FURTHER, WE SHOULD NOTE

THAT ROUGHLY TWO-THIRDS OF THIS TRAFFIC IS DEPENDENT PASSENGERS -- WHO ARE ALLOWED REDUCED RATES OF PER DIEM AND NO SALARY.

I THINK THAT WE SHOULD ALSO NOTE THAT WE IN GOVERNMENT ARE NOT THE ONLY ONES THINKING OF CUT-RATE AIR SHUTTLE SERVICES. JUST ONE WEEK AGO TODAY, ON MARCH 13TH, A CIVIL AERONAUTICS BOARD ADMINISTRATIVE LAW JUDGE APPROVED A CUT-RATE AIR SHUTTLE SERVICE FOR COMMERCIAL TRAFFIC BETWEEN NEW YORK AND LONDON. WHEN THIS COMMERCIAL AIR SHUTTLE ACTUALLY COMES INTO EXISTENCE, IT WILL BE A RELATIVELY SURE BET THAT PAN AM AND TWA WILL BE RIGHT AT THE HEAD OF THE LINE WITH THEIR PETITIONS ASKING CAB'S PERMISSION TO OPERATE SIMILAR CUT-RATE SERVICES.

CONCERNING PAN AM'S STATEMENTS IN THEIR WHITE PAPER REGARDING "DIVERSION OF TRAFFIC FROM U.S. FLAG TO FOREIGN FLAG," "TAX REVENUE LOSS," AND "WASTEFUL EXPENDITURES OF INTERNATIONAL BALANCE OF PAYMENTS DOLLARS," ONE NEEDS ONLY TO LOOK AT THE ROUTE PATTERNS OF THE FOUR U.S. SCHEDULED INTERNATIONAL AIR CARRIERS TO READILY SEE THAT OUR OFFICIAL TRAVELERS WHO ARE GOING TO DESTINATIONS OTHER THAN THE PROPOSED AIR SHUTTLE STOPS CAN READILY DO SO ON U.S. FLAG CARRIERS IN ESSENTIALLY EVERY INSTANCE WHERE THE U.S. FLAG CARRIERS ACTUALLY SERVICE THE FINAL DESTINATION POINTS. BUT THEY WOULD USE REGULAR U.S. COMMERCIAL SERVICES FROM LONDON, OR FRANKFURT, OR ROME, OR

TOKYO, OR HONG KONG TO THEIR FINAL DESTINATIONS; NOT NEW YORK, OR WASHINGTON, OR SAN FRANCISCO.

EQUALLY IMPORTANT, DURING OUR DELIBERATIONS WE CONSIDERED HOW EXPANSION OF THE DEPARTMENT OF DEFENSE AIRLIFT SYSTEM TO INCLUDE ALL GOVERNMENTAL OVERSEAS TRAVELERS WOULD AFFECT USAGE OF OUR FUEL SUPPLIES. SIMPLY STATED, IT IS MORE EFFICIENT, IN TERMS OF FUEL USAGE, TO FLY A PLANE WITH A 100-PERCENT SEAT OCCUPANCY THAN TO FLY WITH ONLY A 50 TO 60 PERCENT SEAT OCCUPANCY. ALSO, LOOKING TO FURTHER FUEL CONSERVATION IN LIGHT OF THE PRESENT FUEL EMERGENCY, THE CIVIL AERONAUTICS BOARD, ON NOVEMBER 16, 1973, ISSUED AN ORDER TO PERMIT THE U.S. SCHEDULED INTERNATIONAL AIR CARRIERS TO TRANSPORT DEPARTMENT OF DEFENSE PLANE LOAD CHARTER PASSENGERS ON THEIR SCHEDULED FLIGHTS -- AT THE SPECIAL CHARTER RATES. NOT ONLY CAN WE SAVE FUEL, WE CAN ALSO FILL UP SOME OF THOSE EMPTY SEATS FOR THE AIR CARRIERS -- BUT AT SPECIAL GOVERNMENT CHARTER RATES, WHICH IS AS IT SHOULD BE.

DOD OFFICIALS HAVE ADVISED OUR SUBCOMMITTEE THAT IN DECEMBER 1973, THEY STARTED SHIFTING THEIR PLANELOAD CHARTER PASSENGERS FROM SEPARATE PLANES TO THE EMPTY SCHEDULED SEATS AND THAT, BY FEBRUARY 1974, THEY HAD MOST OF THIS TRAFFIC SHIFTED TO THE SCHEDULED FLIGHTS -- AND IT'S BEING CARRIED AT THE 2-1/2¢ RATE RATHER THAN THE 7-1/2¢ RATE. THE SHIFTING OF THIS TRAFFIC ALSO

OVERCOMES CERTAIN OF THE "BALANCE OF PAYMENTS" DISCUSSION WHICH PAN AM ADVANCES IN ITS WHITE PAPER.

LASTLY, PAN AM'S VEILED THREAT TO ELIMINATE THE SPECIAL CATEGORY Z FARES FALLS ON DEAF EARS. WHY SHOULD THE GOVERNMENT CONSIDER PAYING THE ECONOMY FARE OF \$317 OR THE CATEGORY Z FARE OF \$172 TO TRANSPORT A PASSENGER TO FRANKFURT WHEN THE OFFICAL TRAVELER CAN BE TRANSPORTED FROM WASHINGTON TO FRANKFURT -- ON THE AIR SHUTTLE -- FOR \$101. FURTHER, SHOULD THE CATEGORY Z RATES BE ELIMINATED, THEN NATURALLY DOD WOULD EXPAND THE DOD PLANELOAD CHARTERS TO INCLUDE STOPS AT BRUSSELS AND AMSTERDAM AND MOVE THE BALANCE OF THE CATEGORY Z PASSENGERS AS CATEGORY A PASSENGERS -- AT ONE-WAY CONTRACT RATES WHICH ARE PRECISELY THE SAME AS CATEGORY Z RATES.

COMPUTATION OF SAVINGS TO THE GOVERNMENT ARE QUITE SIMPLE TO COMPUTE. IT'S 3,658 AIR MILES TO LONDON AND 4,053 MILES TO FRANKFURT FROM WASHINGTON, D.C. THUS, SAVINGS FOR EVERY OFFICIAL TRAVELER TRANSPORTED TO THESE GATEWAYS AT PLANELOAD CHARTER RATES INSTEAD OF REGULAR ECONOMY CLASS FARES WOULD BE:

<u>WASHINGTON TO:</u>	<u>ECONOMY CLASS FARE</u>	<u>CHARTER RATE</u>	<u>SAVINGS PER PASSENGER</u>
LONDON	\$280.60	\$ 91.45	\$189.15
FRANKFURT	317.40	101.33	216.07

MR. CHAIRMAN, MEMBERS OF THIS SUBCOMMITTEE, I HAVE NOT DISCUSSED THE ECONOMIC REPERCUSSIONS WHICH REMOVAL OF THIS \$20 - 30 MILLION YEARLY HIDDEN SUBSIDY WILL MEAN TO THE FOUR U. S. SCHEDULED INTERNATIONAL AIR CARRIERS AS IT MEANS VERY LITTLE WHEN COMPARED WITH THE \$300 MILLION IN REDUCED U. S. GOVERNMENT REVENUE TO THE U. S. INTERNATIONAL AIR CARRIER INDUSTRY AS A RESULT OF TERMINATION OF DIRECT U. S. INVOLVEMENT IN THE HOSTILITIES IN INDO-CHINA.

IT IS READILY APPARENT THAT THE U. S. INTERNATIONAL AIR CARRIER INDUSTRY -- THE SUPPLEMENTALS AS WELL AS THE SCHEDULED CARRIERS -- HAVE VERY REAL ECONOMIC PROBLEMS. NOW, MORE THAN EVER BEFORE, IT IS EXTREMELY IMPORTANT THAT THE U. S. GOVERNMENT APPORTION ITS BUSINESS FAIRLY TO BOTH THE LARGE AND SMALL U. S. INTERNATIONAL AIR CARRIERS.

PERHAPS WHAT IS NEEDED IS AN ENTIRE LEGISLATIVE OVERHAUL OF OUR COMMERCIAL AIR CARRIER SYSTEM. ONLY A FEW DAYS AGO, TRANSPORTATION SECRETARY CLAUDE S. BRINEGAR NOTED THAT IT MAY BECOME NECESSARY FOR THE U. S. AIR CARRIERS TO DROP THEIR COMPETITIVE ROUTES AND GET OUT OF BUSINESS IN SOME MARKETS ALTOGETHER. SPEAKING FOR THE ADMINISTRATION, THE SECRETARY CLEARLY INDICATED THAT SUBSIDIES -- HIDDEN OR DIRECT -- DO NOT APPEAR TO BE THE ANSWER.

THAT THE AIRLINES UNDERSTAND THIS IS INDICATED BY A REPORT IN TODAY'S WASHINGTON POST (MARCH 20, 1974, PAGE G-1).

PAN AMERICAN WORLD AIRWAYS WAS ASKING PERMISSION TO DISCUSS A COMBINED NORTH ATLANTIC FLIGHT SERVICE WITH ITS MAIN U. S.-FLAG COMPETITOR, TRANS WORLD AIRLINES, AND THAT "TWA IS INTERESTED IN EXPLORING THIS PROPOSAL WITH PAN AM."

MR. CHAIRMAN, MEMBERS OF THIS SUBCOMMITTEE, I THANK YOU MOST APPRECIATIVELY FOR THE TIME YOU HAVE PERMITTED ME. AFTER YOUR REMAINING WITNESSES HAVE TESTIFIED, I MAY WISH TO SUPPLY ADDITIONAL INFORMATION AND DATA FOR YOUR HEARING RECORD AND WILL APPRECIATE THE PRIVILEGE OF BEING PERMITTED TO DO SO.

NOTE: THE HOUSE DOCUMENTS REFERRED TO IN THE STATEMENT WERE RECEIVED AND ARE BEING HELD IN THE SUBCOMMITTEE FILES.

TESTIMONY IN SUPPORT OF CHARTERED AIR SHUTTLE SYSTEM

Senator MONTOYA. Congressman Moorhead, you may proceed to summarize it.

Mr. MOORHEAD. Thank you very much, Mr. Chairman. I appreciate this opportunity to appear here today. As you will recall, you invited me to testify in February of last year to share with you some of the findings of our subcommittee's investigation of the policies of the Internal Revenue Service during your hearings on that subject. This I was most pleased to do because I believe in the fullest possible cooperation between the two legislative bodies, particularly in the investigative and oversight fields.

It is in this same spirit that I have asked for time to share with this subcommittee the results of more than 3 years of investigations and hearings by our Foreign Operations and Government Information Subcommittee into all aspects of the Defense Department's international planeload charter system to include all official overseas travelers of the U.S. Government. These activities by our subcommittee resulted in the unanimous adoption by the House Government Operations Committee of House Report 93-599 last October.

That bipartisan report recommended that the Administrator of the General Services Administration delegate authority under existing law to the Secretary of Defense to permit its Military Airlift Command to establish and operate under charter with U.S. air carriers a worldwide air shuttle system for the overseas transportation of all official travelers of the Federal Government.

As you know, the initial phase of the expanded DOD system is to commence about May 1, 1974. Our subcommittee has met periodically with officials of the Defense Department, the State Department, and GSA during the formulation of these plans to implement the committee's recommendations.

I trust that you share our objective that the estimated tax savings of such an international air charter, estimated at from \$20 million to \$30 million annually, not be delayed any longer. The American taxpayer is long suffering and usually patient.

But when a committee of the Congress shows how much money can be saved by our Government and when—to their credit—the executive department officials act promptly to carry out that congressional mandate, many taxpayers would not understand why such savings should not begin promptly.

I turn now to the bottom of page 5, Mr. Chairman.

Pursuant to the jurisdictional responsibility assigned to the House Committee on Government Operations, the subcommittee which I chair has thoroughly studied the economy and efficiency of international air travel by Government officials during the past 3 years.

The results of our 3-year study and the hearings held are reflected in the House Report 93-599 which was unanimously approved and adopted by the committee. Copies of these House documents are provided for inclusion in your record, should you so desire. I commend these House Documents to your careful reading.

House Report 93-599 will convey to you the events which led the Government to the need for expansion of the DOD planeload charter

system. Once the DOD airlift system is completely expanded to carry all the Government's overseas travelers, the savings should reach some \$20 million to \$30 million annually.

HIDDEN SUBSIDY

The House Report also clearly shows the discriminatory way in which the civil agencies of our Government have been treated by the U.S. scheduled international air carriers. During the past 13 years, a hidden subsidy of more than a quarter billion dollars has been paid from civil agencies' appropriations to the U.S. scheduled international air carriers—Pan American, Trans World, Northwest Orient, and Braniff.

This hidden subsidy is the direct result of the CAB permitting two substantially different rates for official Government travelers being transported on regularly scheduled flights of the U.S. scheduled international air carriers. Let me give you a clear example:

As shown in Pan Am's white paper—which they have been using in their lobbying effort during the past 2 months on the Hill, and which you have all probably seen—the U.S. scheduled international air carriers charge two substantially different rates for the business they do with the Government. I specifically call to your attention attachments D-1 and D-2 of Pan Am's white paper. You will note 10 European cities listed on attachment D-2. On attachment D-1, you will find these same 10 cities listed along with others. On each of these attachments you will also find a column headed "Scheduled Service Cost." As you compare the two attachments, you will note the "Scheduled Service Costs" shown are entirely different. Let me just mention a few of those on page 8. Between Washington and London, DOD/CG (Coast Guard) personnel, \$156.87;

Whereas other Government officials, are charged \$280.60. So it goes from city to city. The bottom example is between Washington and Rome, \$188.57 for the DOD/CG passengers, \$364 for the non-DOD/CG Federal Government employee.

Let me emphasize that the low fares shown on Pan American's attachment D-2 apply to both civilian and military personnel of the Department of Defense and the Coast Guard segment of the Department of Transportation and the dependents of these employees being transported to or from these locations under official Government travel orders.

The higher fares shown on Pan Am's attachment D-1 apply to the civilian personnel of the non-DOD agencies and their dependents also being transported under official government travel orders. Thus, Pan Am, in its "white paper" readily illustrates the discriminatory pricing practice which currently exists.

VARIANCE OF RATES

Mr. Chairman, I cannot rationally explain to the voters and taxpayers of the district which I represent why it should cost their Government \$317 to send a GS-14 auditor working for the State Department or the General Accounting Office to Frankfurt, Germany, when we can send a GS-14 auditor working for the Department of

Defense to Frankfurt for only \$172. Especially when, in many instances, they will travel together on the same plane and receive precisely the same service from the U.S. scheduled international air carrier.

CAB readily admitted during our May 1973 hearings that there is absolutely no difference in the mode of travel of these DOD and DOT travelers and other Government travelers being transported on the same regularly scheduled international flights. This point is also illustrated on page 17 of House Report 93-599 and I would quote from Ambassador Ellsworth's letter from Brussels, dated September 3, 1970:

It is somewhat incongruous to have two of my officers fly to Washington on the same plane with the Government paying \$541 for the round trip of one, and \$270.80 for the other.

Mr. Chairman, the low rates which are reflected on Pan Am's attachment D-2 come from a special CAB-approved tariff which is known as a category Z tariff. These category Z tariffs were first established with the approval of CAB back about 1961.

As shown on page 6 of our House Report 93-599, CAB—with the help of the air carrier industry and the Department of Defense—has reviewed the U.S. international air carriers costs of doing business for the past 13 years and has set CAB-approved minimum rates for one-way and round-trip passenger services which have been accepted as fair and equitable by both the Government and the U.S. international air carrier industry.

CATEGORY Z TARIFFS

The category Z tariffs—which reflect the one-way rates developed by CAB—are thus based on the carriers cost of providing service to the Government. But, because of unusual language in the category Z tariffs, not all Government overseas passengers are carried at the category Z rates.

Though the airlines incur no advertising or promotional expense, pay no agency commissions, nor incur normal credit costs on the civil agency business which they receive from the Government, they continue to transport the civil agency passengers at full commercial rates.

Subsequent to our 1972 hearings, I urged the GSA officials to again attempt to obtain fair and equitable rates from the U.S. scheduled international air carriers for all Government business. This GSA attempted to do, during the early months of 1973, without success.

In reality, both Pan Am and TWA considered the Government passengers of the civil agencies as captive traffic and though the Government was doing \$500 million worth of business yearly with the U.S. international carriers, little thought was given to treating the Government as a preferred customer. The scheduled carriers want Uncle Sam's business but only at rates which are clearly excessive and discriminatory.

Mr. Chairman, had the United States scheduled international air carriers wanted to continue to transport this Government business on their regularly scheduled flights, it would have been simple enough

for them to have done so. All they needed to do was revise special rule 2 of their category Z tariffs to provide for the—

Fares, charges, and provisions in the tariff to apply to transportation of persons and baggage upon presentation of a U.S. Government transportation request billable to a U.S. Government disbursing or certifying office.

Should they have honestly believed that the rates reflected in their category Z tariffs were not fair and equitable to the air carrier industry, then, by all means, they should have returned to the negotiating table instead of trying to pull their chestnuts out of the fire by lobbying here on the Hill.

The Government has a right to have its travelers transported at a minimum of expense consistent with the carriers' recovering their cost of providing the service and earning a reasonable profit. We in the Congress should also expect the CAB to impartially carry out its responsibilities and assure that whatever rates are set cover all Government business and are in fact fair and equitable to both the Government and the U.S. air carrier industry.

TRANSPORTATION TO ALL AGENCIES

I will skip over, Mr. Chairman, to the top of page 15.

It is my clear understanding that this is precisely what the Government plans to do. Following the mandate set forth in House Report 93-599, the General Services Administrator has delegated authority to the Secretary of Defense to provide chartered air transportation services to all executive agencies of Government. The Secretary of Defense, in turn, has redelegated this authority to the Air Force's Military Airlift Command.

The Military Airlift Command, which was designated as such by Public Law 89-37 has been authorized under the authority set forth in title 10 United States Code 2208 to use a "working capital fund" to provide air passenger transportation services for the departments and agencies of the Department of Defense.

Additionally, under the authority of 10 United States Code 2208 subsection (h), the Secretary of Defense, when otherwise authorized by law, is further authorized to permit such services to be rendered for persons outside the Department of Defense. The authority of the Secretary of Defense to provide services to other agencies of Government is further clarified and strengthened by title 31 United State Code 686.

Statutory authority for the Military Airlift Command to contract for and provide mass air transportation services for all agencies, in this instance, is also clearly derived from the Federal Property and Administrative Services Act of 1949. Under section 201 of the act, the General Services Administrator has the statutory authority to prescribe policies and methods of procurement of transportation services for all executive agencies of Government. He also has the statutory right to procure such services for the use of executive agencies in the proper discharge of their responsibilities. Under section 205, subsection (d) the Administrator is clearly authorized to delegate and to authorize successive redelegations of authorities vested in him by the act to the head of any other Federal agency.

CHARTER SYSTEM

Mr. Chairman, after 3 years of studying this subject matter, there is no doubt in my mind as to the economy and efficiency of the proposed expansion of the DOD planeload charter system nor is there any doubt of the statutory authority for the Government to proceed in this direction.

The plane load charter system has worked economically and efficiently for the Department of Defense for 13 years now and I find no reason why it won't work equally as well for the rest of the Government.

Let there be no doubt about it, we in the House are firmly convinced of the wisdom and the necessity for this action and fully expect the expanded DOD plane load chartered service to Europe to be in operation by May 1 of this year.

Essentially what this means is that official Government travelers will be transported in planeload groups between, say Dulles Airport and major airports overseas such as London, Frankfurt, and so forth. Many of the Government's travelers are traveling on official business to these precise points. Others may be going to other nearby cities in connection with their official duties. In those cases, they will be transported to one of the foregoing major airports at a cost of 2½ cents per passenger-mile—from which they will proceed to their final destination on regularly scheduled flights at regular commercial rates.

FOREIGN-FLAG CARRIERS

Proceeding to the top of page 19.

As U.S.-flag carriers service the major overseas airports mentioned, I foresee no increased usage of foreign-flag carriers to transport our Government travelers. Naturally, I will expect the General Accounting Office to monitor this expansion of the Department of Defense airlift system to insure full use of U.S.-flag carriers.

Likewise, I foresee no increased cost to the Government as a result of layovers while travelers wait for ongoing transportation. Under current Government regulations, official Government travelers are permitted a rest stop in connection with most international flights because of the long distances involved. It is not unreasonable for an official traveler—after having flown for more than 17 hours on his way to an official duty station in the Orient—to be permitted a rest stop in, say, Tokyo before completing his trip. Here again, I would expect the GAO to monitor this expansion of the DOD system to insure the utmost of economy and efficiency. Further, we should note that roughly two-thirds of this traffic is dependent passengers—who are allowed reduced rates of per diem and no salary.

I think we should also note that we in Government are not the only ones thinking of cutrate air shuttle services. Just 1 week ago today, on March 13, a CAB administrative law judge approved a cutrate air shuttle service for commercial traffic between New York and London. When this commercial air shuttle actually comes into existence, it will be a relatively sure bet that Pan Am and TWA will be right at the head of the line with their petitions asking CAB's permission to operate similar cutrate services.

Concerning Pan Am's statements in their white paper regarding "Diversion of traffic from U.S.-flag to foreign-flag," "Tax Revenue Loss," and "Wasteful Expenditures of International Balance of Payments Dollars," one needs only to look at the route patterns of the four U.S. scheduled international air carriers to readily see that our official travelers who are going to destinations other than the proposed air shuttle stops can readily do so on U.S.-flag carriers in essentially every instance where the U.S.-flag carriers actually service the final destination points. But they would use regular U.S. commercial services from London, or Frankfurt, or Rome, or Tokyo, or Hong Kong to their final destinations; not New York, or Washington, or San Francisco.

AIRLIFT SYSTEM

Equally important, during our deliberations we considered how expansion of the DOD airlift system to include all Governmental overseas travelers would affect usage of our fuel supplies. Simply stated, it is more efficient, in terms of fuel usage, to fly a plane with a 100 percent seat occupancy than to fly with only a 50 percent to 60 percent seat occupancy. Also, looking to further fuel conservation in light of the present fuel emergency, the Civil Aeronautics Board, on November 16, 1973, issued an order to permit U.S. scheduled international air carriers to transport Department of Defense paneload charter passengers on their scheduled flights at the special Government charter rates. Not only can we save fuel, we can also fill up some of those empty seats for the air carriers—but at special Government charter rates, which is as it should be.

DOD officials have advised our subcommittee that in December 1973, they started shifting their paneload charter passengers from separate planes to the empty scheduled seats and that, by February 1974, they had most of this traffic shifted to the scheduled flights—AND it's being carried at the 2½-cent rate rather than the 7½-cent rate. The shifting of this traffic also overcomes certain of the "balance-of-payments" discussion which Pan Am advances in its white paper.

Lastly, Pan Am's veiled threat to eliminate the special category Z fares falls on deaf ears. Why should the Government consider paying the economy fare of \$317 or the category Z rate of \$172 to transport a passenger to Frankfurt when the official traveler can be transported from Washington to Frankfurt on the air shuttle for \$101. Further, should the category Z rates be eliminated, then naturally DOD would expand the DOD paneload charters to include stops at Brussels and Amsterdam and move the balance of the category Z passengers as category A passengers—at one-way contract rates which are precisely the same as category Z rates.

Computations of savings to the Government are quite simple to compute. It is 3,658 air miles to London and 4,053 miles to Frankfurt from Washington, D.C. Thus, savings for every official traveler transported to these gateways at paneload charter rates instead of regular economy class fares would be:

For London, a savings per passenger of \$189.15; for Frankfurt per passenger it would be \$216.07.

Mr. Chairman, I have not discussed the economic repercussions which removal of this \$20 or \$30 million yearly hidden subsidy will

mean to the four scheduled U.S. international air carriers as it means very little when compared with the \$300 million in reduced U.S. Government revenue to the U.S. international air carrier industry as a result of termination of direct U.S. involvement in the hostilities in Indochina.

It is readily apparent that the U.S. international air carrier industry—the supplementals as well as the scheduled carriers—have very real economic problems. Now, more than ever before, it is extremely important that the U.S. Government apportion its business fairly to both the large and small U.S. international air carriers.

OVERHAUL OF COMMERCIAL AIR CARRIER SYSTEM

Perhaps what is needed is an entire legislative overhaul of our commercial air carrier system. Only a few days ago, Transportation Secretary Claude S. Brinegar noted that it may become necessary for the U.S. air carriers to drop their competitive routes and get out of business in some markets altogether. Speaking for the administration, the Secretary clearly indicated that subsidies—hidden or direct—do not appear to be the answer.

That the airlines understand this is indicated by a report in today's Washington Post (Mar. 20, p. G-1).

It reported that Pan American World Airways has asked permission to discuss a combined North Atlantic flight service with its main U.S.-flag competitor, Trans World Airlines, and that "TWA is interested in exploring this proposal with Pan Am."

Mr. Chairman, members of this subcommittee, I thank you most appreciatively for the time you have permitted me. After your remaining witnesses have testified, I may wish to supply additional information and data for your hearing record. I would appreciate the privilege of being permitted to do so.

[See p. 202 for additional data submitted.]

Senator MONTOYA. Thank you, Congressman Moorhead. I appreciate the time and effort which your committee has put forth in trying to bring this matter into proper focus.

You mention that there would be a saving, I believe, of \$20 to \$30 million a year. Who conducted this study and who arrived at these figures?

Mr. MOORHEAD. We were assisted in this by various Government agencies, the Department of Defense and the General Services Administration. I would call your attention to page 45 of our July 1972 hearings.

Senator MONTOYA. And you are convinced that these savings are in the range of between \$20 and \$30 million?

Mr. MOORHEAD. That is the best estimate we can give you, Mr. Chairman.

INTERNATIONAL AIRLINES SUBSIDIES

Senator MONTOYA. You also mentioned, I believe, that the international airlines were receiving subsidies to the tune of three-quarters of a billion dollars. Is that what you indicated?

Mr. MOORHEAD. That was over the 13-year period, Mr. Chairman. If you agree with my presumption that they should be charging all Government passengers the same rate, then we have, in effect, a subsidy over the 13-year period of three-quarters of a billion dollars.

Senator MONTROYA. What would be the availability of aircraft on the part of MAC for this particular project? Would we need to invest more money in aircraft?

Mr. MOORHEAD. No; these will be chartered planes from the regular and supplemental air carrier industry. So there would be no problem of availability.

Senator MONTROYA. Would Defense Department aircraft be used in addition?

Mr. MOORHEAD. No; it would not.

Senator MONTROYA. They would all be chartered aircraft?

Mr. MOORHEAD. They would all be chartered.

Senator MONTROYA. From private industry?

Mr. MOORHEAD. From private industry.

Senator MONTROYA. You also indicate that air service would be provided to certain key cities throughout the world and that Government personnel could then avail themselves of transportation on American flag carriers.

TREATIES GOVERNING INTERNATIONAL TRAVEL

Are you aware of the treaties that govern international travel and concessions to give carriers by the host country? Are you aware of the regulations that deal with the lifting of passengers within the boundaries of those particular host countries by American carriers?

Mr. MOORHEAD. No, Mr. Chairman. I am not. I was thinking of, say, a traveler from London to Brussels or from Frankfurt to Geneva and there seems to be no objection to using U.S.-flag carriers. I am not aware of the internal travel.

Senator MONTROYA. I am speaking of situations where a passenger would go from here to Frankfurt and then there would be a flight from Frankfurt to West Berlin and TWA would be available.

Under existing International Treaties and Agreements I doubt very seriously whether that passenger could be carried.

Mr. MOORHEAD. Mr. Chairman, would you permit me to check into that and try to get an answer for the record?

Senator MONTROYA. Yes.

Mr. MOORHEAD. We had figures for Frankfurt to Geneva and that kind of thing where apparently there is no problem of using U.S.-flag carriers.

Senator MONTROYA. I don't know whether that situation would also take place with respect to transportation from one European country into another unless there was an agreement between both countries to permit an American flag carrier to carry those passengers. So that is another tentacle in this doubt which I have in my mind.

Mr. MOORHEAD. I will confirm this for the record, but it is my understanding from our hearings that there was no problem when you are going from as I say Frankfurt to Geneva.

I did not check into Frankfurt to Bonn or Frankfurt to West Berlin. But we will try to get an answer for the record.

"The Foreign Operations and Government Information Subcommittee was subsequently advised that U.S. flag carriers essentially service only one city in each of the European Countries and that there are essentially no restrictions on transporting passengers between countries on U.S. flag carriers which regularly service such countries."

GSA'S ROLE IN PROGRAM

Senator MONTROYA. I will ask GSA what part it will play in administering and coordinating this program because they would perhaps be the coordinating agency or the contracting agency, would they not?

Mr. MOORHEAD. They would, delegating the actual operation, of course, to DOD.

Senator MONTROYA. What about the complaint voiced by the Department of Defense that if the plans carried out as presently contemplated, requiring the use of civilian airports, what would this do to the Defense Department program which usually requires, for reasons of expediency and more efficiency, that their planes land at military installations?

Mr. MOORHEAD. Mr. Chairman, as this was described to me, for example, a plane might leave from Dulles, fly to Travis Air Force Base and then across the seas. What we are trying to do is to have the long part of the travel, the expensive part at the low rate. The shorter hops are less significant.

Senator MONTROYA. You may submit additional testimony if you wish, and I will elicit answers to these questions and these doubts, not doubts but the anomaly of the problems that might exist from the other witnesses who are scheduled to come before the committee today.

Do you have any questions, Senator Bellmon?

Senator BELLMON. Yes, Mr. Chairman.

Congressman, I appreciate your statement. If I understand this properly, the GSA will contract with the private carriers for release or charter of privately owned aircraft operated by the airlines pilots and furnished with the airport services and everything.

We are not setting up a competing airline. It is that we are going to use aircraft presently in the fleet?

Mr. MOORHEAD. Senator, just to be technical, GSA will delegate this responsibility to DOD and DOD will handle it just the way they handle the employees, civilian and military, of the Department of Defense.

Senator BELLMON. How is that handled now?

Mr. MOORHEAD. It is handled by contract charter or by special category rates which other government employees are not entitled to.

That is the fundamental thrust of my statement. I can't see why if the airlines and the CAB say they can carry military personnel, both civilian and uniform, and dependents at one rate, that they can't do the same thing for employees of the civilian agencies of the Government.

Senator BELLMON. These other Government employees might very well go on the same aircraft with the military?

GOVERNMENT EMPLOYEES RATES

Mr. MOORHEAD. Exactly, sir. Now I think the rough figures are that two people sitting side by side, one a State Department employee, the other a Defense Department employee, one is traveling at the rate of 7½ cents per mile, the other at 2½ cents per mile. If the airline carriers can make out at 2½ cents for the Defense Department person, they should be able to do the same for the State Department person.

If the 2½ cents is too low, then the whole thing should be reviewed rather than to keep this inequity, this situation which makes the taxpayer think that he is being taken.

Senator BELLMON. That is all, Mr. Chairman.

Senator MONTOYA. Thank you very much, Congressman Moorhead.

Mr. MOORHEAD. Thank you very much, Mr. Chairman, for your kind words about our service together on the other side of the Capitol. I also enjoyed working with you there and here, sir.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF MICHAEL J. TIMBERS, COMMISSIONER, FEDERAL
SUPPLY SERVICE, GENERAL SERVICES ADMINISTRATION

ACCOMPANIED BY:

LOY SHIPP, ASSISTANT COMMISSIONER FOR SPACE MANAGE-
MENT, PUBLIC BUILDINGS SERVICE

ROBERT LITTLE, ESQ., ASSISTANT GENERAL COUNSEL

ROBERT CHANDLER, CHIEF, PASSENGER TRANSPORTATION
SERVICES BRANCH

GEORGE SAUNDERS, ASSISTANT COMMISSIONER, OFFICE OF
TRANSPORTATION AND PUBLIC UTILITIES

CLIFFORD L. PORTER, DIRECTOR OF BUDGET

DISCOUNT CATEGORY Z RATES

Senator MONTOYA. Officials of the General Services Administration are present to testify on the proposed air shuttle program. Is Mr. Timbers present?

Mr. TIMBERS. Yes, sir.

INTRODUCTION OF ASSOCIATES

Senator MONTOYA. Did you hear the testimony which was presented by Congressman Moorhead on this subject?

Mr. TIMBERS. Yes.

Senator MONTOYA. Would you introduce your associates?

Mr. TIMBERS. Yes, Mr. Chairman. To my far left we have Mr. Robert Little, Assistant General Counsel; seated next to him we have Mr. Robert Chandler, Chief of our Passenger Transportation Services Branch; seated to my immediate left we have Mr. George Saunders, Assistant Commissioner of Transportation and Public Utilities; to my right, we have Mr. Clifford Porter, Director of Budget for GSA.

Senator MONTOYA. You have quite a long statement. Do you want to submit it for the record and then proceed to highlight it?

Mr. TIMBERS. Mr. Chairman, if I could submit it for the record, I can paraphrase it in about half the time.

Senator MONTOYA. It will be made a part of the record, and you may proceed to summarize it and to give whatever emphasis you wish.

[The statement follows:]

MR. CHAIRMAN, and Members of the Subcommittee, I welcome the opportunity to appear before this Subcommittee on behalf of the Honorable Arthur F. Sampson, Administrator of General Services.

My appearance today is at the request of Chairman Montoya to the Administrator concerning our position and involvement in a proposed experimental international air charter system that would combine defense and nondefense travelers into full planeload flights to obtain the lowest possible rates for civil agency official overseas travel.

As I am sure you are aware, the Department of Defense has, for many years, obtained highly favorable tariff rates for the overseas transportation of both its military and civilian personnel on air scheduled flights. Repeated attempts to obtain similar rates from individual carriers for employees of the civilian agencies of Government have been unsuccessful.

In the fall of 1970, the Foreign Operations and Government Information Subcommittee, Committee of Government Operations under the Chairmanship of Congressman William S. Moorhead began a study of this situation. The Subcommittee concluded that the rate differentials between DOD and civilian air passenger traffic traveling on scheduled flights could not be justified on an economic basis, since the cost factors involved for both classes of passengers were identical.

The Subcommittee pointed out that the favorable rates for scheduled air transportation granted to the Department of Defense were obtained basically because of its ability to divert its traffic into full planeload flights. This strong bargaining position is maintained by the negotiation of charter service contracts with scheduled and supplemental carriers at rates even lower than the special tariff rates granted by carriers for travel on scheduled flights.

In view of GSA's unsuccessful negotiating efforts in the past, the Subcommittee recognized that "the scheduled airlines could not be expected to agree to, or even to seriously negotiate for, reduced rates for civil agencies unless those agencies were prepared to utilize full planeload service if the negotiations failed." It therefore recommended that GSA in cooperation with the Department of Defense develop an air shuttle service for overseas air travel for use by all Government employees.

Since the completion of the Subcommittee's work we have been engaged in a joint GSA-State-DOD effort to develop a system that would combine Defense and civil agency overseas passengers into full planeload flights. This would be accomplished on an experimental basis by expansion of existing DOD charter flights from Washington, D.C., to selected European points and return. U.S. Flag Carriers, under contract to DOD, would provide the required service. A memorandum of understanding defining specific areas of responsibilities is under review.

At the May 23, 1973, Subcommittee hearing we stated that in the interest of economy and efficiency of Government that GSA in its statutory role of traffic manager on behalf of the civilian agencies should vigorously pursue fair and reasonable rate levels in the procurement of transportation services consistent with national policy.

We have worked with DOD, as I mentioned previously, to develop the specific details of this experimental proposal. However, we have not yet had the opportunity to explore these operating details in any depth with interested parties in OMB, DOT, State Department, and other interested departments. Furthermore, there have been a number of national policy and related economic issues recently raised that have not been explored adequately and which are beyond our areas of responsibility within GSA. Specifically, these include such questions

as the impact upon the balance of payments, and the Administration policy toward the current financial situation of the U.S. flag international scheduled air carriers. In this regard, we have not yet completed our discussions with the other interested departments on these vital policy issues. We are, therefore, suspending the proposed implementation of this system until we are sure that it is consistent with Administration policies in areas that are not within the purview of GSA. We would hope to complete these discussions within the very near future.

That concludes my presentation, Mr. Chairman. I have with me Mr. George W. Saunders, Assistant Commissioner, Office of Transportation and Public Utilities, Mr. Robert Chandler, Chief of our Passenger Transportation Services Branch, and Mr. Robert Little, Assistant General Counsel.

We will be pleased to answer any questions you or Members of your Subcommittee may wish to ask.

SUMMARIZATION OF OPENING STATEMENT

Mr. TIMBERS. Thank you, Mr. Chairman. I welcome the opportunity to appear before this subcommittee on behalf of the Honorable Arthur F. Sampson, Administrator of General Services.

For some time we have attempted to negotiate favorable rates for the transportation of civil agency official travelers at the same favorable rates enjoyed by the Department of Defense travelers on U.S. flag carriers. However, we have been unsuccessful in these efforts. Therefore, since the completion of Congressman Moorhead's subcommittee's work, we have been engaged in a joint GSA, State, DOD effort to develop a system that would combine defense and civil agency overseas passengers.

This would be accomplished on an experimental basis by expansion of existing DOD charter flights from Washington, D.C., to selected European points and return. Specifically, the DOD charter currently operates between McGuire Air Force Base, N.J., and Frankfurt, Germany. DOD would add stops at Dulles International Airport and London. U.S. flag carriers under contract to DOD would provide the required aircraft and service.

A memorandum of understanding defining specific areas of responsibilities between DOD and GSA is now under review.

At the May 23, 1973, subcommittee hearings in the House, we stated that in the interest of economy and efficiency of Government that GSA, in its statutory role of traffic manager on behalf of the civilian agencies, would vigorously pursue fair and reasonable rate levels in the procurement of transportation services consistent with national policy.

We have worked with DOD, as I mentioned previously, to develop the specific details of this experimental proposal. However, we have not had the opportunity to explore these operating details in any depth with interested parties in OMB, Department of Transportation, State Department and other interested departments.

Furthermore, there have been a number of national policy and related economic issues recently raised that have not been explored adequately and which are beyond our areas of responsibility within GSA. Specifically, these include such questions as the impact upon the balance of payments, and the administration's policy toward the current financial situation of the U.S. flag international scheduled carriers.

In this regard we have not yet completed our discussions with other interested departments on these vital policy issues. We are therefore suspending the proposed implementation of this system until we are sure it is consistent with administration policies in areas that are not within the purview of GSA. However, we expect to complete these discussions within the very near future.

Mr. Chairman, I would be pleased to answer any questions that you or Senator Bayh might have.

POSITION OF COMPTROLLER GENERAL

Senator MONTOYA. What is the position of the Comptroller General of the United States?

Mr. TIMBERS. The Comptroller General in response to an inquiry as to whether there would be any objection to GSA operating a

charter service for the civilian agencies on an experimental basis did not express any objections.

Senator MONTROYA. Did they ask you at any time to come to see the people here on Capitol Hill, the Members of Congress, with respect to your proposition?

Mr. TIMBERS. We were dealing with Congressman Moorhead's committee at that time, but I don't believe the Comptroller General asked us specifically outside of the contact with the Congressman's subcommittee.

Senator MONTROYA. I have received a letter dated March 9, in which the Comptroller General states:

We said, however, that the proposal represented a major departure from present practices and might raise serious policy questions which should ultimately be considered by the Congress.

They did tell you that, didn't they?

Mr. TIMBERS. Yes, sir. I believe they did. If we decided to do this on anything other than an experimental basis.

Senator MONTROYA. Did you consult with interested committees of the Congress—

Mr. TIMBERS. In regard to—

Senator MONTROYA. Did you consult with interested committees after you received this kind of advice from the General Accounting Office?

Mr. TIMBERS. Mr. Chairman, I believe that prior to your reading that statement to me, the only communications we had with the Comptroller General were that they indicated that they raised no objections to our proceeding with an experimental plan of this type. So this is new information to us, sir.

Senator MONTROYA. It is amazing that you are not aware of GAO's recommendations as they wrote to GSA regarding this matter of February 5, 1974, and today its March 20. However, it further says:

We believe that the proposed plan should be disclosed to the interest committees of the Congress before proceeding with an extensive program of chartering aircraft on other than an experimental basis.

Are you willing to take that kind of advice?

Mr. TIMBERS. Yes, sir. In fact, we have indicated in our reply to Senator McClellan that even on the experimental system we would not proceed until we had discussed this with your subcommittee.

IMPACT ON INTERNATIONAL AIRLINES

Senator MONTROYA. Have you discussed this with the CAB as to what impact it might have on the international airlines?

Mr. TIMBERS. As far as the impact on the international airlines is concerned, no, sir. We have not.

Senator MONTROYA. You made no study of the balance of payments feature?

Mr. TIMBERS. No, sir. Within GSA we have not. These are the national policy and related economic issues that I mentioned in my statement that we will be considering over the next few weeks to be sure that we are consistent with national policy.

Senator MONTROYA. Have you given any thought to the possibility that under the international agreements with respect to American

flag carriers that they cannot pick up any passengers to be transported within the host country?

Mr. TIMBERS. Mr. Chairman, it is our understanding that this depends on the city and the country involved, but we do understand that there could be a problem as far as the status of forces agreements are concerned and the State Department now has this under advisement in their legal department.

This is another one of the issues that I was referring to in my opening statement.

Senator MONTROYA. Would this require an extended study by you to put everything together in one package and then analyze it?

Mr. TIMBERS. Sir, I would hope that a study of this type could be completed rather quickly. We have been obviously studying this issue for some time.

USE OF CHARTER SERVICES

Senator MONTROYA. Is it contemplated by GSA that they will use the airlines owned by the Department of Defense?

Mr. TIMBERS. No, sir.

Senator MONTROYA. This will involve strictly the use of private-owned charter services?

Mr. TIMBERS. U.S. Flag carriers, scheduled or supplemental, depending on who received the contract award from the Department of Defense.

LETTER FROM COMPTROLLER GENERAL

Senator MONTROYA. At this point I will insert the letter which I received from the Comptroller General of the United States along with the enclosures that accompanied the letter.

The clerk will also supply Mr. Timbers with a copy of this letter.
[The letter follows:]

LETTERS FROM COMPTROLLER GENERAL

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-155146

March 19, 1974

The Honorable Joseph M. Montoya
Chairman, Subcommittee on Treasury, Postal
Service and General Government
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

We refer to your letters of March 5, 1974, and March 12, 1974, asking that this Office designate a witness to present our views on the proposal by the General Services Administration to establish an international air shuttle system for Government employees in conjunction with the Department of Defense. A hearing has been scheduled for Wednesday, March 20, at 2:00 p.m., in Room 1223, Dirksen Senate Office Building.

The General Services Administration has not submitted a specific proposal to us for evaluation and comment. Consequently, we have no official information about the details of any specific plan which has developed or may be proposed.

By letter dated June 26, 1973, the Administration informed us that it was considering establishment of a test program of limited scope for an experimental system of contracted blocked space round trip service on scheduled flights between the East Coast and selected points in Europe, and an experimental system of contracted full planeload round trip charter service with carriers between the United States and selected points in Europe. The Administration also said that it was engaged in discussions with the Department of Defense (DOD) regarding the feasibility of combining DOD and civil agency travelers on such charter flights.

The letter stated that as a part of the study of an experimental charter system, it had been necessary to review existing statutory authority with regard to possible methods of financing the procurement of chartered aircraft or blocked space prior to reimbursement by using Government agencies, and it had been concluded that the only revolving fund available for consideration for possible use for the financing of the service was the General Supply Fund. The letter further stated that, before a program involving procurement of chartered aircraft or blocked space was instituted through use of the General Supply Fund, the Administration would appreciate our views as to the availability of the Fund for this purpose.

In our reply dated February 5, 1974, B-155146, we agreed with the Administration view that there is nothing in the applicable statute or its legislative history that would specifically preclude the use of the General Supply Fund to procure chartered aircraft and/or blocked space on aircraft. We said, however, that the proposal represented a major departure from present practices and might raise serious policy questions which should ultimately be considered by the Congress. We said further, in view of the broad policy issues raised and the possible desire of the Congress to express itself on this matter, we believe that the proposed plan should be disclosed to the interested committees of the Congress before proceeding with an extensive program of chartering aircraft on other than an experimental basis.

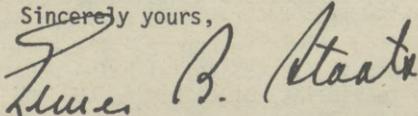
Also, we said that we understood that GSA was considering additional options involving use of Department of Defense contracts with U.S.-flag international airlines and that these options might involve additional legal problems not presented to us. We expressed no opinion on the legality of use of such options.

In addition to the correspondence discussed above, the Administration also sent us a letter dated August 14, 1973, outlining a tentative plan for an air charter system, and asking for our views with regard to its adequacy in terms of our Office travel requirements. In our reply dated September 6, 1973, we said that the service would have limited usefulness for GAO because of the nature and circumstances of our overseas travel and individual work assignments.

Accordingly, our participation in this matter has been limited to an opinion on a hypothetical question of funding and comment regarding an air service plan that had not then progressed beyond an initial planning stage. Consequently, we are not able to testify about the merits of any specific plan that may have been submitted.

Copies of the correspondence referred to above are enclosed for your information.

Sincerely yours,



Comptroller General
of the United States

Enclosures

COMPTROLLER GENERAL OF THE UNITED STATES
 WASHINGTON, D.C. 20548

B-155146

February 5, 1974

The Honorable Arthur F. Sampson
 Administrator, General Services
 Administration

Dear Mr. Sampson:

By letter dated June 26, 1973, you requested our views on the availability of the General Supply Fund (Fund), established by section 109(a) of the Federal Property and Administrative Services Act of 1949 (Act), as amended, 40 U.S.C. 756(a), for the procurement of chartered aircraft or blocked space on regularly scheduled aircraft.

You state that the General Services Administration (GSA), after unsuccessful attempts to negotiate reduced air fares, is studying the feasibility of establishing two experimental charter systems to be provided by United States-flag air carriers over selected high density Government travel routes with the goal of lowering the cost of official international air travel by employees of the Federal Government. One experimental system would consist of contracted blocked space round trip service on scheduled flights between the East Coast and selected points in Europe and another of contracted full planeload round trip charter service with carriers between the United States and selected points in Europe. GSA has held discussions with both scheduled United States-flag international air carriers and supplemental (charter) carriers. GSA has also engaged in discussions with the Department of Defense regarding the feasibility of combining that Department's travelers with civil agency travelers on such charter flights. You state that this proposal should result in substantial savings and estimate that with a seventy percent load factor, a round trip flight between Washington and Frankfurt, Germany, could save the Government \$50,000.

You have determined that a revolving fund would be the best possible method of financing the procurement of chartered aircraft or blocked space prior to reimbursement by using Government agencies and that the only revolving fund available for such use is the General Supply Fund.

The provisions of 40 U.S.C. 756(a) are, in pertinent part, as follows:

"The General Supply Fund shall be available for use by or under the direction and control of the Administrator (1) for procuring personal property * * * and nonpersonal services for the use of Federal agencies in the proper discharge of their responsibilities, * * *."

It is your agency's view that the availability of the Fund for the procuring of "nonpersonal services" would seem to be authority for its use. You point out that while there is no specific provision authorizing such use of the Fund, neither have you found a restriction against such use. You state, however, that the matter is not entirely free from doubt in view of the fact that the amendment by section 2 of Public Law 83-766 September 1, 1954, 68 Stat. 1126, of section 211 of the Act, 40 U.S.C. 491, to permit the establishment of central motor pools contained a provision

specifically making the Fund available for such pools. You state in this regard that:

"The legislative history of section 211 does not reveal if there was consideration as to whether this provision was in fact required to make the General Supply Fund available for financing the motor vehicle services. However, it is our view that the term "nonpersonal services" is sufficiently broad and generic to embrace chartered aircraft and blocked space."

You conclude that the Fund seems to be well suited for financing the proposed system and that you do not anticipate that the program would be of sufficient magnitude to create a problem in paying for any of the services ordinarily procured and furnished through the Fund.

We agree with your position that there is nothing in the applicable statute or legislative history which would specifically preclude the use of the Fund to procure chartered aircraft and/or blocked space on aircraft. Also, we cannot state that such procurement necessarily represents the acquisition of a capital asset that normally would be required to be requisitioned through an appropriation rather than through the revolving fund as an expense item nor can we state that such a system would not constitute procurement of "nonpersonal services" within the meaning of 40 U.S.C. 756(a).

On the other hand, the implementation of the proposed program would represent a major departure from present practices. It would transfer major responsibilities to CSA and place it, in effect, in the position of operating a charter service for the Government. Thus, it would appear that the proposed program might raise many serious policy questions which should ultimately be considered by the Congress. In this regard we have reviewed the legislative history of the 1954 amendment of section 211 of the Act. We note that in considering that amendment the Congress was concerned about, among other things, the policy implications of creating a central motor pool; on the other hand, we note several differences between the proposed plan and the creation of a motor pool such as that the latter involved acquiring existing assets from other agencies and that significant capital assets were to be acquired.

Considering the broad language of the Fund authorizing use of the Fund to acquire "nonpersonal services" we will not be required to object if your agency initiates an experimental system of chartering aircraft and blocked space of limited scope and duration in order to test the feasibility and desirability of such a program. However, in view of the broad policy issues raised and the possible desire of the Congress to express itself on this matter, we believe that the proposed plan should be disclosed to the interested committees of the Congress before proceeding with an extensive program of chartering aircraft on other than an experimental basis.

Your letter of August 14, 1973, to which we replied on September 6, 1973, mentions two additional options you apparently have under consideration involving the use of DOD air charter contracts with U.S.-Flag International Airlines: (1) extension of Category Z (military) tariffs to all official international air travel, and (2) varying Category Z type fares to avoid peak traffic days. We understand that no decision to use these options has yet been made.

We think these options involve additional legal problems not presented to us. We express no opinion on the legality of such options but will be glad to consider them if you decide to use DOD air charter contracts.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

LETTER FROM ARTHUR F. SAMPSON

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D. C. 20405

JUN 26 1973

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

General Services Administration (GSA) has studied international air passenger costs and requirements of the civil agencies, and has negotiated with U.S.-flag international airlines for reduced air fares. These negotiations have not heretofore been productive, and GSA is now also studying the feasibility of establishing an experimental charter system to be provided by U.S.-flag air carriers over selected high density Government travel routes. GSA's goal is to lower the cost of official international air travel by employees of the Federal Government.

GSA has been engaged in continuing discussions on an individual basis with the scheduled U.S.-flag international air carriers and the supplemental (charter) carriers regarding an experimental system of contracted blocked space round trip service on scheduled flights between the East Coast and selected points in Europe, and an experimental system of contracted full planeload round trip charter service with carriers between the United States and selected points in Europe.

With reference to the planeload charter system, we plan a test program of limited scope. We have received informal proposals which may form an appropriate basis of an experimental charter system from a number of the scheduled and supplemental air carriers authorized by the Civil Aeronautics Board to serve overseas points.

Our review of the reduced transportation charges that could be expected to accrue from the establishment of the experimental air charter system, such as between Washington and Frankfurt, Germany,

will be of interest to you. The average round trip tourist fare between Washington and Frankfurt is \$603. Based on data furnished by responding supplemental air carriers, the pro rata cost per passenger of a round trip charter with a DC-8 configured to carry 219 passengers is \$192. We estimate the break-even load factor to be 70 passengers, or 32 percent. A 70 percent load factor would reduce transportation charges to the Government by \$50,000 per flight, based on current fares now charged to civil agency international travelers. We are also engaged in discussions with the Department of Defense (DoD) regarding the feasibility of combining DoD and civil agency travelers on such charter flights.

We cannot give you a specific timetable regarding our proposal to reach an agreement with the carriers on a blocked space system, or a planeload charter system. But, we estimate a test system will be available for agency review in late August or early September of this year.

As a part of the study of an experimental charter system, it has been necessary to review existing statutory authority with regard to possible methods of financing the procurement of chartered aircraft or blocked space prior to reimbursement by using Government agencies.

It appears that the only revolving fund available for consideration for possible use for the financing of the service is the General Supply Fund.

Section 109(a) of the Federal Property and Administrative Services Act of 1949, as amended (Act) (40 U.S.C. 756(a)), establishes the General Supply Fund, and provides that:

"The General Supply Fund shall be available for use by or under the direction and control of the Administrator (1) for procuring personal property (including the purchase from or through the Public Printer, for warehouse issue, of standard forms, blankbook work, standard specifications, and other printed material in common use by Federal agencies not available through the Superintendent of Documents) and nonpersonal services for the use of Federal agencies in the proper discharge of their responsibilities, . . ."

The availability of the Fund for the procuring of "nonpersonal services" would seem to be authority for its use. While there is no specific authorizing language permitting use of the General Supply Fund for a program such as is under study, on the other hand, we do not find a restriction against its use.

The matter is not entirely free from doubt, however. In this regard, we observe that when section 211 of the Act (40 U.S.C. 491) was amended in 1954 to permit the establishment of central motor pools, subsection (d) specifically made provision for the availability of the General Supply Fund for paying costs incident to furnishing motor vehicle services. The legislative history of section 211 does not reveal if there was consideration as to whether this provision was in fact required to make the General Supply Fund available for financing the motor vehicle services. However, it is our view that the term "nonpersonal services" is sufficiently broad and generic to embrace chartered aircraft and blocked space.

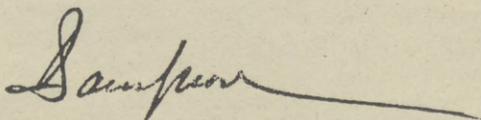
The General Supply Fund seems to be well suited for financing the procurement of a chartered aircraft or blocked space system, since transactions of a continuing cycle of operations may be recorded. Receipts derived from such operations would be available in their entirety for use by the Fund. Commitments for chartered aircraft or blocked space would not represent the purchase of a capital asset, which would ordinarily require payment through an appropriation, as compared to a revolving fund expense item.

We do not anticipate that any expenditures involved in the program, or possible shortfall in anticipated revenues would be of sufficient magnitude to create a problem in paying for any of the services ordinarily procured and furnished through the Fund.

Under the circumstances, before a program involving procurement of chartered aircraft or blocked space is instituted through use of the General Supply Fund, we would appreciate your views as to the availability of the Fund for this purpose.

If any supplementary information is desired, please do not hesitate to contact us.

Sincerely,



Arthur F. Sampson
Administrator

LETTER FROM DEPUTY COMPTROLLER GENERAL
COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-155146

SEP 6 1973

The Honorable Arthur F. Sampson
Administrator
General Services Administration

Dear Mr. Sampson:

I am responding to your request of August 14 for additional information regarding possible use by the General Accounting Office of a proposed air charter service between Washington, D.C., and Europe. You request our views as to the adequacy of the proposed charter service for GAO needs and data concerning the number of travelers that could be expected to utilize the service.

Because of the nature of our overseas travel and individual work assignment, we expect that a charter service such as you describe would have limited usefulness for GAO. Circumstances which create the need for a significant number of trips of this type give

short notice and tend to preclude delays or layovers which may be necessary in arranging charter service accommodation.

A current estimate of our travel between the Washington, D.C., area and Europe indicates that we may reasonably expect about 18 round trips and about 9 one way trips during a six month period. At this time we cannot provide the firm projection of travel between these locations for the quarter, beginning October 1, 1973, which you requested.

Please let me know if we can be of further assistance in this matter.

Sincerely yours,

(Signed) R. Y. Keller

Deputy Comptroller General
of the United States

LETTER FROM ARTHUR F. SAMPSON

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

AUG 14 1973

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

We very much appreciated your agency's prompt response to my request dated November 7, 1972, for statistical data required to study international air passenger costs and requirements of the civilian agencies. The information developed from this survey has been most helpful in our evaluation of these costs and analyzing the potential for effecting economies.

Since July 1972, following hearings by the Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations, the General Services Administration (GSA), supported by other civil agencies, has been engaged in concerted efforts to reduce the cost of civil agency official international air travel. This has involved a series of definitive meetings with the scheduled and non-scheduled U.S.-Flag International Airlines. These discussions have centered around four conceptual options for lowering the cost of transporting Federal employees overseas. The options are: (1) extension of Category Z (military) tariffs to all official international

air travel; (2) varying Category Z type fares to avoid peak traffic days; (3) contracting for blocked space on regularly scheduled flights, and (4) contracting for full plane-load charter flights.

To date, GSA's proposals to the airlines have been unproductive with regard to the broad application of reduced air fares on the basis of individual travel or blocked space contracts. The civil agencies, therefore, must initially look to the feasibility of an air charter system with U.S.-Flag International Airlines as a means of achieving lower fares for official international travel.

On July 3, 1973, representatives of General Services Administration, Department of Defense, and Department of State reached an agreement regarding a proposed plan and a tentative route structure for an initial air charter system designed to reduce the cost of civil agency and Department of Defense official international air travel.

The proposed plan would combine civil agency international air travel requirements with those of the Department of Defense on a tentative route structure from Dulles International Airport, Washington, D. C., to McGuire AFB, New Jersey; London, England; Frankfurt, Germany; and Rome, Italy. The schedule will provide a round trip three times per week. Other final destinations are anticipated by connection with regularly scheduled air service at these points.

Implementation of the system would be accomplished by expansion of current Department of Defense (DOD) air charter contracts with U.S.-Flag International Airlines. The DOD air charter contracts are at a seat-mile cost slightly below 2 cents per mile. The civil agencies currently pay more than 7 cents per seat-mile at tourist air fare rates on the scheduled airlines. The commercial aircraft chartered by DOD on the planned route are configured to carry 165 passengers, and are modern jet aircraft currently in commercial service with the scheduled U.S.-Flag International Airlines and the Supplemental (charter) Airlines. The cabin service is superior to tourist class and the leg room comparable to that in first class sections.

Based on the current level of commercial air fares; our statistical analysis indicates that an average round trip transportation cost savings of \$350 per charter passenger could accrue to the civil agencies on the proposed route. This computation includes an averaging of additional air transportation costs for civil agency travelers terminating on the charter short of their final destination, but does not include additional per diem which could be incurred in some cases. On this particular route, additional savings for the Department of Defense would also be anticipated through transportation of personnel now traveling at higher Category Z rates.

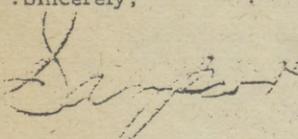
In view of the foregoing and with reference to the previous statistical and cost data furnished by your agency, we will appreciate your views on the proposed air charter system with regard to its adequacy in terms of your agency's travel requirements.

In addition, based on a per seat cost of approximately \$100 one way to any of the destinations listed on the proposed system, please provide a six-month projection of the number of travelers per month that could be expected to utilize the charter system including the beyond traffic, with particular emphasis on a firm projection for the months of October, November, and December, beginning October 1, 1973.

A subsequent determination of the economic and operational feasibility of the air charter system will be made based on the total number of seats to be purchased each month by the civil agencies and the Department of Defense.

We will appreciate your reply by September 7, 1973. If there are any questions, please contact Mr. Budd Faught, Federal Supply Service, 703-557-8797 (IDS 16-78797).

Sincerely,



Arthur F. Sampson,
Administrator

COMPTROLLER GENERAL'S RESPONSE

Senator MONTROYA. I note that attached to this letter is the Comptroller General's letter of February 5, 1974 wherein the GAO agrees with your position that there is nothing in the applicable statute or legislative history which would specifically preclude the use of the General Supply Fund to procure chartered aircraft.

As I previously mentioned the Comptroller General regards the implementation of the proposed program as a major departure from present practice. In fact, it was his advice to Mr. Sampson that the proposed plan should be disclosed as I stated before.

In view of the concern expressed by many people, I would hope that we analyze this program fully and completely to reach a determination which might be to the best interest of the country, both from an economic standpoint and otherwise.

Mr. TIMBERS. Mr. Chairman, we certainly share your concerns in that regard.

BENEFIT TO AMERICAN TAXPAYERS

Senator MONTROYA. Is it your feeling from the limited study which you have made that this would be to the benefit of the American taxpayer?

Mr. TIMBERS. Sir, from the standpoint of the GSA of trying to provide as low as possible, transportation service to civilian agency travelers, we would be in favor of the proposal as we have now outlined it.

However, as I indicated, there are other issues, many of which you have already brought out, which are beyond the purview of GSA, which I think must be considered before such a plan is put into operation.

IMPACT ON REVENUES OF INTERNATIONAL AIRLINES

Senator MONTROYA. If you reduce the revenue for the international airlines by diverting the passengers that would otherwise use them, what kind of an impact would it have on their revenues?

Mr. TIMBERS. Mr. Chairman, I don't feel qualified to answer in regard to what impact it would have on the subsidy program. I would say there is no question it would have some impact on revenues. Our concern has been that we felt having two parts of the Government, the DOD traveler and the civil agency traveler on similar missions traveling to similar locations at far different rates, was not a situation which we thought was in the best interests of the Government.

That is why we are pursuing this approach—in order to obtain favorable transportation rates.

INITIATION OF STUDY

Senator MONTROYA. Who asked GSA to initiate this study and recommend this program?

Mr. TIMBERS. Mr. Chairman, the history of this is somewhat involved. I think if we go back into the late 1960's that it would be the Bureau of the Budget which asked us to look into this situation. Since that time, in our role as traffic manger, we have been very concerned with it as well as Congressman Moorhead, who has spearheaded quite an effort in this regard.

OMB POSITION

Senator MONTROYA. Has the Office of Management and Budget sent to you anything in writing approving or disapproving your proposed plan?

Mr. TIMBERS. The Office of Management and Budget, back some months ago, indicated to us that they at that point in time, unless other policy issues crept into the situation, they saw no problem with our proceeding with the experiment. Since that time, however, as a result of the present world situation and the like, the Office of Management and Budget has indicated that there are other policy considerations that they would like to consider before we begin such an experimental study.

Senator MONTROYA. Do you feel enjoined from carrying this out on a permanent basis until you receive definite approval from the Office of Management and Budget?

Mr. TIMBERS. If OMB told us not to proceed, I would certainly think we would abide by their request.

Senator MONTROYA. Would you also present the final plan to us before you set it into operation?

Mr. TIMBERS. We would be happy to, Mr. Chairman.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

Senator MONTROYA. The following questions have been presented to me by Senator Eagleton. I will ask you to answer the following questions:

Question No. 1, it seems to me that GSA is attempting to do indirectly what it cannot do directly, that is, aren't you in effect entering into the air transportation business in competition with U.S. scheduled carriers without the benefit of any special legislation, approval of the regulatory agencies or any of the several congressional committees concerned with this?

Mr. TIMBERS. No, sir. We don't feel that we are. We believe that we have existing authority under the Federal Property and Administrative Services Act to procure and supply an air charter service for civil agencies. Furthermore, in our plan which involves marrying, so to speak, with the existing DOD system, the U.S. flag, scheduled airlines, I believe, are the recipients of most of those contracts.

COMPETITION WITH INTERNATIONAL CARRIERS

Senator MONTROYA. Here is another question submitted by Senator Eagleton. I read in this morning's Washington Post that Pan American has asked CAB permission to negotiate with TWA about combining their transatlantic schedule in an effort to cut down costs.

Both companies apparently are experiencing serious financial problems as a result of high fuel prices and reduced passenger traffic. It also happens that these are two of the companies that will be affected by the GSA proposal if it is implemented.

Won't you concede that the Government couldn't have picked a worse time to begin to compete with the international carriers?

Mr. TIMBERS. Mr. Chairman, I think that that type of question and that type of policy question is really one best answered by repre-

sentatives from OMB and the Department of Transportation. It is why we are conferring with them before we institute our experimental system.

Senator MONTROYA. The question could be answered by you, also, because you apparently have initiated the whole study and the plan. We here have to think of all the taxpayers. That means stockholders who own the airlines and also those stockholders that pay the taxes for Government transportation.

We must reconcile the varied interests before we decide policy.

Have you done that?

Mr. TIMBERS. Mr. Chairman, we feel that our responsibilities are to achieve the most reasonable transportation rates for our civil agency travelers. I concede the fact that the airlines, and the ones that you have mentioned specifically, are in financial difficulties. But I don't feel that we in GSA are in the role of determining on our own what the administration's policy should be, and if, in fact, they should be subsidized on a direct basis or on an indirect basis through higher fares than might be cost justified.

Senator MONTROYA. Won't you say that when you are trying to take business away from existing carriers and they in turn, ask for additional subsidies, and if a reduction in their clientele sets in, that this is a very important consideration as to what it will cost the Government?

Mr. TIMBERS. Mr. Chairman, our proposal may or may not take business away from the existing U.S.-flag scheduled carriers. The present system that DOD has operates under a rate approved by the Civil Aeronautics Board which, as I understand it, has been approved as one providing a fair and equitable return to the airlines involved.

I would expect that any system we get into, either on an experimental or long-range basis, would also have its fare structure subject to the review of CAB and whatever rates that are established would provide fair and equitable returns to the U.S. scheduled international airlines.

DENIAL OF CATEGORY Z RATES

Senator MONTROYA. Have you asked any of the airlines or have you been in consultation with CAB as to whether or not there is a possibility that you can also provide the same rate schedule that DOD personnel get from these airlines under category Z, rates?

Mr. TIMBERS. We have tried vigorously with the airlines themselves to obtain a category Z rate, and we have been unsuccessful in that attempt. We have also attempted to get a category Z rate on a modified basis where Government travelers would travel at that rate only in off-peak times. We have also attempted to develop a system where we would block space on scheduled airlines. All of these attempts have been unsuccessful as far as attempting to get a better rate for civil agency travel.

Senator MONTROYA. If it should come to pass that the airlines would accept a category Z tariff amendment, would that change your determination with respect to this plan?

Mr. TIMBERS. Mr. Chairman, I feel it probably would. We would be more than willing to accept the category Z tariff structure from the airlines.

AIR CHARTER PROPOSAL

Senator MONTROYA. Senator Bayh, do you have any questions?

Senator BAYH. Yes, Mr. Chairman. I have one or two.

Mr. TIMBERS, the way I understand it this plan is designed, patterned after the DOD charter system.

Mr. TIMBERS. Yes, sir.

Senator BAYH. Do you have or can you give us an example of the kinds of charters, the places that DOD flies to as compared to the kinds of services that may be required by the Government for the kind of charter you are proposing here?

For example, I know that part of the DOD charters are moving large numbers of troops from point A to point B, are they not?

Mr. TIMBERS. To the best of my knowledge that is probably true, Senator. I am not sure.

Senator BAYH. Is that a little dissimilar from the kind of heterogeneous mix, both as to the composition of the passengers, the agencies, they represent and their ultimate destinations concerned that you are considering here?

Mr. TIMBERS. I would say that it is different. As far as the mix of passengers, I would say you are probably correct.

NUMBER OF TRAVELERS

Senator BAYH. How many passengers would you have under the DOD charter on any given day? Do you have a pattern?

Mr. TIMBERS. We have an estimate supplied by the civil agencies of some 900 travelers a month. The present proposal would call for three round trips a week, approximately 75 individuals on any given trip.

Senator BAYH. 900 passengers a month?

Mr. TIMBERS. 900 passengers a month.

Senator BAYH. Three round trips a week?

Mr. TIMBERS. Three round trips a week for both the civil agency and DOD passengers.

Senator BAYH. Do you know what kind of planes you are going to be using?

Mr. TIMBERS. Yes, Senator. We will be using 707's with a 165-seat configuration, most likely. That is what they are doing under the present system, I believe.

Senator BAYH. 165. You are not going to be operating those at near capacity, then, are you?

Mr. TIMBERS. We will be when we combine them with the Department of Defense travelers.

Senator BAYH. How many are you flying there over the same route?

Mr. TIMBERS. I think the Department of Defense has indicated that their seat-load factor is somewhere in the neighborhood of 93 percent.

Senator BAYH. I was wondering what the number of passengers was over that same period of time in which you are going to put on 12 planes a month, three round trips a month or three a week, give or take some.

Mr. TIMBERS. I think maybe to put this in better perspective, the planes are already operating under the DOD system. They estimate that to take up the additional civil agency traffic which we have forecasted, it would result in four additional flights per month, four

additional planes per month in addition to what they now have under the present system.

Senator BAYH. Then you would have your own regular schedule, they would leave three times a week at X hour?

Mr. TIMBERS. They would leave three times a week at X hour unless the load factors were not sufficient and then they would cut it back to two times a week, whatever is appropriate.

Senator BAYH. Is this Government employees only on official business?

Mr. TIMBERS. Only on official business, including dependents on official travel.

DENIAL OF Z RATE BY AIRLINES

Senator BAYH. You have explored the possibility of establishing a Z or quasi-Z rate with the airlines to no avail?

Mr. TIMBERS. Yes, Senator. We have explored this at great length to no avail.

Senator BAYH. What has been the reason that you have been denied this? Perhaps we could ask the airlines witnesses more effectively.

Mr. TIMBERS. I would hope you might, Senator. I am not sure what the reasons are except that maybe we haven't had enough leverage with the airlines in order to obtain a better rate.

IMPACT ON COMMERCIAL AIRLINES

Senator BAYH. Although I think it might be appropriate in saying that you at GSA don't need to consider the kind of impact this kind of thing has on commercial airlines, I think we in the Congress definitely do. I hate to see Uncle Sam getting in the airlines business, whether it is DOD or GSA, if the commercial lines would provide the services that are necessary at costs that are not exorbitant to the taxpayer, particularly when we look at the about 60-percent load factor on our commercial airlines right now.

What would happen, I would suppose, is that the airlines, the commercial airlines, would have to lay off some of their scheduled air flights if you took these 900 passengers out.

Mr. TIMBERS. Senator, I can't speculate on what they might do, but it is my understanding that they are in the process of doing some of that at the present time anyway; that is, consolidating flights and cutting back schedules.

Senator BAYH. We would have to consider an additional 900-passenger consolidation if your charter were successful.

Mr. TIMBERS. That is right, Senator. However, these 900 passengers represent less than one-fifth of 1 percent of the total international travel of Pan Am and TWA in the Atlantic market.

Senator EAGLETON. Will the Senator yield?

Senator BAYH. Yes.

FINANCIAL DIFFICULTIES OF OVERSEAS CARRIERS

Senator EAGLETON. I would like to follow up on that same point. I couldn't be here earlier. I think Senator Montoya asked a couple of questions on my behalf. I would like to pursue the same point that Senator Bayh just asked about. Is it not the case at the present time

that overseas carriers such as TWA, Pan Am, et cetera, are experiencing financial difficulties and won't this proposal exacerbate or intensify their difficulties insofar as passengers are concerned?

Mr. TIMBERS. Senator, that question, as far as the financial difficulties that they are experiencing, is one that I mentioned earlier that we will be exploring with both the Department of Transportation and OMB for their views and counsel before any system, even an experimental system, is put into effect.

Senator EAGLETON. Do we not know that both Pan Am and TWA, for example, have asked for a governmental subsidy?

Mr. TIMBERS. To the best of my understanding, that is correct.

Senator EAGLETON. If airlines are in need of subsidization because of dwindling and declining revenues, isn't it a bit inconsistent on the one hand to subsidize private carriers because they are experiencing difficulties and then on the other hand go into competition with them?

Mr. TIMBERS. Senator, we don't feel that our proposal would necessarily create or put us in competition with them. Under the present DOD system, the contracts for this type of charter service are open to the scheduled airlines and in fact they do have the majority of these contracts.

Furthermore, as for the rates charged in this type of system, the category B rates, it is my understanding that the CAB approves these as fair and reasonable for the type of service that is provided.

Senator EAGLETON. Wasn't there an article in this morning's Washington Post saying Pan Am and TWA were seeking permission to combine some of their services so as to save on overlap duplication and hence wasted cost?

Mr. TIMBERS. Yes, Senator, I believe there was.

Senator EAGLETON. I take it that that is some indication that they need an increased passenger usage rather than diminished.

Mr. TIMBERS. It could be an indication of that or it could be an indication of excess flights.

IMPACT OF CHARTER SERVICE ON ENERGY SITUATION

Senator EAGLETON. Every hearing has to have some mention made of the energy crisis. I don't know if it has been mentioned here. I presume it has in my absence. But if regular U.S. flag carriers are operating at a load factor of about 60 percent, does it not add to the energy crisis by the GSA going into this line of business when carriers are operating at a 60-percent load factor and hence have vacancies?

Mr. TIMBERS. As far as the energy question is concerned, it is our feeling that a charter service with higher seat-load factors is a much more efficient system. Our feeling from an energy standpoint is that it is more feasible to reduce the seats available on the type of service with the low seat-load factor, that is, the scheduled service.

What we are saying is that we see the charter service during an energy crisis as being potentially an energy-conserving measure and not an energy-wasting measure.

Senator EAGLETON. That would be all well and good if the regular carriers were operating at anywhere near maximum level. But I don't know that if really washes out logically when they are operating at a 60-percent factor. But at any rate, just as one member of this

committee, I would like to go on record and express my sincere and serious concern about this proposal.

I would hope that GSA would at least consider deferring action to implement it until this committee and other appropriate committees have had a chance to fully consider it.

As you view it now, is it something that you feel must be implemented instantaneously?

Mr. TIMBERS. No, Senator. As I indicated earlier, we have suspended the implementation of our system until some of these other policy issues which you have brought up and Senator Bayh and the chairman until they are all fully explored.

Senator EAGLETON. Thank you very much.

NEGOTIATIONS WITH AIRLINES FOR CATEGORY Z RATES

Senator BELLMON (presiding). Commissioner, I have a few brief questions I would like to raise before you leave the stand.

Perhaps you covered this already. You say in your statement that attempts to obtain rates similar to those that the military receives from civilian carriers is unsuccessful. What have you done in this area? Have you negotiated with the airlines or have you tried to get the similar rates?

Mr. TIMBERS. Yes, Senator. We have attempted for some time to do a number of things. Specifically, we attempted to receive the same category Z rate that the Department of Defense travelers now receive. We have also proposed a modified category Z proposal in which we would use the category Z rates only on offpeak loadtimes. We have also attempted to develop the system where we would charter blocks of space on the scheduled airlines.

All of these attempts have been unsuccessful. It is in that light that we turned to the air charter proposal.

Senator BELLMON. Do you know why the civilian airlines will not treat all Government employees the same?

Mr. TIMBERS. No, Senator. I don't.

Senator BELLMON. If they would, would there be a need for the proposal that you are making here?

Mr. TIMBERS. No, Senator, there wouldn't.

Senator BELLMON. So, what you are saying is you are trying to get the same treatment for all Government employees and failing to do that you are going to start a charter service?

Mr. TIMBERS. Failing to do that we will attempt to marry up with the existing Department of Defense charter service. Yes.

OPERATION OF EXISTING CHARTER SERVICE

Senator BELLMON. Will you put in the record the way the existing charter service operates? Is this already in the record?

Mr. TIMBERS. Not in any great detail. But I believe the Department of Defense's statement will spell that out.

Senator BELLMON. I understand they have already given us that information. They will be presented by the Department of Defense later on in the hearings.

You have stated you are going to delay the program until all of the policy issues have been carefully studied. Is this right?

Mr. TIMBERS. Yes, sir.

CONGRESSIONAL HEARINGS

Senator BELLMON. Do you anticipate that there will be an advantage to hearings on the Hill on the issue of whether or not this charter service should be expanded or are you prepared for hearings in case the Congress wants to go into it in depth?

Mr. TIMBERS. Yes, Senator. We would be more than happy to testify at any hearings that you would like on the matter.

SAVINGS TO GOVERNMENT FROM PROPOSED PROGRAM

Senator BELLMON. Have you made any effort to compute the economic results to the Government, the savings to the Government from the program proposed?

Mr. TIMBERS. The experimental plan which would involve the air charter from Dulles to McGuire to London to Frankfurt, round trip three times a week, our estimates of savings range in the neighborhood of \$2 to \$3 million annually.

Senator BELLMON. \$2 to \$3 million annually?

Mr. TIMBERS. Yes, sir.

Senator BELLMON. This is just the service to Europe or does this include service to other parts of the world?

Mr. TIMBERS. No. This would just be the service to Europe.

Senator BELLMON. Do you anticipate spreading the same type of service to the Orient or to South America?

Mr. TIMBERS. If the system was as successful as we anticipate it might be, then we would certainly consider expanding it to other parts of the world. But we do not have that as part of our proposal at the moment. We will include that in our plans only if we are successful in the experiment.

NEGOTIATIONS ON CATEGORY Z RATES

Senator BELLMON. Are your negotiations with the airlines relating to expanding category Z rates to all Government employees presently going on or are they at a standstill?

Mr. TIMBERS. No. They are at a standstill.

Senator BELLMON. How long has it been since negotiations ceased?

We will recess the hearing for about 5 minutes.

[Brief recess.]

Senator BELLMON (presiding). The subcommittee will be in order.

Commissioner, I have no further questions. If you have anything further you would like to add or put in the record we would be glad to have you do so. Otherwise, we will consider this the end of your testimony.

Mr. TIMBERS. Senator, I will respond to the last question which I didn't get a chance to answer and that is we ceased negotiations with TWA on April 27, and with Pan Am on May 11.

Senator BELLMON. A year ago?

Mr. TIMBERS. 1973. Yes, sir.

Senator BELLMON. There has been nothing since last May, then?

Mr. TIMBERS. There have been unofficial contracts, but the situation has not changed. No, sir.

Senator BELLMON. Thank you, very much.

CIVIL AERONAUTICS BOARD

STATEMENT OF ROBERT D. TIMM, CHAIRMAN

ACCOMPANIED BY:

AL STOUT, DEPUTY DIRECTOR OF THE BUREAU OF ECONOMICS
THOMAS J. HEYE, ADMINISTRATIVE ASSISTANT TO THE CHAIR-
MAN

PREPARED STATEMENT

Senator BELLMON. Our next witness is Chairman Robert D. Timm, of the Civil Aeronautics Board.

Commissioner you may proceed as you like. If you have a statement you would like to insert in the record we will be happy to receive it, and make any verbal statements or comments that you want.

Mr. TIMM. Thank you Senator.

[The statement follows:]

The Civil Aeronautics Board appreciates the opportunity to present its views with respect to the proposal now under consideration which would provide for the carriage of employees of the civil agencies traveling on official business on charter flights instead of on scheduled airline flights as is presently the case. I might add that although I understand this proposal has been under consideration for some time, the interested government agencies have never solicited the Board's views of its effects upon the industry the Board is designated to regulate.

In sum, the Board is very much concerned with the potential adverse economic effect on the U.S. international scheduled air carriers. The proposal to transfer civil agencies' personnel to charter flights comes at a time when the international scheduled services of the U.S. flag carriers, on which substantial volumes of official military and civilian travel are carried, are under heavy economic pressure. This is particularly true on the principal transatlantic and transpacific routes. In the Atlantic area, jet fuel costs in the current calendar quarter are 270 percent of the price paid per gallon as recently as the second quarter of 1973. (36 cents vs. 13 cents.) In the Pacific, the situation is nearly as bad, fuel costs being 215 percent of the level in the second quarter of last year. (28 cents vs. 13 cents.) It is estimated that the carriers' transatlantic revenues must increase by 21 percent overall just to keep even with the fuel cost increases sustained so far. In the Pacific, the needed overall revenue increase is 13 percent. Moreover, there is absolutely no basis to assume that fuel prices have hit their peak and that there will be no further rises. Appendix A, attached shows the fuel cost increases in the various areas of the world.

There should be no impression that the carriers can simply absorb these cost increases out of current earnings. They cannot. Last year the U.S. flag carriers operating international services realized only a 4.8 percent return on \$2.3 billion of invested capital, far below the standard of 12 percent which we have found to be required if the carriers

are to maintain their services in the long term. In 1973, they did about \$2.5 billion worth of business and realized a net profit of only \$25 million.

The carriers are, of course, attempting to increase their fares and rates to recover as much as they can of the higher costs of jet fuel. Their ability to do so is not unlimited, because large price increases will discourage air travel to the point of being self-defeating. Neither are unlimited service reductions the easy answer. Quite apart from the detriment to the public from sweeping schedule reductions, carriers cannot reduce expenses proportionately, at least in the short term. We would add that both Pan American and TWA have stated publicly that some form of Federal subsidy may be necessary to sustain international scheduled services deemed to be in the public interest in the face of the very large increases in the cost of jet fuel.

The loss of revenues from scheduled services inherent in the charter plan would compound the difficulty of maintaining a viable scheduled service in this difficult period. These revenue losses cannot be offset by increasing the fares paid by other travelers. As we have noted, the fare increases avenue is already being pursued to the maximum in an effort to recover higher costs of fuel and further fare increases may well become self-defeating. Moreover, the U.S. carriers cannot raise their fares unilaterally in the competitive environment in which they operate. You may be sure that the foreign carriers serving these routes will not readily accommodate our airlines by agreeing to raise fares to offset the loss of revenues inherent in the charter plan.

The loss of scheduled traffic to charter service will place the U.S. carriers on the horns of a dilemma. Should they endeavor to reduce scheduled service to reflect the smaller traffic volumes? Unless they balance off the larger charter operation required for the combined military and civil agency traffic, with some reduction in scheduled services, duplicative operations will be performed at the expense of already extremely scarce jet fuel. But schedule reductions are not a simple matter

in most international markets. The carriers are asserting they have cut schedules to minimum levels. Service reductions can quickly reach the point of effective withdrawal from a market. The problem is compounded by the existence of numerous flag carriers on many international routes. U.S. flag carriers and some foreign carriers have reduced service in recent weeks both by unilateral action and by agreement among them. The purpose, of course, was to accommodate their operations to reduced supplies of fuel. It is questionable whether further reductions are feasible under all circumstances.

It is not clear that the cost implications of the proposal have been fully explored. For one thing, it is likely that the minimum rates set by the Civil Aeronautics Board for military charter services would have to be raised. Present rates reflect the cost savings inherent in the present operation which involves flying between military bases in many instances, where DOD performs the necessary ground services and where the carriers are able to purchase military fuel at prices well below commercial levels. It is our understanding that the proposed charter service would operate to commercial airports as well as military bases. It seems likely that such operation would entail somewhat higher cost to the carriers which would have to be reflected in the charter rate. Incidentally, we would add that the handling of additional traffic by DOD would also entail some additional cost which should be offset against the potential savings in this program.

In this same vein, the scheduled carriers now publish reduced fares between the U.S. and many foreign points for travel by Department of Defense personnel. These special fares are known as "Category Z" fares. However, the scheduled carriers may not be able to maintain these fares for such military traffic as may need to continue to use scheduled services. The loss of revenues because of the shift from scheduled to charter services may force the carriers to either raise or cancel the "Category Z" fares. Such traffic would then have to move at higher fares.

It should also be noted that the proposed charter service would service a small number of points and it would be necessary for persons traveling to other points to use scheduled services for a portion of their trip. Fares for intra-European or intra-Asian travel are usually quite high, whether the service is performed by the U.S. or foreign carriers. These relatively high costs would tend to offset the savings otherwise realized in the charter service. Moreover, we would expect that under the charter arrangement fairly significant volumes of official government traffic would be diverted to foreign airlines for transportation from the overseas "charter terminal" to the ultimate destination. This will stem from the much greater level of foreign carrier service in those markets as compared with U.S. flag carrier services and, in some situations, from restrictions in our bilateral agreements. Such diversion would adversely affect the U.S. balance of payments.

The Civil Aeronautics Board cannot quantify all of these factors at this time. We simply do not have sufficient data or information to do it, but we do believe most strongly that it should be done before a final judgment is made with respect to this proposal.

The Board, of course, understands and fully supports all reasonable measures to economize on governmental expenditures. Our concern is that implementation now may prove very costly to a valuable national asset, our scheduled air transportation system. We would urge that all the ramifications of this proposed plan be very carefully considered.

Mr. Chairman, as you can appreciate, questions concerning the legality and effect upon the public interest of the Government charter proposal may well come before the Board for decision in the context of adjudicatory or rulemaking proceedings. While no such questions are pending now, this possibility does limit in some respects the scope of my comments here. With this consideration in mind, I will be glad to respond to your questions.

Jet Fuel Price Increase
International Air Services
First Quarter 1974 over Second Quarter 1973

	Fuel Prices 1)			Recovery of Price Increase	
	Base Price 2) First Quarter	Estimated Price 3) Last Quarter	Percentage Increase	Required Revenue Increase	'Relation- ship' 4)
<u>Passenger Area</u>					
North-South America	14.6	32.3	121	15	1.2
North-Central America	13.9	29.9	115	12	1.1
North Atlantic	13.3	36.1	171	21	1.2
Mid Atlantic	14.4	36.1	151	18	1.2
South Atlantic	15.9	38.2	140	19	1.3
Europe-Northern Africa	18.9	39.9	111	13	1.2
Europe-Southern Africa	17.7	41.0	132	20	1.5
Europe-Middle East	16.0	34.3	114	14	1.2
Local Europe	13.8	37.1	169	14	0.8
Europe-Far East/ Australia	14.8	35.9	143	17	1.2
Local Far East/South West Pacific	13.0	26.3	102	10	1.0
North and Mid Pacific	13.2	28.4	115	13	1.1
South Pacific	14.1	32.0	127	14	1.1
<u>Cargo Areas</u>					
North Atlantic	13.3	34.4	159	20	1.3
Europe-Northern Africa	24.9	56.2	125	24	1.8
Europe-Southern Africa	25.2	46.9	86	18	2.1
Europe-Middle East	13.6	27.2	100	14	1.5
Local Europe	13.9	36.2	160	13	0.8
Europe-Far East	15.2	38.6	154	31	1.8
North and Mid Pacific	11.5	43.9	282	42	1.5

1) US cents per US gallon

2) The average of April-June 1973 actual fuel prices

3) The average of January to March 1974 estimated fuel prices

4) Required percentage revenue increase for each 10% increase in fuel prices over the first quarter base price

INTRODUCTION OF ASSOCIATES

Mr. TIMM. I do want to introduce on my left, Mr. Al Stout the Deputy Director of our Bureau of Economics and my legal assistant, Thomas Heye.

I am going to summarize it as quickly as I can. A statement has been inserted for the record with a couple of extra statements. Actually, many of the people including the chairman have expressed some of the same concerns that we did and some of the questions from the committee.

I would like to ask that GSA furnish the CAB with the same backup data that the Department of Defense furnished them. We have our own computers and some data they may not have and it would be most helpful if we were included in any working of this so that we could properly evaluate the impact on the carriers.

I might also at this time correct an earlier statement that the Civil Aeronautics Board had been asked about this matter and had furnished data. We, as a matter of fact, have never been solicited for our views other than how many people as an agency we might provide for this new idea. We wanted to make that correction.

I think it is an understatement to say that in the sum the Board is very much concerned with the potential adverse economic effect upon the U.S. international scheduled air carriers.

You have in your questioning talked about the impact on fuel. We have attached an appendix A which dramatizes the fuel costs of the various areas of the world.

FEDERAL SUBSIDY

I would like also to comment on that question that has come up occasionally here today on the possibility of a Federal subsidy to sustain international scheduled services. That is an issue that is before us at least in the discussion stage and we do see this as compounding a problem that would cause us to consider that much more or more seriously than we are now, but it would certainly have a more immediate impact on it.

The fare increases have seemed to be a partial solution, have been coming along with regularity through the structure. There have been two in the last several months reflecting fuel costs. There is a time as all of us know when fare increases themselves become self-defeating in the matter of increasing revenue.

One of the things that seems clear to us is that the cost implications of this proposal have perhaps not been fully explored. We think that until that is done we are just going to have to guess that maybe some of the rates, there might be a triggering effect on some of the rates if this were extended.

We also might note a very practical thing, that the proposed charter service would service a small number of points and at that stage as has been brought out you may have to have our people then getting on a foreign flag airline at extremely high fares because the fares intra-Europe and intra-Asia, are usually extremely high compared to our

standards in this country. These relatively high costs might tend to offset the savings otherwise realized in this charter service.

We cannot quantify all of these factors at this time because we have not been supplied any data or information to do it, but we do think that this ought to be one of the real strong parts of any submission. I note that GSA said that they are going to do this. We just hope to be included.

I conclude by saying that there are certainly going to be raised at some points some questions of legality and the effect on the public interest, both of these things may well come before us in our quasi-judicial position in a rulemaking or a judiciary proceeding. So, I am a bit limited to what I might project into the future.

Thank you.

Senator BELLMON. Commissioner, is there any objection to raising a few questions? I think it might deal with your future hearings. If I ask a question you feel you shouldn't answer, I hope you will say so.

Are current CAB regulations and the correlary exemption orders permitting air carriers to transport property and persons for the DOD at minimum rates and fare prescribed by the Board expressed in terms of military traffic or military transportation?

Mr. HEYE. Part 288 of the Board's regulations provide for military charter transportation and part 207 and 208 deal with the single entity charter provisions covering the nonmilitary.

Senator BELLMON. Then is there a question whether civilian agency travelers could be lawfully transported under Military Airlift Command contracts made with international air carriers pursuant to Board orders and regulations unless the Board was willing to include this class of travelers at a minimum rate order?

Mr. HEYE. That question has been raised. Yes.

Senator BELLMON. Do you have it resolved?

Mr. HEYE. Some lawyers say yes, some lawyers say no, and it has not been resolved at this point.

Senator BELLMON. What do you say?

Mr. HEYE. I think that with a slight modification of part 288 that that question could be cleared up. It would be possible to modify it, if that is necessary.

ADDITIONAL 5.1 PERCENT FOR FUEL COSTS

Senator BELLMON. Did the CAB recently order the Military Airlift Command to pay U.S. International Airlines an additional 5.1 percent for overseas contracts to cover increased fuel costs?

Mr. TIMM. Yes, sir. For fuel costs. Mr. Stout will comment on that. It falls into his direct responsibility.

Mr. STOUT. Yes, Senator. The Board did exactly that and as Chairman Timm says it was related to recent sharp increases in the cost of commercial fuel.

Senator BELLMON. What amount of revenues is this 5.1-percent increase expected to produce for the airlines? Do you happen to know?

Mr. STOUT. I don't know offhand. I will look at the document the Board issued. That may have it.

Senator BELLMON. Would it be more or less?

Mr. STOUT. It would be on the order of \$7 million.

Senator BELLMON. Is that more or less than the proposed loss of revenue through this charter operation?

Mr. STOUT. There have been a number of numbers mentioned, \$20 million, \$30 million, \$6 million. We simply don't know what the loss of revenue result would be and accordingly really can't answer your question intelligently, Senator.

Senator BELLMON. You say the CAB has not been consulted?

Mr. TIMM. No, sir.

Senator BELLMON. Is it in order that you should be consulted?

Mr. TIMM. I would think that, a matter not pending before us, it would certainly be a good idea to go to the one place in Government where there is the storehouse of facts and a pretty complete data base at least on the revenues and costs of the international carriers.

Senator BELLMON. If this charter airline was set up and if the loss in revenues was in the \$20 to \$30 million area, I have no idea what the reasonable expectation is, what would this do to the rate structure of the airlines? Would this cause the CAB to have to review their fare situation?

RATES SET BY INTERNATIONAL RATEMARKING ASSOCIATION

Mr. TIMM. We don't, Senator, set international rates. Those are done by using the International Ratemarking Association, but the CAB has to pass on those. I think if the magnitude of the number you suggested, and that has been kicked around here, were to be realized, it would be well beyond an immediate rate increase that would be possible. I have indicated that although the science is imprecise elasticity does enter into the rate picture at some stage.

Senator BELLMON. Let me read you an excerpt from section 102 of your declaration of policy. You say in paragraph C, the promotion of adequate, economical, and efficient service by air carriers at reasonable charges without unjust discrimination, undue preferences or advantages or unfair or destructive competitive price practices is one of your responsibilities.

Would this more or less make it necessary for you to get into a situation of this kind? Do you feel this would affect the charges and the adequate economical service that these carriers might provide? In other words, I am trying to find out if you feel you are required to get into this or is this something you would just do as sort of an unofficial act?

Mr. TIMM. No. I see a responsibility for the Civil Aeronautics Board to be required to analyze this and evaluate the impact on the international carriers. I think that is exactly what the Congress told us to do.

Senator BELLMON. Perhaps before the Congress should go into hearings or delve into the matter further we should ask the GSA to clear the matter with the CAB. Would this be a recommended course of action?

Mr. TIMM. We would certainly like to have a look at the figures that they have been using. We would like to have an opportunity to give our kind of analysis which we do regularly to the same figures that they used. I guess that would be the first step in a total evaluation from our point of view.

Senator BELLMON. Do you have any idea how long such an evaluation would require?

Mr. STOUT. Given the highly uncertain state of relevant facts, so far as we can see, I would think it would take a number of months to develop a good record on facts and give the various parties who have an interest in the matter an opportunity to be heard and present their views. So, I would not visualize this as an overnight proposition.

Senator BELLMON. Does the CAB have a role? We have had testimony to the effect that no negotiations have taken place since last May in the area of extending category Z rates. Does the CAB have a role in conducting or expediting such negotiations?

Mr. STOUT. No, sir. We do not. That would be a matter between, in this case, the GSA and the carriers, and the next stage would be a submission to us for our evaluation.

Senator BELLMON. If such an extension of category Z was published by GSA would CAB then get into the negotiations?

Mr. STOUT. Yes. I think maybe just a little bit of history on category Z, a brief history, might help.

HISTORY OF CATEGORY Z

The category Z fares are tariff rates published by all of the scheduled U.S. carriers flying between a good many places in the United States and foreign places.

If the GSA on behalf of the Government were to negotiate a new or different or broader category Z rate than presently exists, before that rate could become effective it would have to be filed in tariff form on at least 30-days' notice with the Civil Aeronautics Board.

At that juncture the rate would be up for public scrutiny, persons who felt injured by it would have the opportunity to file a complaint with the Board and the Board would at that juncture review the rate from the standpoint of its consistency with the Federal Aviation Act and decide whether to permit the rate to become effective or whether to institute a formal investigation of it and if the latter to consider whether to suspend the effectiveness of the rate pending that investigation.

That is basically the statutory framework that all rates and fares in air transportation are established under.

Senator BELLMON. Does there seem to be anything extraordinary about the fact that there are two rate structures that apply to Federal employees depending upon whether they are Department of Defense employees or whether they are in other agencies of Government? Does this seem extraordinary?

Mr. TIMM. It seems compatible to us because a part of our charge also in the law is a very clear statement by the Congress of our responsibility in the matter of national defense. So we would find, I believe, that in our past deliberations it is sorted out in our minds that this fits into that phase in our charge.

Senator BELLMON. If the Board were to make DOD rates available to other agencies of the Government under the same terms that are in part 288 of the Board's economic regulations now, what obligations would the airlines have to provide service at such rate, if any?

Mr. STOUT. I don't believe we could do it in the first place. We have no power to prescribe a rate in foreign air transportation and that is what is involved here.

Senator BELLMON. Gentlemen, there is a vote on. I believe before we go further I should say I have no further questions. If you have information you would like to have inserted in the record, if you will make it available, we will be glad to include it.

Do you have further testimony you would like to give?

PREPARED STATEMENT

Mr. TIMM. I think it would be important if we were to develop a statement on the whole subject of category Z rates for the committee, we would like to furnish you a paper on that.

Senator BELLMON. The statement will be received and included as a part of the record.

(The statement follows:)

STATEMENT OF ALFRED R. STOUT

It is the CAB's understanding that the Committee wishes the CAB to describe how Category A and Z rates are developed and how the Board assures that these rates are fair and equitable. Since Category A and Z services represent only a small part of the total transportation services performed by the civil air carriers for the Department of Defense, and by way of background, I would like to begin my testimony with a brief summary of those services and how the CAB fits into the process.

During the past dozen years, the Department of Defense, through the Military Airlift Command, has entered into contracts, usually annual, with numerous civil air carriers, both certificated route carriers and supplemental carriers, for the transportation of DOD personnel and cargo between points in the U.S. and overseas points. Some of this transportation has been of passengers in full planeload quantities, i.e., in charters. Some of it has involved charter loads of military cargo. Other contracts have specified that the carrier would move both. Some of the contracts call for roundtrip transportation, others for one-way service. Both the certificated route carriers and the supplemental air carriers have participated in such contracts. The volume of traffic moved as well as the origin and destination points depend, of course, on military requirements. During the past 5-6 years much of this traffic has been carried to and from southeast Asian points. The rates charged for all these services are set forth in the contracts with DOD. More on these rates in a moment.

In addition, the certificated route carriers have entered into contracts with DOD to carry military passengers and cargo on their scheduled international flights along with "regular" passengers,

mail, and cargo. It is this traffic, and similar traffic not covered by the contract, to which the Category A and Z rates apply, respectively. Here again, the Category A contracts specify the volumes of traffic to be carried, the places it is to be carried to, and the rates to be charged. Carrier tariffs set forth the Category Z rates in various markets.

The CAB's role in this process is twofold. First, the CAB issues the necessary operating authority to the air carriers. This is done in a number of ways, but suffice it to say, the civil air carriers have virtually unlimited authority to perform military charter services. And, of course, the certificated route carriers may carry military passengers and cargo on their scheduled flights pursuant to their certificates of public convenience and necessity.

The second aspect of the CAB's role relates to the rates charged for these military transportation services. In this area, the CAB periodically undertakes extensive proceedings to review the rates charged in the light of current facts and circumstances. At the conclusion of each such proceeding, the CAB publishes a regulation which sets forth the minimum rates which may be charged for the various types of services rendered during a stated period. Such rates are almost always incorporated in the DOD-carrier contracts, both for the passenger and cargo charters and for the Category A passenger and charter services, as well as in the carriers' Category Z tariffs.

The process which I have described was developed by the DOD and CAB to assure the availability of civil airlift to meet military needs at reasonable rates, to place the air carriers' operations of these services on a sound economic basis, to provide for modernization

of aircraft fleets, and to create a reserve air fleet for emergency situations. The periodic rate review proceedings conducted by the CAB are to assure that the contract rates are fair to both government and carriers. During the past 10 years, DOD has been able to obtain a very large volume of safe and reliable service, in the most modern and efficient aircraft, at steadily declining rates reflecting the use of the more efficient aircraft.

The first such rate review was in 1960 and culminated in establishing minimum rates for passenger charters. The Category A rates were initially agreed between the principal U.S. international air carriers and the DOD. The CAB reviewed and approved that agreement. Subsequent rate review proceedings have involved both the charter and Category A rates. Our most recent rate review is currently in process. On May 31st, the Board issued a notice of ^{1/} rule making proposing various modifications, both up and down, to the pre-existing minimum rates. We are now awaiting comments on our proposed rate changes from the carriers and DOD. When ultimately made final, the new rates will apply from July 1, 1971, forward.

In reviewing and setting these minimum rates, the CAB adheres closely to a cost of service standard. That is, these rates are set with principal reference to the performing carriers' operating expenses, incurred under economical and efficient management, properly allocable to these services plus a fair return on the capital devoted to these services. Naturally, these costs reflect the nature and characteristics of the transportation services performed for the military, and the individual rates are structured so as to give appropriate weight to differences in cost and value among the several different types of service provided.

^{1/} Economic Draft Release, EDR-205A/Policy Statement Draft
Release PSDR-32A, 37 F.R. 11344.

Thus, the first step in each rate proceeding is to develop for each carrier the reasonable costs of service, including profit, of performing the basic roundtrip passenger and cargo charter services. Each air carrier is requested to furnish extensive data with respect to its then current military contract services, including operating costs by category of expense, the number and value of aircraft assigned to DOD contract services, and such operational data as miles and hours flown. Each carrier also provides a forecast of future expense levels, investments, and the like. These materials are likewise furnished to DOD. After careful review, DOD furnishes the CAB its criticisms of the carrier data and its views as to necessary rate adjustments together with supporting information.

All these reports are thoroughly studied, first by the CAB's staff and then by the Board itself. Each carrier's forecast costs are reviewed both against its own actual experience as well as the experienced costs of other carriers. Costs which appear to be excessive are disallowed. Forecast cost increases which are merely anticipatory in character are disallowed. Claimed accruals of aircraft depreciation reserves are adjusted to comply with standard depreciation policies established by the CAB for rate-making purposes. Other reserve accruals are scrutinized as to propriety and amount. The carriers' methods of allocating expenses common to their commercial operations and their military services, ground servicing of the aircraft at common stations, for example, are reviewed and the necessary corrections are made. The carriers' proposed assignment of aircraft to the military services is reviewed in light of anticipated and reasonable levels of aircraft utilization. In some instances, the carriers are able to achieve higher levels of aircraft utilization in these military services than in commercial services presumably

because the military, in establishing its schedule patterns, is less subject to constraints on convenience of departure and arrival times than are the carriers in their commercial services.

Other costs claimed to be peculiar to these operations are reviewed and verified. For example, DOD personnel perform some of the aircraft and traffic servicing functions for the carriers at military bases thus relieving the carriers to that extent of that type of cost. Similarly, carriers may purchase aircraft fuel at some military bases at lower prices than from normal commercial sources. We are careful to assure that the rates reflect such cost savings peculiar to these military services. A profit element is allowed on the basis of a rate of return standard which is reduced below the CAB's normal rate of return standard to reflect the lesser risks, in the economic sense, of these military services.

This process ultimately yields a substantial body of cost data and affords the CAB a basis to establish minimum rates for plane-load (charter) passenger and cargo services performed on a roundtrip basis. The CAB reviews each carrier's costs as well as the average costs for the group, weighted by relative participation in the military transportation services. The exact rate is usually quite close to the weighted average cost level. Minimum rates for one-way charter services are based upon the roundtrip rates with adjustments to reflect the carriers' ability to utilize in commercial service the ferry legs of the one-way military flights. To the extent that carriers must unavoidably ferry aircraft as a consequence of one-way military charter rates, it is necessary that the one-way rates bear the costs of such ferry flights.

The notice of rule making I referred to earlier goes into this entire process in detail. It is also typical of the process followed in earlier military rate review proceedings. Minimum rates for Category A services, that is, transportation on scheduled as opposed to charter flights, are also derived from this process. Of course, the assignment of costs of service to particular categories of persons or particular shipments of cargo moving with other categories is so imprecise that we do not attempt to do it directly. On the other hand, we have always believed that the one-way charter rate (per passenger or per pound of cargo) should be quite closely related to the corresponding Category A rate, which is also for one-way service. One reason for this is that not all carriers offer both charter services and individually ticketed services on scheduled flights. If the Category A rate is substantially below the one-way charter rate, the carrier performing the latter may be competitively disadvantaged. And the reverse. While these rates have not always been exactly the same over the years, the current notice of rule making proposes to equate them.

In setting the minimum Category A rates, the CAB also takes into account the related terms and conditions of the service. The Category A service differs from regular scheduled service in that each carrier and the DOD work out in advance the number of passengers, for example, to be carried flight by flight. Moreover, the carrier is entitled to payment for seats reserved but not used, subject to certain provisions. The carrier is thus able to use this Category A traffic, in part at least, to fill seats he expects otherwise to be empty and to move this traffic on his "weaker" flights. The carrier is thereby enabled to raise his load factor and reduce operating costs per passenger or passenger mile carried. The CAB

also takes into consideration the probability that the traffic carried would not move on scheduled services at regular rates and, therefore, the Category A rates not only assist in broadening the traffic base over which to spread costs, but do not result in dilution of existing revenues. Historically, Category Z rates have been the same as Category A because the Category Z rates were part of the arrangement under which the military agreed to use the civil air carriers' services in lieu of military aircraft.

The next step in the current rate review proceeding is the submission of comments by the DOD and the carriers with respect to the rates the CAB proposed. The CAB will then review those comments and issue a final decision.

Mr. Chairman, this concludes my statement. I will be glad to try to answer any questions.

SUBCOMMITTEE RECESS

Senator BELLMON. Gentlemen, Thank you, very much.

The committee will stand in recess for approximately 10 minutes at which time we will reconvene.

[Brief recess.]

DEPARTMENTS OF TRANSPORTATION, DEFENSE, AND STATE

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF WALTER SCOTT, ASSOCIATE DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

ACCOMPANIED BY:

DAVID BRAY, DEPUTY ASSOCIATE DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

SAM EASTMAN, DIRECTOR, OFFICE OF POLICY REVIEW, DE-
PARTMENT OF TRANSPORTATION

JOHN PERRY, DEPUTY FOR TRANSPORTATION AND COMMUNI-
CATIONS, ASSISTANT SECRETARY OF THE AIR FORCE

LEAMON R. HUNT, DEPUTY, ASSISTANT SECRETARY FOR OP-
ERATIONS, BUREAU OF ADMINISTRATION, DEPARTMENT OF
STATE

INTRODUCTION OF WITNESSES

Senator BELLMON (presiding). The subcommittee will be in order.

We will now call the witnesses representing the Office of Manage-
ment and Budget, the Department of State, and the Department of
Transportation.

If you could all come to the witness stand we will try to speed things
a long a little.

Would you gentlemen introduce yourselves. Let's start on my left,
your right.

Mr. BRAY. I am David Bray, Office of Management and Budget.

Mr. SCOTT. I am Walter Scott, Associate Director of the Office of
Management and Budget.

Mr. EASTMAN. I am Sam Eastman, Director of the Office of Policy
Review, Department of Transportation.

Mr. PERRY. I am John Perry, Deputy for Transportation and
Communications, Department of the Air Force here on behalf of the
Department of Defense.

Mr. HUNT. I am Leamon Hunt, Deputy Assistant Secretary for
Operations, Department of State.

Senator BELLMON. I will first ask Mr. Bray or Mr. Scott from
OMB to read the brief statement you have prepared.

Mr. SCOTT. Thank you, Mr. Chairman.

AIR SHUTTLE FOR GOVERNMENT TRAVEL

I am happy to have the opportunity to discuss with you a proposed
plan by GSA for an air shuttle to provide international air transporta-
tion for official Government travel. As we understand it, this proposal
would be based on the present Military Airlift Command (MAC)
commercial augmentation which has been used for plane-load trans-

portation of DOD military members and civilian employees from the United States to foreign destinations.

The details of the proposed GSA plan have not yet been communicated to us or other agencies within the executive branch for comment. We understand the current plan differs from the proposal on which GSA requested comments in their August 14 letter to Federal agencies. In addition, the emergence of the energy problem has altered circumstances since last summer. Many of the agencies have not had the opportunity to fully evaluate the new proposal under now existing conditions.

Specific concerns have been raised by DOT and other agencies. Before deciding on whether or not to implement the plan, the Administration wants to carefully evaluate this proposal.

Evaluation of this complex proposal will require sufficient time to analyze the economic and policy implications of this type of transportation arrangement. Significant questions concerning national transportation policy, energy impact, realistic estimates of savings to the Government, balance-of-payments effects, and potential financial impact on U.S.-flag carriers, should be answered before action is taken.

More time is needed to determine the full ramifications of the General Services Administration proposal. Therefore the implementation of the plan will be held in abeyance and a thorough analysis completed before any decision is made. It is especially important for the Department of Transportation and the Department of State to have time to focus on the larger questions concerning overall transportation policy in addition to the questions of administrative and economic benefits of the proposed program.

I would be happy to respond to any specific questions you may have at this point.

Senator BELLMON. You mentioned you need more time. Do you have any idea as to how much time you are thinking about?

Mr. SCOTT. It seems to me in the terms of the basic policy premises here that probably we can make a decision within the executive branch whether it should be pursued or not pursued within the next 3 to 4 weeks.

Senator BELLMON. Thank you.

Mr. Eastman, do you have a statement you would like to make?

If you would care to do so, you may summarize it and put the full statement in the record or handle it any way you like.

STATEMENT OF SAM EASTMAN

Mr. EASTMAN. Thank you, Senator.

The statement is quite short. I can probably read it faster than I can summarize it.

Let me say I welcome the opportunity to be here today to discuss the Department of Transportation's views on the General Services Administration's proposal for an air charter shuttle to provide international air transportation to Federal civilian agency officials.

The Department has consistently supported the development of charter air service because it is an energy-efficient, low-cost form of air service with wide appeal.

In addition, we, of course, want to meet our own official travel requirements in the most economical manner possible. We are, how-

ever, concerned about several aspects of the GSA proposal. It is not clear that the General Services Administration proposal is charter air service in the conventional sense; some aspects of it are more like the service provided by scheduled carriers.

In addition, there is the issue of the rates to be charged for the service. If the Government were to begin a charter operation such as General Services Administration proposes, its rates should be no lower than otherwise charged by civil air carriers for charter service, so that the fares would not be discriminatory. This is in keeping with the Department's position and the Civil Aeronautics Board's findings in the just concluded domestic passenger fare investigation (phase 5, "Discount Fares").

The fares proposed are, however, lower than those for typical charter service and the information that has been made available to us on the General Services Administration plan does not show that the lower fare is clearly cost justified. The proposal, in fact, appears to be a substitute for the category Z military tariff which has long been a discriminating discount utilizing passengers on scheduled flights.

The Department has opposed the extension of this military tariff to include all official Government travelers since this would widen the discrimination. The national defense rationale does not apply here.

Further, as you know, our international carriers have been coping with fuel shortages and increased fuel prices. This has presented additional complexities for the carriers in determining a cost-justified fare.

The General Services Administration charter could have an undesirable effect on both scheduled and charter services now offered by U.S.-flag carriers across the North Atlantic. It could result in an undesirable diversion of traffic from scheduled service. As you know, Pan American has had a poor earnings record over the past several years and TWA has just reported more than a \$40-million net loss for the first 2 months of this year.

The General Services Administration charter could also have an undesirable effect on charter service because the fare is too low. The statement of international air transportation policy signed by the President on June 22, 1970, clearly states that:

* * * in any instances where a substantial impairment of scheduled services appears likely * * *, * * * where there is likely to be a substantial impairment of charter services, it would be appropriate, where necessary to avoid prejudice to the public interest, to take steps to prevent such impairment.

Finally, the plan might adversely affect U.S. balance of payments in that travelers to overseas points other than London and Frankfurt would have to utilize foreign-flag connecting service. Industry sources estimate that 49.1 percent of non-Department of Defense traffic and 20 percent of the Department of Defense traffic is to off-line points, all of which are served by direct U.S.-flag carrier service. No evaluation was presented in the proposal on this particular point.

In summary, because the GSA charter fare appears to be discriminatory, because of its potential threat to regular scheduled and charter services, and because of its energy and balance-of-payments implications, the Department of Transportation does not favor implementation of the plan as it has been outlined. Of course, the Department will continue to study this and any additional proposals that General Services Administration may advance.

Mr. Chairman, that concludes my prepared testimony. Now I will be happy to answer any questions the committee may have.

In this connection, I would like to request, as Chairman Timm did, that the General Services Administration furnish the Department with the appropriate materials that they obtained from the Department of Defense.

Senator BELLMON. For what purpose?

Mr. EASTMAN. For the purpose of our analysis.

Senator BELLMON. How long would Department of Transportation's analysis likely require?

Mr. EASTMAN. I think we would probably try to go along with Mr. Scott's 3 to 4 weeks.

ARTICLE FROM THE WASHINGTON POST DATED MARCH 17, 1974

Senator BELLMON. Mr. Eastman, thank you very much.

We have an article from the Washington Post of March 17, 1974, quoting Transportation Secretary Claude S. Brinegar in connection with the subsidy issue. Without objection it will be made part of the record at this point.

[The document follows:]

[From the Washington Post, Mar. 17, 1974]

OPPOSING AN AIRLINE SUBSIDY

Transportation Secretary Claude S. Brinegar last week opposed a federal subsidy that international airlines—principally Pan American World Airways and Trans World Airlines—contend might be necessary to keep their companies solvent in an era of soaring fuel costs.

"We aren't automatically protectors of public companies," Brinegar said in an interview. "It's always easy to start a subsidy and hard to stop . . . but we are studying the rude implications raised by Pan Am . . . if the transportation system is periled, we might have to take some steps."

For instance, he noted, Pan Am and TWA compete on some routes—a situation taxpayers' money could not be expected to support. It may become necessary for the companies to drop their competitive routes and get out of business in some markets altogether—leaving the traffic to foreign airlines.

"Pan Am has a difficult path," Brinegar said, "it must compete with government-owned lines." It may be possible, he added, to get the domestic airline companies to help international carriers more by feeding traffic to them and making joint arrangements that would favor the U.S. carriers.

But a subsidy, he emphasized, has to be put out of "immediate" consideration. The maritime industry, he noted, might rightfully request subsidies if the airlines got federal aid, and where would it stop?

"Meanwhile, Pan Am must find the way to stay alive," the Secretary said. While the administration is opposed to subsidy, there appears to be more support for the idea on Capitol Hill. Civil Aeronautics Board chairman Robert D. Timm recently testified that his agency supports a subsidy, if necessary, because of record fuel prices.—WILLIAM H. JONES.

PREPARED STATEMENT OF JOHN PERRY

Senator BELLMON. I will ask Mr. Perry representing the Department of Defense for any statement he may have.

Mr. Perry?

Mr. PERRY. Senator, my statement is available to the committee and with your permission I will simply submit it for the record.

Senator BELLMON. The statement will be made a part of the record without objection.

[The statement follows:]

Chairman Montoya, Members of the Treasury, Postal Service and General Government Appropriations Subcommittee:

Your letter of March 5th to the Secretary of Defense asked for the views of the Department of Defense as to a proposal of the General Services Administration to establish an international air shuttle system for Government employees. The Department of Defense is happy to provide any information as to its airlift procurement practices that will assist you, and it is a personal pleasure for me to appear before this Subcommittee today for that purpose.

I would like to begin, if I may, with a brief description of how the Department of Defense currently meets its own international requirements for commercial air transportation. The Secretary of the Air Force is the Department of Defense Single Manager for Airlift. The Military Airlift Command, or MAC, is his executive agency to meet the major airlift needs of DOD. MAC has about 700 "channels," or routes, worldwide, over which most of DOD's international passenger and cargo traffic moves. That DOD passenger traffic -- in which this Subcommittee is particularly interested today -- totals about a million and a quarter passengers in Fiscal Year 1974 -- half of them outbound from the U.S. and half returning to the U.S. (with a few traveling between overseas points). Over 90% of these DOD travelers are transported by U.S. air carriers operating under annual MAC contracts. If MAC buys space on a regularly scheduled commercial flight we call that Category A service. If MAC charters an entire aircraft we call that Category B service. The rates paid by MAC are rates determined by the Civil Aeronautics Board for the entire industry. Those C.A.B. rates are fully compensatory for the air transport industry and, indeed, are revised periodically by the C.A.B. with the objective

of providing a 10½ percent average return on investment for the industry from its MAC contract business.

When DOD needs to move some of its people over a route which does not match one of the MAC channels the requiring agency can ask MAC to apply an entire airplane. We call that a Special Assignment Airlift Mission or SAAM. The requiring agency pays for the entire airplane even if they don't fill it. Alternatively, if the requiring DOD agency needs to move only a few people, or a small amount of cargo over a routing not served by MAC, the requiring agency buys service itself from the commercial airlines.

In some cases DOD needs service, over a routing which is not a MAC route, in quantities which, over a period of time would include several SAAM flights, or which might justify establishing a MAC "channel"--perhaps using a chartered "mixed configuration" airplane carrying both passengers and cargo. In such cases a U.S. air carrier providing scheduled service over the route in question may be willing to provide service to DOD at a low seat-mile rate, because the alternative faced by the scheduled carrier is loss of the business entirely to a military aircraft or a chartered commercial aircraft. When MAC believes that for a certain routing the volume of DOD business is big enough to make these alternatives worth considering, MAC points that fact out to the scheduled carrier for the route. MAC urges the carrier to make available the same Civil Aeronautics Board established minimum fair and reasonable rate that MAC itself receives when it buys Category A service for one of the MAC channels. When the scheduled carrier agrees to make the Category A rate available to all DOD agencies, we call the result Category Z.

Thus Categories A and Z both relate to DOD service using scheduled commercial flights. The rates per seat-mile are the

same. The difference is that Category A is for MAC channels, with the service purchased by MAC, while Category Z is for routes which are not MAC channels, with the service purchased by whatever DOD agency the traveler works for.

With these definitions in mind, let me now turn to the events which led to DOD's present airlift procurement practices. During the late 1950's and up until FY 1961, MAC purchased commercial airlift by competitive bidding. The sole objective of this procurement practice was to obtain currently required air transportation service at the lowest price the market would produce. Under this method of procurement, any firm authorized to operate aircraft by the Federal Aviation Administration (FAA) could bid for the DOD business. This included firms which were not common carriers, and thus not subject to regulation by the Civil Aeronautics Board. These firms could bid against the CAB regulated air carriers, and so the CAB was compelled to give the regulated air carriers blanket or unconditional exemptions to bid on military business so that they could compete effectively with the unregulated firms. Consequently, the Board had no effective control over the prices paid for DOD airlift.

As a result, in periods of low DOD demands as related to industry capacity, prices spiraled downward. In fact, instances of destructive bidding occurred when the carriers submitted bids that were below actual cost. On the other hand, when DOD needs for commercial airlift increased substantially, especially on short notice, bid prices would rise dramatically.

The quality of commercial service provided MAC in this environment was, of course, affected. A carrier operating at

unregulated competitive bid prices, often below cost, was forced to provide only the absolute minimum service, generally using older aircraft which were no longer attractive for commercial business in order to minimize his losses. Such destructive competition, and the complete exclusion from MAC business of carriers which were underbid, provided little incentive to the industry to modernize their fleets with aircraft adapted to DOD needs.

During the late 1950's the Department of Defense and the Congress both gave extensive consideration to the harmful impact of these procurement practices and to the increasingly urgent need for new, effective cargo aircraft to enhance the mobility and effectiveness of our national defense forces. Commercial airlift procurement practices were revised to encourage the development of modern civil air cargo capability which would be available to augment the military airlift force. One element of this revision was to relate DOD's peacetime airlift procurement to the needs of the national defense for increased airlift capacity in emergencies. To that end we adopted a policy of procuring airlift in peacetime only from U. S. air carriers which also participate in the Civil Reserve Air Fleet program.

As a result of this DOD course of action, the CAB for the first time established minimum fair and reasonable rates for DOD commercial airlift services. Over the years, procedures for periodic review of these minimum rates have been established and implemented by the DOD, the CAB, and the industry. Under the present system all parties have the opportunity to present pertinent cost data and recommendations to the CAB prior to the Board's final decision as to what the fair and reasonable minimum rates should be for efficient carriers to perform military services profitably.

The CAB in our view has performed this demanding task equitably for both the Government and the airline industry.

The round-trip Category B, or charter, rate is the most economical commercial passenger rate available to the DOD. In chartering an aircraft the DOD, in effect, buys all the seats. Thus, the carrier obtains a guaranteed revenue regardless of the number of seats utilized. With a round-trip charter, the carrier has this revenue guarantee in both directions and thus need not include the cost of an empty return flight as in the case of a one-way charter. The DOD moves the preponderance of its international traffic on round-trip Category B flights.

In many instances U.S. air carriers operate scheduled commercial flights over routes closely paralleling MAC channels. The possibility of moving some of the DOD traffic in these scheduled commercial flights instead of charter flights was attractive, particularly in cases where DOD temporarily had more people going in one direction over a route than in the other direction so that a chartered aircraft would be partly or entirely empty in one direction.

The rates set by the C.A.B. for DOD services are significantly lower than commercial rates for a number of reasons. The biggest difference is that when DOD charters an aircraft it pays for every seat, while in scheduled commercial service the aircraft is often half empty. In addition, the airlines advertising programs, arrangements with travel agencies, and the like, are not applicable to services for DOD. In view of all of these factors, and the fact that charter service is a real alternative for DOD over those routes where substantial numbers of DOD travelers use scheduled commercial flights, the Category A and Category Z rates established

by the CAB for DOD have consistently been at or near the one-way charter rate.

Let me give you an example to emphasize what these rate differences are. The seat for a DOD traveler from McGuire AFB, New Jersey to Frankfurt, Germany on an airplane which we charter for a round trip costs us about \$82. For another \$82 we use the same seat to bring another traveler back to McGuire. That same seat from McGuire to Frankfurt would cost us about \$150 if we charter the airplane on a one-way basis -- and then we would not have the use of the airplane at all on its return flight to the United States. Category A service would cost this same \$150, reduced slightly because New York is a little nearer to Frankfurt than is McGuire. The cost of commercial air travel from New York to Frankfurt is currently \$275 for economy class one-way service.

Since DOD does not buy the air services for other Government agencies, none of the foregoing factors were relevant to their air transportation requirements. While DOD had no basis for participating in the activity, it is our understanding that the Department of State, which, aside from DOD, is the largest Government user of international air services, has on several occasions explored with the airlines and the CAB whether lower rates might be made available. We understand that GSA has recently made similar efforts. DOD is simply not able to speak to the details of those efforts.

In recent years we have discussed the factors influencing air fares with representatives of the Department of State, the General Services Administration and the Office of Management and Budget. While all of the Government agencies concerned recognize that the Category A and Z rates, where available, are lower than the standard economy class fares, they also recognize that extensive

use of such rates, even if they were made available to the civil agencies, would involve many indirect routings with changes from one airline to another along the route, and would reduce the flexibility of scheduling. These factors would tend to counterbalance the transportation savings.

In addition DOD has expressed the opinion to these civil agencies that the scheduled airlines cannot be expected to agree to, or even to seriously negotiate for, reduced rates for civil agencies unless those agencies are prepared to utilize charter service if the negotiations fail. Since charter service, for the number of international travelers these agencies have, would impose even more scheduling limits and indirect routings, DOD is just not in a position, Mr. Chairman, to estimate with any reliability whether the net effect of using charter service extensively would be economically and operationally advantageous for the civil agencies, or disadvantageous.

The Department of Defense has consistently indicated to other Government agencies, and to others interested in the possibility of air charter service, that DOD cannot judge whether charter service would be advantageous for other Government agencies since many cost elements other than direct transportation costs are involved in the movement of Government personnel and their dependents. We have indicated, however, that if other Government agencies determine that the use of air charter service has a sufficient potential advantage to justify further consideration on their part, and request assistance from DOD, we will cooperate with them to the maximum practicable extent consistent with applicable laws and regulations, including considering the possibility of combining their international air transportation requirements with ours if and where appropriate.

The procurement of air services for DOD is accomplished under the statutory authority to negotiate for the establishment of a mobilization base. This is considered essential in order to establish the guidelines and working relationship between the United States Air Transport Industry and the Department of Defense which will be necessary to enable prompt, effective participation by that industry in meeting national defense needs in the event of an emergency. Consequently, while the Department of Defense, as one element of the Executive Branch of the Government, would certainly cooperate fully with other Government agencies in the event that a consolidated air transportation operation were found to be appropriate, we believe that any procurement of air transportation services where DOD traffic is involved should almost certainly be accomplished by DOD itself.

As a result of all of these considerations, Mr. Arthur F. Sampson, the Administrator of GSA wrote to the Secretary of Defense on November 7, 1973, requesting that DOD arrange for and operate air charter service between Washington, D.C. and Europe to accommodate civil agency as well as defense travelers. The DOD response advised Mr. Sampson that the Air Force had been requested to work with his representatives, and representatives of other Federal Departments and Agencies as appropriate, to develop firm traffic requirements for a charter service between Washington and London or Frankfurt. The Air Force was also tasked to develop operating, reservation and payment procedures for such a Government-wide charter service over that route.

In subsequent discussions with GSA and Department of State personnel a tentative understanding has been reached on a route from Dulles airport to McGuire AFB, New Jersey, London, England and Frankfurt, Germany, and return. The service would operate

three times each week. The stop at McGuire AFB would draw on existing DOD charter traffic to assure that the aircraft would be almost fully utilized on the long trans-Atlantic route segment. GSA, on behalf of the non-defense agencies would specify the number of seats needed for each three-month period, on the understanding that the specified number of seats must be paid for whether or not they were used, unless DOD was able to use the unneeded seats for DOD traffic. Conversely, if civil agency requirements proved to exceed the forecast number on any flight, they would be assigned additional seats if available, but would not be entitled to displace DOD travelers.

Reservations for both defense and non-defense travelers would be handled by the MAC Passenger Reservation Agency, and the contract for the entire aircraft would be placed by MAC as a part of its airlift mobilization base program. MAC would send a single bill to GSA for all non-defense agencies, and that bill would be allocated among, and paid by, the civil agencies in such manner as they and GSA might establish.

We have advised GSA that we can start service over the described route in about 60 days after they advise us of the firm requirement for the first FY quarter during which they desire service for the non-defense agencies. We have not received such a statement of firm requirements as yet, and consequently we have not taken any contractual action to provide for the service.

That completes my prepared statement, Mr. Chairman. I will be happy to try to answer any questions the Committee may have.

Thank you.

DEPARTMENT OF DEFENSE POSITION SUMMARY

Mr. PERRY. I would like to read just one paragraph from it which I think summarizes the position of the Department of Defense on this matter. The Department of Defense has consistently indicated to other Government agencies and to others interested in the possibility of air charter service, that DOD cannot judge whether charter service would be advantageous for other Government agencies since many cost elements other than direct transportation costs are involved in the movement of Government personnel and their dependents.

We have indicated, however, that if other Government agencies determine that the use of air charter service has a sufficient potential advantage to justify further consideration on their part and request assistance from DOD, we will cooperate with them to the maximum practical extent consistent with applicable laws and regulations including considering the possibility of combining their international air transportation requirements with ours if and where appropriate.

That, Senator, I believe summarizes still the position of the Department of Defense on this matter.

Senator BELLMON. Mr. Perry, we have a copy of your statement here. On page 11, you say that GSA on behalf of the nondefense agencies would specify the number of seats needed for each 3-month period with the understanding that the specified number of seats must be paid for whether or not they are used unless DOD was able to use the unneeded seats for DOD traffic.

Do you believe it is fair to assume that GSA will let those paid for seats go unused?

Mr. PERRY. The Department of Defense, Senator, as someone remarked earlier today, achieves an average utilization of about 95 percent of the seats on its chartered flights. We would anticipate that the civil agencies would achieve a similar very high percentage utilization of the seats that they ordered on these flights.

Undoubtedly there would be a few seats that would go unused, last minute illnesses, things that are unavoidable that would cause the expected passengers not to appear.

Senator BELLMON. I don't wish to pry too much here, but how does DOD go about achieving such a high load factor? Do you put low priority passengers in some of these seats just to keep them from being empty?

Mr. PERRY. No. The Department of Defense has about a million-and-a-quarter international travelers in this current fiscal year. Over half of those are military personnel on a permanent change of station and their dependents, either moving to a post overseas or returning to the United States.

Those people in particular can be ordered to move from one station to another at a time consistent with the availability of transportation. They generally receive their orders identifying the specific aircraft on which they will travel anywhere from 30 to 60 days before travel-time. It is on that basis of ordering people to match the contracted air capacity that we are able to achieve a very high utilization.

Senator BELLMON. Would this seem to be a likely possibility with civilian passengers if the other agencies were operating a charter?

Mr. PERRY. Senator, I would think it is a likely possibility, but I can't speak with any assurance as to what the other agencies can

achieve. Their own personnel people can answer that question much better than I.

Senator BELLMON. Mr. Perry, thank you, very much.

Now I invite Mr. Hunt representing the Department of State to make any statement you care to make.

Mr. HUNT. Mr. Chairman, I would like to read my statement since it is short.

Senator BELLMON. You may proceed to read it, but a copy of the prepared statement will also be placed in the record at the appropriate place.

STATE DEPARTMENT VIEWS ON SHUTTLE SERVICE

Mr. HUNT. I welcome the opportunity to appear before the subcommittee to present the views of the Department of State regarding the proposed use of an air shuttle service for official Government travelers going to and from selected areas overseas. The air shuttle system is the latest in a series of alternatives that have been explored during recent years by civilian Government agencies seeking to reduce the cost of international air transportation.

Efforts have been made in the past without success to reach an agreement with the regularly scheduled U.S.-flag airlines to provide reduced tariffs similar to the category Z tariffs presently available only to the Department of Defense for the use of official civilian Government agency travelers.

Based on the information that was available in May of 1973, regarding the proposed air shuttle service, the Department of State testified before the House Foreign Operations and Government Information Subcommittee that the type of service described appeared reasonably compatible with our travel requirements, and that if the service became available, the Department would utilize it to the greatest extent practical, subject to limitations of timing, routing, and other considerations.

In the intervening months, other policy considerations have been raised concerning it. The United States is faced with a difficult energy situation that has a direct effect on the U.S. air industry and clearly raises the question of whether it is appropriate to initiate an air shuttle system at this particular time.

In addition, the economic well-being of the U.S. international carriers is the subject of serious concern. In moving from the conceptual to the planning stage of the air shuttle proposal it has become clear that increased use of foreign carriers would occur at connecting points and would have somewhat greater impact on the balance of payments situation than was originally contemplated.

The Department must also bear in mind the United States Government policy with regard to use of excess currency in purchasing tickets for its employees. Thus while the Department of State is firmly in the support of the goal of achieving reduced fares for international travel for Government travelers and achieving economies in travel generally, other policy issues which have emerged during the past year indicate that a reassessment of the concept of the air shuttle system and its operational implications must be undertaken in the overall interest both U.S. Government and U.S. industry.

That completes the statement, Mr. Chairman.

PREPARED STATEMENT

Senator BELLMON. A copy of the prepared statement will be placed in the record at this point.

[The statement follows:]

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to appear before the Subcommittee to present the views of the Department of State regarding the proposed use of an air-shuttle service for official government travelers going to and from selected overseas destinations.

The air-shuttle system is the latest in a series of alternatives that have been explored during recent years by civilian government agencies seeking to reduce the cost of international air transportation. Efforts have been made in the past to reach agreement with the regularly scheduled U.S. flag airlines to provide reduced tariffs, similar to the Category Z tariffs presently available only to the Department of Defense, for the use of official civilian government agency travelers.

As recently as a year ago, the General Services Administration, with the strong support of the House Subcommittee on Foreign Operations and Government Information, acting on behalf of the civilian government agencies, sought to negotiate reduced rates with the airlines for government travel. The airlines did not respond favorably to these initiatives, and thus, the General Services Administration, in conjunction with other interested government agencies, formulated the concept of an air-shuttle service as an alternative effort to reduce travel costs.

Based on information that was available in May 1973 regarding the proposed air-shuttle service, the Department of State testified before the House Foreign Operations and Government Information Subcommittee, Committee on Government Operations, that the type of service described appeared reasonably compatible with our travel requirements, and that if the service became available, the Department would utilize it to the greatest extent practicable, subject to limitations of timing, routing and other considerations.

In the intervening months, as the air-shuttle proposal has taken definite shape, other policy considerations have been raised concerning it. The United States is faced with a difficult energy situation that has a direct effect on the U.S. air industry and clearly raises the question of whether it is appropriate to initiate an air-shuttle system at this particular time.

In addition, the economic well-being of U.S. international air carriers is a subject of serious concern and the operation of the proposed air shuttle could divert a significant portion of revenue away from these carriers.

In moving from the conceptual to the planning stage of the air-shuttle proposal, it has become clear that increased use of foreign carriers would occur at connecting points and would have a somewhat greater impact on the balance-of-payments situation than was originally contemplated. The Department must also bear in mind the stated United States Government policy with regard to the use of excess currency in purchasing tickets for its employees.

Taken together, these factors would appear to add weight to the argument that the value of potential economies in government travel which could be achieved by using the air shuttle could be offset by other overriding economic considerations.

Thus, while the Department of State is firmly in support of the goal of achieving reduced fares for international air travel for government travelers and in achieving economies in travel generally, other policy issues which have emerged during the past year indicate that a reassessment of the concept of the air-shuttle system and its operational implications must be undertaken in the overall interest of both the U.S. Government and U.S. industry.

MEMO REGARDING AIR FARE TO GENEVA

Senator BELLMON. Mr. Hunt, I have before me a memo from Mr. Hugh W. Burrows to Mr. Murray E. Jackson. On the surface this appears to be an error. I would like to resubmit this to you and ask you to have your people review it and see if you haven't made a mistake here. For instance, it shows that the air fare on the charter flight to Geneva on the commercial air fare would be \$372, and the charter would be \$380.

The charter would be higher than commercial, but then on a flight to London it shows the charter as being \$257 and commercial being \$515. There is obviously some discrepancy here.

Mr. HUNT. Mr. Chairman, I became aware of this memo just within the last day or two. It is an internal memorandum, which in no way represents the Department's official position. It is also in error in several respects and somewhat misleading. For example, on the memo dated, February 4, which gives the rates that you refer to, the rate for commercial air fare to Geneva is an off-season, 22-45 day economy excursion rate, which in part explains the apparent discrepancy, that you are interested in and we are interested in, of \$372.

If you take a normal shoulder-season economy airfare, where no special excursion fare is possible, of \$558 plus the cost of 22 pounds excess baggage to supplement the free baggage allowance on economy air, the total cost would be \$661 to Geneva commercially.

Senator BELLMON. Mr. Hunt, let me suggest that you prepare a corrected memo and submit it for the record.

Mr. HUNT. I will be most happy to submit for the record a memorandum which will correct the erroneous impression conveyed by the internal memorandum from Mr. Burrows, to which you have referred.

[The information follows:]

Upon learning that the Department of State was working closely with the General Services Administration and the Department of Defense on a proposed air shuttle to London and Frankfurt, the Director of the Office of International Conferences and his administrative officer asked for and were given briefings by Mr. Donald C. Mansfield, Chief of the Transportation Branch, in late January and early February 1974, on the very general plan of operation available at that time. They were advised that many elements of the plan were tentative and would not be firm until written agreement had been reached among GSA-DOD-State and other agencies.

Despite the above, and with the added knowledge that key officers of the Department would be briefed in detail on the shuttle once final plans were agreed upon, OIC forwarded to Mr. Mansfield on February 6, 1974 a memorandum, a copy of which was somehow made available to the Subcommittee in advance of its March 20, 1974 hearing.

As the covering memorandum from the Director of the Office of International Conferences merely summarized problems that would be created for that organization based on the interpretations contained in the February 4, 1974 memorandum of Mr. Burrows, this paper will speak only to the points set forth in the Burrows memorandum.

The cost comparison for the Geneva conference held from February 18 through March 29, 1974 is misleading because it deals with a special case. Due to the length and timing of the particular conference used as an illustration, OIC could and undoubtedly would purchase a 22-45 day economy excursion ticket (non-peak season) which accounts for the low commercial air fare cited. However, since OIC included the cost of 22 pounds of excess baggage in developing cost figures for the shuttle, the cost of sending an equal amount of excess baggage commercially should be added to the commercial fare as well. Thus, approximately \$103.60 should be added to the air fare to account for the cost of excess baggage, bringing the total commercial cost to \$475.60 rather than the \$372.00 figure used by Mr. Burrows. Also influencing the calculations made by OIC was the figuring of per diem on the basis of Sunday, Tuesday and Thursday departures from Dulles to Frankfurt. Individuals in OIC had been informed that this scheduling was only tentative and could probably be adjusted if necessary to better meet traffic needs. At no point has anyone in authority advised that use of the shuttle would be mandatory

or that it would be used unless its use would prove economically advantageous.

Since neither the ground rules nor the schedule for the proposed shuttle were established as of March 20, 1974, the date of the Subcommittee hearing, it is not possible to make a firm determination as to those particular instances where use of the proposed shuttle might prove economically advantageous. However, there are several factors listed on page 2 of Mr. Burrows' memorandum which should be clarified or corrected for the record:

1. The specific days of departure for the proposed shuttle are not firm, as discussed earlier in this memorandum.
2. No decision has yet been made on whether the military or commercial side of the Rhein Main Airport would be used.
3. There would be sufficient advance notice if the shuttle were going to stop at McGuire Air Force Base so that onward scheduling would not present the problem envisioned by OIC.
4. Even with the pre-planning necessary under the air shuttle system, considerable flexibility regarding bookings up to just a few hours before flight time would be possible.
5. Intra-Europe tickets could be purchased through the Combined Airlines Ticket Office located in the Department of State if its Board of Directors agrees. As the shuttle proposal has not progressed to an operational stage, CATO has not been formally approached on this subject.
6. The air shuttle system reserved seat allocations are such that "bumping" of passengers would not be permitted.

It is hoped that the above will serve to clarify the fact that the memoranda prepared by the Office of International Conferences were based on very tentative and inconclusive information and contain assumptions not well grounded in fact. Thus, the Department wishes to emphasize that the OIC memoranda have no official standing, and should not be considered to reflect the Department's position on the air shuttle proposal.

PREPARED STATEMENT OF AMERICAN FOREIGN SERVICE ASSOCIATION

Senator BELLMON. I am sure you will be interested in the statement that the subcommittee has received for the record from the American Foreign Service Association that opposes the implementation of the air shuttle. That statement will also be placed in the record.

Are you aware of the statement?

Mr. HUNT. I am generally aware of it. Yes.

Senator BELLMON. If there is no objection the statement will be made a part of the record at this point.

[The statement follows:]

Mr. Chairman:

The American Foreign Service Association appreciates this opportunity to comment on pending proposals for a government air shuttle to transport non-Defense Department civilians and their families overseas. The Association, with over 7,000 members, is the exclusive bargaining representative for 11,000 Foreign Service employees of the State Department, the United States Information Agency and the Agency for International Development. Since DOD employees are already using an air shuttle system, our people would be those most affected by current proposals for a government-wide air shuttle program.

In addition to our role as an employee bargaining agent, the Association is also a professional organization which for 50 years has been concerned with improving the conduct and management of American foreign policy. As such, we are always happy to cooperate with the three Agencies and the Congress in seeking ways of reducing administrative costs, provided that this does not do substantial harm to foreign policy interests, or to the well-being of Foreign Service employees and their families. In this context, however, we are concerned that the proposed air shuttle system would constitute an added inconvenience for most of our travelers, especially those with families who would prefer to reach their destinations directly and without the need to change planes or to spend long periods of time awaiting connections.

We believe the majority of Foreign Service personnel would willingly suffer this added inconvenience if it could be demonstrated that the air shuttle system would result in true and substantial savings to the government, particularly if a portion of these savings could be used to fill gaps in existing travel allowances for the Foreign Service. Unfortunately,

we are not convinced, based on the evidence we have seen to date, that real savings would result, and we therefore recommend that the Congress take a close look at all the ramifications before endorsing the proposed change:

(1) Foreign Service employees are scattered all over the world - far more so than Defense Department employees. In the vast majority of cases, Foreign Service personnel traveling on the proposed air shuttle system would have to transfer to foreign airlines for connections to other destinations. Because of the delays and other problems inherent in charter travel, we must assume that most travelers utilizing this system will require overnight stays at the gateway cities while awaiting connections. This would result in a substantial increase in per diem paid to employees and their families - a cost that would significantly eat into savings on the airline costs.

(2) Use of foreign airlines would also increase. While this would not result in a budgetary loss, the foreign exchange outflow for employee travel would increase, and should therefore be considered as a relevant factor.

(3) A significant amount of our travel involves short-term, temporary duty related to international meetings, technical consultations, or unforeseen problems requiring the presence of Washington personnel at overseas locations. We suspect that while some travel of this kind could be undertaken on the air shuttle, we know that in practice most of it will take place on regularly scheduled aircraft as before.

(4) Permanent change-of-duty or transfer travel involving families as well as dependents is highly seasonal in the Foreign Service, with most such travel taking place between June and September. We are not persuaded that this type of bunched-up travel can be handled efficiently in the air shuttle

system, or that there would not be families taking regularly scheduled flights anyway, because the shuttles might be unable to accommodate all of them during the high season.

(5) Finally, as professionals in foreign policy, we are concerned with the health of our regularly scheduled air carriers since we have to represent them abroad with respect to their relations with foreign governments. We have an interest, therefore, in maintaining the financial health of the American carriers. In this respect, we see no way that the proposed air shuttle system could help the air carriers financially. On the contrary, it is clear that they will lose revenue. If a budgetary saving on employee travel ends up requiring direct or indirect/^{U.S. government}subsidies to keep our air carriers solvent, then there is obviously no net saving to the U.S. taxpayer.

If investigation reveals, Mr. Chairman, that the proposed air shuttle system would not be as beneficial as expected, it might be useful for this Committee to return to the origin of the problem and seek another method of assisting the civilian agencies. In effect, the problem started because DOD is paying less per traveler than the other Agencies. In order to avoid financial hardship to the carriers while eliminating discriminatory treatment of the non-DOD agencies, would it not be practical and equitable to take present air carrier earnings from government travel, develop an average global cost per traveler somewhere between DOD and non-DOD rates, and charge all agencies the same rate per traveler? In this way, this discriminatory treatment of non-DOD agencies, which has become an anachronism, would be brought to an end.

Thank you again, Mr. Chairman, for this opportunity to present the views of the Foreign Service.

SUMMARY CHARTER SERVICE

Senator BELLMON. Do you gentlemen have any further comments that you would like to make?

Mr. SCOTT. I might make one comment.

The figures that have been used today that are in the statement by Congressman Moorhead reflect the potential savings of a charter service that blankets the country, as well as the \$2 to \$3 million that were forecast for the experimental route to Europe. As I understand it those savings are based upon the premises of 100 percent of civilian travel going in this manner.

No. 2, the figures assume that the airplanes will have 100 percent load factors. No. 3, the projected savings did not, to my knowledge, reflect some of the incremental costs relating to this kind of travel such as delays in time by traveling a circuitous route; for example, by Washington, McGuire, London, Frankfurt, and then somewhere else within Europe. So, I think what I am suggesting is that we have considerably more work to do on this which is what we are undertaking at this time.

Senator BELLMON. Thank you very much.

If there are no further questions, you gentlemen may be excused. Thank you very much for your time.

PRIVATE AIRLINES INDUSTRY

STATEMENT OF JAMES J. RICE, STAFF VICE-PRESIDENT, MILITARY
MARKETING, PAN AMERICAN WORLD AIRWAYS

ACCOMPANIED BY:

THOMAS K. TAYLOR, VICE-PRESIDENT, GOVERNMENT AFFAIRS
TRANS WORLD AIRLINES, INC.

NORMAN J. PHILION, SENIOR VICE-PRESIDENT, AIR TRANS-
PORT ASSOCIATION OF AMERICA

Senator BELLMON. This completes the testimony of the various Federal agencies representatives.

We now have witnesses both pro and con from the airline industry, who also wish to testify. In order to conserve time I believe they should testify as a panel.

If this is agreeable we will first hear from Mr. James J. Rice, staff vice president, Pan American World Airways, Mr. Thomas J. Taylor, the vice president of Trans World Airways, Inc., Mr. Norman J. Philion, the senior vice president of the Air Transport Association of America.

Would you three gentlemen come to the witness table?

LETTER FROM NORTHEAST AIRLINES

Before you begin your testimony I would like to insert in the record at this point a letter of March 19, 1974, to the subcommittee from the Northwest Airlines, Inc., signed by Mr. Ronald McVicker. The letter urges that GSA not be allowed to utilize military charter contracts as it is Northwest Orient's position that the utilization of the military charter price is unwarranted by the history of military charter system; it may well be illegal, and is not in the best interest of the U.S. flight transportation.

[The letter follows:]

NORTHWEST AIRLINES, INC.

1660 "L" STREET, N. W.

WASHINGTON, D. C. 20036

March 19, 1974

Dear Mr. Chairman:

Northwest Airlines is strongly opposed to a system which would permit carriage of general government traffic in the military charter system, or at rates established for military charter transportation.

Northwest Airlines has conducted Category B charters for the Military Airlift Command for many years. In our view, the rates for carriage of traffic in this mode were established as exemption (lower than standard) rates for the military alone--not for general traffic. The reasons for this are many and relate to the nature of the military contract service:

1. Military charters are essentially contracted for at large fixed volumes over a one-year period in advance. The carriers are able to plan precisely on the level of business to be done and (with the possible exception of reasonable expansion which is also predictable) the service for the military can be pre-planned closely in terms of airplane assignment and crew staffing.
2. The rates charged for charters for the military are far below normal charter rates, due to the services for which the military spends its own funds and contributes to the operation. These include a reservation system which keeps track of all military passengers; ground handling at military air bases; freedom from landing fees; provision of aircraft fuel at fixed prices far lower than present commercial airfield prices. For this reason the military charters have been properly costed far below commercial services; and the Civil Aeronautics Board has granted exemption to permit the carriers to rate the military charters below the tariff structure available to other traffic.

It has not been made clear to us how the GSA charter operation would intend to function. If it were a system of mixing miscellaneous civilian government agency passengers with the present military charters, this would involve direct participation in the going military contract work, which we believe is not intended by the exemption to perform military charters. If the intent would be simply to operate new flights for government agency travel, this would be wasteful of U.S. resources.

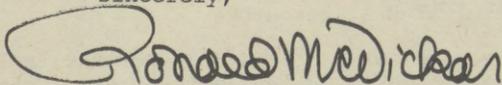
We are aware of the need for MAC to limit the amount of fuel it makes available for present charters, and we do not believe the military is in a position to fuel an expanded charter service for civilian government employees at this time.

Perhaps the most serious damage to U.S. flag scheduled service would be the dilution of traffic from normal services operation in competition with foreign flag carriers. To a great extent the U.S. carriers must rely upon all forms of traffic available in the normal course of business to compete with advantages accruing to foreign flag carriers, particularly in the Pacific. For example, Northwest Airlines operates a single daily scheduled flight from Los Angeles to the Orient; a single daily flight from San Francisco; and a single daily flight from the Pacific Northwest. Finally, we operate a single daily flight over the Chicago-Anchorage gateway to the Orient. In this service we compete extensively with growing frequency and capacity mounted by Japan Air Lines, China Airlines, Philippine Airlines, Korean Airlines, Air Siam, Canadian Pacific and other international flag carriers. Foreign airlines have the advantage of government support in many ways, including the right to pool traffic with each other (Japan Air Lines pools extensively with China Airlines and Philippine Airlines as well as granting special privileges to Korean Airlines). Foreign carriers also have the benefit of national tourist bureaus which promote close cooperation between the flag carrier and the tourism industry in such foreign lands. For the U.S. to downgrade its own flag service by removing from the normal flow of scheduled flights the government travel which is essential to maintenance of reasonably good traffic level would be counter productive.

Finally, there can be no doubt that there is an element of value in scheduled service which the military charter system cannot supply. For example, on transportation to the Orient a government agency traveler in Washington, D.C. would be required, under present military charter planning, to take a commercial flight to San Francisco and thereupon embark on a bus journey across the Bay and into Travis Air Force Base. At Travis the passenger would be required to await the departure of a military charter flight. Specific charter flights to various destinations are infrequent and operate at hours suited to the military base needs. For example, flights to Korea must leave Travis Air Force Base at midnight (3:00 a.m. Washington, D.C. time) and the traveler is in continuous journey for the better part of a full day before reaching destination in Korea. If he starts from an Eastern point such as Washington, he would be in travel status for well in excess of 30 hours without rest. It is not clear that the routing of civilian traffic through military bases is required and it is abundantly clear that it would be, in many cases, most difficult.

In summary, Northwest Airlines strongly urges that the GSA utilization of military charter contracts not be adopted. We feel that the utilization of the military charter price is unwarranted by the history of the military charter system; may well be illegal; and is not in the best interests of U.S. flag transportation.

Sincerely,



Ronald McVickar

PREPARED STATEMENT

Senator BELLMON. You may proceed as you wish with your statement, Mr. Rice. If you have a long statement, we will make it a part of the record or you may summarize it.

Mr. RICE. If I may, I think it would be for the sake of continuity best if Mr. Philion from ATA started off.

[The statement follows:]

My name is Norman J. Philion. I am Senior Vice President - Government and Public Affairs of the Air Transport Association of America. The Association represents virtually all of the U.S. scheduled airlines, including all U.S. -flag international air carriers conducting scheduled passenger operations in foreign commerce.

We appreciate the opportunity to appear before the Subcommittee. We are deeply concerned about the determined attempt of the General Services Administration to introduce, without proper policy guidance or authority, a government-sponsored program to transport civil government employees by air in direct competition with the nation's privately-owned, scheduled air carrier system.

We believe the GSA program is in conflict with established policy. It raises a serious legal question, and represents a needless and wasteful governmental intervention against private business. We seek the assistance of the Subcommittee in deferring GSA action in this case until the several unexplored issues involved are clearly identified and considered in terms of their broad policy and public interest implications.

Background

The GSA program in question developed as a result of an inquiry by the House Committee on Government Operations on the possibility of reducing federal expenditures for the transportation of civil government employees traveling to and from the United States on government business. Noting the existence of Civil Aeronautics Board approved special air transportation rates for Department of Defense traffic, the House Committee concluded that such special rates for all government-financed passenger traffic by commercial air transportation should be sought by GSA in the interest of overall governmental economy.

That conclusion, perhaps inadvertantly, ignored pertinent policy determinations, including special national defense considerations and the legal framework under which our air transport system functions. The scheduled airlines, therefore, were unable to comply with a subsequent GSA request to extend the special military arrangement to civil government employees. As a consequence, GSA developed plans for a regularly scheduled air charter system under the established military contract program for the purpose of transporting civil government passenger traffic at rates below those available to the general public.

We understand the GSA program is scheduled for implementation in the near future. Notwithstanding the interest expressed by the House Government Operations Committee, no change in law or in fundamental national policy with respect to this matter has been sought or suggested. And since GSA has no authority to make or

change government policy, its program must not be implemented until those who are responsible for determining and carrying out national policy have the opportunity to review the matter thoroughly. In this connection, we understand that one of the Committees having jurisdiction over transportation policy intends undertaking such a review.

The Policy Issues

The basic policy issue involves the question of whether the GSA program adheres to or conflicts with policies mandated by the Congress in the Federal Aviation Act. That Act makes clear the intent of Congress to encourage, foster, promote and maintain in the overall national and public interest the sound development of a privately-owned and operated U.S. -flag scheduled air transport system providing service in domestic and foreign commerce adequate to meet both public and governmental needs.

Those public and government air transportation needs are being met today. And they are being met under a framework of national policy totally incompatible with a philosophy of government competition. One must question, therefore, the extent to which the proponents of the GSA program gave consideration either to the adequacy of the existing commercial air transport system or to the overriding Congressional air transport policy under which that system was designed. We believe these considerations have not been taken into proper account.

The GSA program ignores other policies, including those relating to international commerce and the balance of payments which are reflected in the Statement of International Air Transportation Policy of June 1970. In addition, the proposal goes against the long-standing tradition and policy of the United States concerning the basic American system of free enterprise.

The Statement of International Air Transportation Policy instructs all government agencies to pay "...close attention and careful consideration...to the potential effects [of agency actions] on the balance of payments...". The Statement makes it clear that "U.S. air transport policy during the 1970's should recognize that actions which improve the U.S. -flag share of international air traffic also provide some benefit to the U.S. payments".

The GSA program does not take that balance of payments directive into account. Government traffic moves between many different U.S. and foreign points of origin and destination. The GSA concept requires a consolidation of such traffic at a common point of origin, and connecting service at a common point of destination. Thus, government passengers will be restricted to a limited number of intermediate traffic channels selected by GSA. And, in order to travel to and from their intended foreign destination, government passengers will have to purchase foreign air or surface transportation.

Aside from the additional cost of connecting transportation between the actual points of origin and intended foreign destinations, the loss of personnel time involved in less frequent and convenient

connection services, and the serious loss of business by the U. S. scheduled air carriers, all of which are inherent in the GSA program, the transportation payments to foreign carriers required under the program represent a needless drain on our balance of payments.

Throughout our history, government policy has been dedicated to allowing free enterprise to develop in the public interest and to supply the needs of both the public and government. Unless such needs cannot be met on a regular and consistent basis, no overriding reason exists for the government to step in and provide a service which competes with private industry.

This philosophy is particularly relevant in the case of air transportation. U. S. scheduled airlines conduct their domestic and foreign operations only after the Civil Aeronautics Board has determined that the public convenience and necessity require scheduled air transport service. The test of public convenience and necessity involves both a right and a responsibility -- a right to serve without facing wasteful competition or unnecessary government intervention, and a responsibility to provide adequate and reasonable commercial air service meeting the needs of the public and the government without unjust discrimination, undue preference, or unfair competition.

Congressional policy established the ground rules for meeting public and government air transportation needs. Those policy declarations simply do not contemplate government-sponsored competition in air transportation. Nevertheless, GSA intends to begin setting up its own scheduled air transportation system unne-

cessarily duplicating and competing with the scheduled air transport system presently operated by private industry.

We believe that the federal government has the clear obligation to utilize the scheduled air transport system, particularly if it expects that system to be available to meet national needs and to provide efficient service at reasonable rates for the general public. The GSA program singularly disregards that obligation.

In short, the GSA program is contrary to aviation policy and is inconsistent with other national policies.

The Legal Issue

The basic legal issue is whether the contemplated GSA program adheres to or violates specific provisions of law. The primary provision of law applying in this case appears in Section 404 of the Federal Aviation Act. Subsection (b) reads as follows:

"Discrimination

"(b) No air carrier or foreign air carrier shall make, give, or cause any undue or unreasonable preference or advantage to any particular person, port, locality, or description of traffic in air transportation in any respect whatsoever or subject any particular person, port, locality, or description of traffic in air transportation to any unjust discrimination or any undue or unreasonable prejudice or disadvantage in any respect whatsoever."

This clear prohibition against preferential treatment and discriminatory practices applies equally to transportation provided for the general public as well as government traffic moving on licensed commercial air carriers. Any GSA program involving air transpor-

tation rates for civil government traffic lower than those charged the general public, therefore, is discriminatory on its face.

A subsidiary question then may arise as to why the Civil Aeronautics Board nevertheless has approved special rates for military traffic carried by the airlines. The answer is that justification for the special military rates is based upon special national defense considerations thus allowing an exception to the general rule of law.

Attachment "A" summarizes the airline relationship to the Department of Defense, and the special national defense considerations involved in the air transportation of military traffic. Briefly stated, special air transportation rates have been arranged for the military only after the Civil Aeronautics Board determined that they were justified in the interest of the national defense. Such justification permitted an exception to the provisions of law which otherwise prohibit discriminatory practices involving the general public and non-military government traffic.

We do not see how those provisions of law can be stretched to encompass civil government traffic unable to qualify under the narrow exception pertaining to the special needs of the national defense. Yet, the GSA program is based upon an apparent belief that the anti-discriminatory provisions of the Federal Aviation Act either do not apply or can be ignored.

We hope you will agree that the GSA program should not go forward without careful examination given to this legal issue by those best qualified to do so.

The Cost/Benefit Relationship

The airline industry recognizes the great importance of efficiency and economy in government operations. Those searching for ways to reduce federal expenditures are to be commended.

In this connection, supporters of the GSA program contend it will result in annual savings of from \$12 million to \$20 million in transportation expenditures. A cost reduction of this magnitude warrants serious consideration. But it should also be assessed in the light of answers to other pertinent questions in order to measure its real cost/benefit relationship. This assessment may include questions about actual savings versus potential cost reduction offsets, whether the most efficient use of essential resources is assured, and whether the program will have an adverse impact on the maintenance of our national interest air transport routes.

Even assuming no major policy or legal obstacle was present in this case, the GSA program should at the very least be re-examined on the basis of the following questions:

1. Potential Cost Reduction Offsets -- Will the program result in an actual net reduction in government spending? Attachment "B" summarizes some of the concerns about potential program cost defects and other problems raised by representatives of government agencies in earlier discussions about the GSA program. These concerns reflect serious doubts as to whether any net savings in government expenditures will result, since any transportation savings may be offset or exceeded by other directly associ-

ated cost increases. Such cost reduction offsets include the increase in personnel, per diem, and connecting transportation costs which might arise in meeting the requirements of a GSA transportation program which precludes maximum use of regular, convenient, direct and flexible patterns of scheduled air service now available.

2. Efficient Use of Essential Resources -- Will the program assure the most efficient use of fuel? The most obvious resource problem today is the serious energy shortage. All citizens have an obligation to conserve and make the most efficient use of energy resources. Jet fuel is in particularly short supply and its cost is increasing at an alarming rate. The airlines are required to operate at maximum efficiency in order to meet their public service responsibilities. These responsibilities require minimum levels of service which are being, and must continue to be, maintained. Yet, the GSA program will require an increased consumption of millions of gallons of jet fuel because it will not be possible to offset the program's fuel requirements by reducing scheduled airline service. In other words, the GSA program will waste critically needed energy resources.
3. Impact on National Interest Air Transport Routes -- Will the program help or hurt U. S. scheduled international air service? The U. S. -flag international air transport system serves many national and public interests. While services pro-

vided in the high volume business and tourist travel markets can be profitable under normal circumstances, that profitability helps support service over other routes which is provided to meet special national interest requirements. But skyrocketing costs, especially for fuel, as well as other current international economic problems, have depressed overall earnings and are taxing the viability of the system. Further economic impediments, such as market erosion on major routes resulting from the GSA program, are bound to have serious effects on the capability of the U.S. -flag scheduled airlines to maintain essential international services.

In short, a number of key, relevant questions need to be asked in order to assure that achieving the objective of the GSA program does not unintentionally bring with it consequences far beyond those considered at first glance by its proponents.

Conclusion

We believe the GSA program goes far beyond the goal of reducing government travel expenditures. It raises serious policy and legal questions which, in our opinion, have not been addressed properly, if at all. Implementation of the program under these circumstances surely would be a mistake which can, and ought to be avoided. Even a cursory analysis of related cost, fuel and national interest impact questions attest to the premature nature of GSA's decision.

We respectfully ask, therefore, that the Subcommittee in its jurisdiction over GSA programs through the appropriations process, urge deferral of this particular program, at least until all of the issues are thoroughly explored.

Attachment "A"

The Airline Relationship to the
Department of Defense

GSA is of the view that there should be no difference between the rates offered to the Department of Defense and other departments and agencies of the Federal Government. This belief ignores the purposes supporting the special treatment accorded to the Department of Defense.

For more than twenty years, the government has followed a policy which would assure the availability of commercial aircraft in case of a national emergency. The military, recognizing that its uplift needs could be drastically increased in a short period of time, entered into agreements with commercial air carriers under which an individual carrier, in return for the purchase of military transportation needs, committed its aircraft and supporting services, to the Civil Reserve Air Fleet (CRAF) program. This commitment gave the Armed Forces access to an active fleet of modern aircraft currently in use, updated by the latest technology and properly maintained to the highest standards. The alternative to the CRAF program would have been to build a large fleet of military aircraft, maintain that fleet, train the crews to man the fleet, and update the equipment in the fleet at a cost to the taxpayers of billions of dollars. The car-

riers, on the other hand, maintain equipment which meet specified DOD standards at carrier expense. In turn, the DOD uses commercial services for its routine transportation needs.

In considering the rates that are charged by the airlines for Department of Defense passengers, the Civil Aeronautics Board considered the special needs of the national defense. This was and is in keeping with the dictates of the Congress that the Board take into consideration the needs of the "national defense" when exercising its powers and duties.

When the carriage of military personnel by commercial air carriers first began, there was much uneconomic competitive bidding. This competition directly affected the quality of service provided to the Department of Defense, and it also was extremely costly to the carriers. As a result, and in accord with its statutory obligations, the Civil Aeronautics Board adopted regulations establishing conditions under which special rates for the Department of Defense are authorized. The Board, among other things, requires that the rates charged are fair and reasonable, that the carrier bidding the rates be a party to a CRAF Stand-by Contract, and that the Department of Defense state the contract involved is in the interests of the national defense.

In addition to full plane contract operations for military personnel, the DOD sought extension of its program to include military personnel traveling individually to points not served on a full-plane contract or group basis. Accordingly, the Civil Aeronautics Board approved carrier-filed special rates for individual military travelers.

These rates are commonly known as "Category Z" rates.

The Category Z rates are utilized to transport military personnel on official business between military establishments when regular military group or military contract charter transportation either is not available or is not appropriate. Since they are in lieu of other special transportation arrangements provided the military in the interest of the national defense, such Category Z rates have been found to be justified under special national defense considerations.

The GSA program to transport civil government passenger traffic under the established military contract program is the direct result of a conclusion by the scheduled air carriers that extension of special Category Z military rates to civil government agencies would be contrary to Section 401 of the Federal Aviation Act because it could not be justified under national defense considerations.

Attachment "B"

Practical Problems with the GSA Proposal

During the hearings conducted by the House Government Operations Committee, and through correspondence concerning the GSA program, several government agencies stated that the program would cause difficulties with respect to their transportation needs. In general, the various agencies had personnel traveling to many foreign points and would require connecting transportation if they were to use the proposed program. In addition to the additional transportation costs, there were questions about additional

per diem costs and related wasteful employee time practices.

All government agencies reflected the need to hold down costs, and therefore would use the GSA program when it was less expensive, and when travel plans fit into GSA schedules. However, it is likely that GSA is depending on all the traffic it can handle from the various agencies. It would, therefore, be appropriate to determine whether GSA intends to allow agencies to retain flexibility in transportation selection or not. If not, the position of the various agencies might well be against the GSA program. Thus, the position of user government agencies should be reviewed in order to see if the originally stated concerns have been or could ever be satisfied by GSA's program.

The Department of Defense indicated through its witness in May, 1973, that there would be little advantage for the Department of Defense in combining traffic with other government agencies, and a likely possibility that there would be an added workload for Department personnel in the event DOD was to be the contracting agency. DOD expressed serious concern that the ultimate result of the GSA program might be the elimination of special DOD rates. The Department also believed that an evaluation of the total cost to the Government, not only transportation costs, should be undertaken. None of these concerns have disappeared, and no solid answers have been given to the questions raised.

The State Department in its testimony stated that its passengers were moving to some 240 points around the world. It follows that Department of State traffic would need to rely heavily on foreign

connecting air carriers. The State Department indicated that its personnel would spend more time traveling, sometimes three times as much as really necessary, and there would be additional per diem costs and loss of productive time. State was particularly concerned that flights originating or terminating at military bases would cause problems due to the distance of such bases from the areas of assignment of State's personnel. State also expressed concern about "... the absence of lodging and meal facilities for non-DOD personnel at military bases; and the limited ground transportation facilities available to our personnel on or near military bases." In addition, the Department stated it would certainly have additional administrative overhead in arranging overseas meetings and liaison with other government agencies. While the Department's prepared statement in 1972 favored discount fares on existing scheduled service, it concluded that:

"... [I]t was our judgment that Category B travel (charters) was not a practical way of meeting the travel needs of the Department and the Foreign Service."

The Office of Management and Budget was concerned that the outcome of the GSA program might be that rates for the Department of Defense would have to be raised because of the use of commercial instead of military airports. This would be due to increased costs such as fuel, ground handling services, and landing fees. Since the Department of Defense is by far the largest user of foreign air transportation, the government as a whole would pay considerably more for air transportation. OMB specifically raised the

question as to whether the \$12 million to \$20 million of alleged savings should be diverted from the revenues of the international air carriers, particularly in this current difficult economic period.

The Department of Transportation in a letter to Arthur Sampson, Administrator of the General Services Administration, stated:

"Unless the proposed plan utilizes existing marginal capacity or uses U. S. scheduled/supplemental air carriers now normally flying the proposed routes, the following conditions could occur:

"Adding to the number of airplanes on the same route, thereby affecting load factor potential and distribution for other competing U. S. carriers.

"Adding to the number of airplanes in the same airspace with resultant implications for traffic congestion, energy waste, air and noise pollution."

In the same letter, DOT stated that it has taken a position that:

"...air fares should be the lowest rate consistent with viable operations, and available to everyone without discrimination as to class."

STATEMENT OF NORMAN PHILION

Senator BELLMON. Mr. Philion, you may be the leadoff witness.

Mr. PHILION. Thank you, Mr. Chairman.

My name is Norman Philion. I am with the Air Transport Association which represents all of the scheduled airlines. I should insert at this time a statement to the effect that all of the scheduled airlines of the United States which are members of the Air Transport Association share wholeheartedly the views expressed in the letter by Northwest Airlines.

Each of us, Mr. Chairman, as Mr. Thomas Taylor of TWA and James Rice of Pan American, have prepared statements for the record. Although we are prepared to speak to this subject at some length, in the interest of time, I will make a brief statement and we will be prepared to answer any questions you may have.

We were delighted of course, at the announcement made today by the GSA to postpone this program because our purpose in appearing before you was to ask you to help us in getting a deferral since some very serious questions have not been answered as yet.

We were quite surprised about 2 o'clock today to learn of the new definition of subsidy. Because of the confusion which may result from that unfortunate characterization of public equality it should be made clear that the scheduled airlines charge civil government traffic the rates which are no more or no less than those available to the general public, nor should it be otherwise.

As a matter of fact, one point which needs to be made is that what is being sought by GSA is a special privilege at the expense of the general public.

In other words, instead of the taxpayers subsidizing the airlines as was suggested by one witness earlier today, this program would have the taxpaying, and traveling, and shipping public subsidizing Government travelers. With all due respect to the House Government Operations Committee, the GSA program has raised serious policy, legal, and practical cost questions which have not been answered or resolved after the 3 years of study, which was mentioned earlier today.

We hope that all of the material in the record of this hearing will be made available to those who are going to reexamine those issues.

In summary we are not saying that Government traffic should pay more for any available air service, including charter service, than members of the general public pay. What we are saying is that it cannot be and should not be done under a system which has been authorized to meet special national defense considerations.

It should be recognized that there is a real distinction between the transportation of thousands of troops which make up the bulk of our military traffic and those other Government employees traveling on nonmilitary business. Whether we like it or not, special rates for military traffic are authorized by law. We believe no such legal authorization exists for nonmilitary, civil Government traffic.

Military troops and Agriculture auditors simply are not on similar missions. Before concluding this brief summary of our statement I think something should be said about the so-called negotiation of category Z rates between GSA and the airlines.

There have been a number of discussions as I think an earlier witness indicated, up through a good part of last year. What hasn't been said is that the airlines concluded, and we believe rightly, that extension of category Z rates to non-military, civil Government employees is neither justified nor authorized by law.

As one of the witnesses from the CAB or another agency indicated there are differences of opinion between lawyers on this point, but the fact is this legal issue, and it is a sharp issue, has not been examined. We are delighted that the inauguration of this program has been postponed so that it can be examined by those best qualified to do so.

Thank you.

Senator BELLMON. Thank you, Mr. Philion.

Let's hear from the other witnesses and you may wish to come back for questions.

Is there an order you would like to appear in?

PREPARED STATEMENT

Mr. RICE. Mr. Chairman, my name is James J. Rice, Staff vice-President, Military Marketing for Pan American World Airways. I appear here today to express my companies concern over the proposal to start the so-called Government air shuttle. Pan Am welcomes and appreciates the subcommittee's interest in providing this opportunity to testify on this important matter. In submitting our prepared statement for the record, if we may, I would like to touch on the highlights and be as brief as possible.

(The statement follows:)

My name is James J. Rice. I am Staff Vice President-Military Marketing for Pan American World Airways. I appear today to express my Company's concern over the proposal to start an international air charter service to move all U.S. Government employees and their families while traveling under Government sponsorship. The charter service is commonly called the "U.S. Government Air Shuttle." Pan Am welcomes and appreciates the Subcommittee's interest in providing our company this opportunity to testify on this important matter.

We believe implementation of this program is not in the National interest and will adversely affect the Nation's international scheduled air carriers. It will be particularly harsh on Pan Am, the country's major international carrier. The impact of the shuttle to Europe would be a diversion of traffic from Pan Am of over \$7,000,000 yearly. Implementation of the program to the Middle East, Pacific, South America and Africa would result in an immediate and untimely loss of well over \$20,000,000 yearly. Considerable amounts would divert to our foreign-flag competitors. Since 1969, Pan Am has lost over \$170,000,000. At the start of 1973, we anticipated that we could see the light -- estimating a small, but welcome, profit. And, in the first nine months of the year, it seemed that our expectations would be realized. What happened then, to compound the problems of double devaluation and domestic inflation was a fuel crisis. It first affected our supply, causing us to suspend service at a number of foreign points, and to adjust our schedules radically. But, then, the availability of fuel -- still a problem -- became secondary to the shocking, and unconscionable increase in its costs.

Our Chairman, Bill Seawell, testified just two weeks ago to the Senate Aviation Subcommittee of the Commerce Committee. I sub-

mit that testimony for your record.¹ But I would like to note some of the more pertinent points in it.

Pan Am is forecasting a fuel bill for 1974 of \$339 million, an increase of almost \$169 million over 1973. This increase is equivalent to 12% of Pan Am's forecast transportation revenues in 1973 ... a year in which, due to increased fuel prices, the company lost \$18.4 million.

Pan Am has taken and will continue to take every conceivable step to reduce its costs and increase its revenues while maintaining adequate service for the traveling public.

Pan Am has sought and received authority from the Civil Aeronautics Board to suspend service at a number of points.

It has reduced its schedules substantially.

It has laid off 2,474 employees in the last four months.

It has sought to reduce costs in every conceivable way.

However, the effect of the increased fuel costs are way beyond management's control.

The House Foreign Operation and Government Information Subcommittee of the Committee on Government Operations, after hearings concerning Economy and Efficiency of International Air Travel by Government Officials, in House Report No. 93-599, recommended that:

- 1) The General Services Administration should issue directives permitting the Department of Defense to operate a chartered air shuttle system to be used by Government employees on official travel.
- 2) The Secretary of Defense should direct the Military Airlift Command (MAC) to establish and operate the service.

1/ Exhibit 1

The rationale in coming to these recommendations was that (a) Pan Am and Trans World Airlines would not provide all Government offices reduced rates similar to those available to the Department of Defense; (b) the shuttle would provide a means to more fairly apportion Government business between large and small carriers; and (c) that major savings would accrue to the Government. This last was, without question, the real motivation behind the proposal.

However, these recommendations overlook several very important policies and fiscal considerations vital to the overall United States welfare. These factors include legal, moral, total cost comparisons, fuel waste, international balance of payment losses, use of foreign-flag carriers as a competitive tool against use of the U.S.-flag scheduled carriers' network, government employee productivity loss and other important considerations. Furthermore, the claims of savings fail to include major expenses inherent to the proposed "Air Shuttle" service. It is understood that the initial service is presently planned to start July 1, 1974, with three times weekly roundtrip service operating Washington/McGuire Air Force Base/London/Frankfurt. It is this service to and from Europe that will be used in my presentation to typify the problems involved in the proposed worldwide service.

Initially, it seems appropriate to comment on the rationale used in the Hearings justifying the charter program.

Reduced Fares.

In 1963 Pan Am and TWA filed special reduced fares for members of the foreign affairs agencies, a group that had historically traveled under fares available to the general public. The Civil Aeronautics Board advised the State Department to have the carriers withdraw the special tariff as it was both "discriminatory and economically unjustifiable."

On the other hand, the CAB's former Director of the Bureau of Economic Regulation expressed the CAB contention that it¹ "felt obligated to justify the Board's action in approving the preferential rates available to personnel of Defense such as Category A, B, Z, etc. As the DOD transportation dollar represents such a substantial amount and new traffic for the airlines would result, it was felt that the Board's approval action in such instance was justifiable, although admittedly discriminatory." In effect, the rationale of the House Foreign Operations Subcommittee ignores the fact that the carriers abided by the CAB decisions.

Supplemental Carriers' Share.

Any consideration to provide a special award of government travel revenue to supplemental carriers would be truly inequitable. The U.S. air carriers are a heavily regulated industry and the present delicate balance should not be trifled with willy nilly.

87.7% of the proposed shuttle traffic will be generated by the Department of Defense. Over many years the DOD has developed, implemented and updated a procurement policy that is specifically designed to encourage aircraft modernization and increase capability for emergencies. All carriers, both scheduled and supplemental, share equitably in this program which is based on the number and type of aircraft made available for use during time of airlift emergencies.

The DOD procurement policies are cleared through and approved by the appropriate Congressional committees. These policies should not be subverted.

Deliberate diversion of traffic from scheduled carriers weakens the position of those carriers in their competitive struggle for a greater share of the world market of passenger, cargo and mail

1/ Page 10, House Report, No. 93-599.
Emphasis added

traffic. On the other hand, support of scheduled services assist carriers in increasing schedules, a major factor in increasing market share.

Savings to the Government.

In a letter dated August 14, 1973 -- Attachment A -- to Heads of Departments and Agencies the Administrator of the General Services Administration forecasted a savings of \$175 per shuttle passenger, \$350 roundtrip. However, major expenses directly related to the charter program, which are necessary to provide a fair cost comparison, were overlooked. For example, no transfer costs to connecting airlines were included. Nor was U.S. tax revenue loss due to diversion of dollars unnecessarily spent on foreign-flag carriers -- yes, spent on foreign-flag carriers; additional per diem costs; as well as productive day's salary loss. There was no evaluation of the costs for the administration, reservation service, ground handling, etc.

Using the traffic flow provided in the letter of July 17, 1973 -- Attachment B -- from the Honorable William S. Moorhead to the Honorable Arthur F. Sampson, detailed cost comparison can be drawn for civil and DOD passengers -- Attachments C and D -- respectively, between the government charter program and scheduled service. Further analysis indicates an average savings of only \$51.98 per civil government passenger and \$13.99 per DOD passenger. Total yearly savings would be a mere \$571,000, with no costs included for administration, reservations, ground handling, etc.

There is one other major cost factor that must be considered and that is the increased costs due elimination of Category Z fares. Over 60% of the potential air shuttle passengers used Category Z in 1972. In response to the proposed thrice weekly shuttle which

will divert considerable numbers of passengers, the carriers can be expected to cancel Category Z fares. As the low frequency shuttle service will not be responsive and useable by all those on urgent and timely missions, some will then be paying the higher economy class fare instead of Category Z. If only 20% of the past users of Category Z continue to require the use of scheduled service, the additional expense will be well over \$600,000, putting the air shuttle program in the "red."

National Interest Deficiencies

Looking beyond the economic deficiencies in the rationale used for justifying the proposed Government Air Shuttle, there are several very important National interest considerations that must be addressed. They are:

Legal.

The legality of the proposed Air Shuttle has not been resolved. In the CAB letter of September 10, 1973 -- Attachment F -- to the Administrator, General Services Administration, Chairman Timm noted that this problem may be coming to the Board for resolution.

Furthermore, Congressman John Jarman, Chairman of the Transportation and Aeronautics Subcommittee of the House Interstate and Foreign Commerce Committee in a letter to the Administrator, General Services Administration, questions the legality of the proposed Air Shuttle.

The legality must be clearly established before inauguration is considered. Issues as to the fairness and reasonableness of the rates, discrimination and possibly other legal issues will have to be resolved by the CAB prior to initiation of the service.

Diversion of Traffic From U.S.-Flag to Foreign-Flag.

The proposed three times weekly service between Washington/McGuire AFB and London/Frankfurt anticipates servicing indirectly

14 additional countries: 7,421 roundtrip passengers that could be accommodated on U.S.-flag direct service to destinations will unnecessarily use foreign-flag carriers for connecting service.

Of this group, 7,421 will be paying more under the cost comparison in Attachments C and D, than they would if using available U.S.-flag carrier direct service to destination. Even more amazing is that the transportation costs alone will be more for some Department of Defense passengers.

In effect, the U.S. Government intends to set up a combination of U.S.-flag charter service and foreign-flag scheduled service to compete with tightly regulated U.S.-flag scheduled carriers. It proposes to divert expenditures of hundreds of thousands of dollars yearly from U.S.-flag carriers to foreign-flag carriers.

Fuel Waste.

The potential shuttle traffic is presently being carried by the U.S.-flag scheduled carriers on many different routings. Space for this traffic will continue to be available and be wasted under the proposed Air Shuttle program.

The proposed thrice weekly service will waste over 5,500,000 gallons of aviation fuel yearly.

It may be contended that since the Government shuttle will presumably operate with full aircraft, it will be an efficient use of aviation fuel, the implication being that scheduled carriers will operate fewer frequencies and thereby save more fuel than the charter uses. This is a specious argument.

The loss of U.S. Government traffic will hurt the economics of the scheduled flights, yet carrier obligations to provide adequate service to the American traveler and shipper and their need to offer a level of service competitive with the foreign carriers will not

permit reduction below existing levels of service.¹ Of course, if the shuttle concept spreads, U.S. scheduled carriers may be forced to reduce their schedules, hence leaving our market share to foreign carriers.

Thus, the end result would be the same service level of scheduled services, and extra fuel used by the shuttle flights.

Wasteful Expenditures of International Balance of Payments Dollars.

The unneeded thrice weekly charter service will result in an annual loss of nearly \$1,500,000 of balance of payment dollars, based on August 1973 values. The amount will increase greatly in the future.

These foreign expenditures are for unnecessary use of foreign-flag carriers, landing fees, fuel and enroute navigational charges.

Foreign Ground handling expenses are not included.

Attachment G provides a breakdown of these expenditures.

The Pan Am Situation

As stated earlier, over the past five years our company has lost over \$171 million. The company is suffering from a number of conditions beyond management's control. In addition to the fuel crisis, the major factors are:

Excessive Competition.

On the Atlantic which has three U.S. and 26 foreign scheduled carrier competitors and five U.S. and 14 foreign charter (supplemental carriers) competitors, the Government now proposes another diversion of traffic.

1/ CAB Order 74-1-27

Pan Am Yields.

Yield is what a carrier is paid for carrying one passenger or a ton of cargo or mail one mile. In the year ending December 1972, our passenger yield was 4.95¢. You may be surprised to know that it is considerably below the 6.16¢ received by the U.S. domestic trunk carriers. Had Pan Am had the domestic trunk carriers' yields in 1972, it would have had an operating profit of \$146,700,000. However, both the excessive competition and the nationally owned airlines that are used as tools of the tourist trade without having the U.S. airlines' profit responsibilities, keep the rates at uneconomic levels.

Landing Fees.

Foreign landing fees are excessive in many countries. For example Pan Am pays the following landing fees:

	<u>747</u>	<u>707</u>
Amsterdam	\$1,035	\$ 463
Paris	1,254	534
Sydney	4,199	1,965
Tokyo	1,270	521
New York (Kennedy)	373	171
Miami	68	26
Los Angeles	178	78

Summary

The Government Air Charter proposal:

- 1) Has an unresolved legal problem.
- 2) Proposes to divert government travel from U.S.-flag scheduled carriers to a combination of foreign-flag scheduled carriers and U.S. charter carriers. 55.4% of the non-Department of Defense traffic would use this method, usually at higher cost.

- 3) Will waste 5,500,000 gallons of fuel operating thrice weekly Air Shuttle to Europe.
- 4) Will result in loss of considerable income by diversion of expenditures from U.S.-flag airline companies to foreign companies at a time when the U.S.-flag airlines already have severe economic problems.
- 5) Will unnecessarily require an international balance of payments expenditure of over \$1,400,000 yearly.
- 6) Will result in elimination of Category Z fares with a resultant significant increased cost to many DOD travelers.
- 7) Will have a morale impact on Government travelers -- for example, a State Department employee might arrive in Moscow on Aeroflot or Lufthansa with a Pan Am aircraft arriving at the same time, and it would have cost the Government \$167.40 more.
- 8) When totally evaluated, will be both costly to the government and not in the National interest.

Conclusion

There is absolutely no valid reason to inaugurate Government Air Shuttle service. Pan Am urges this important Subcommittee to direct the General Services Administration to defer any implementation until all appropriate Committees have an opportunity to review and evaluate the program.

STATEMENT OF WILLIAM T. SEAWELL

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear at these hearings. They could not come at a more appropriate time. As Mr. Ignatius has pointed out, all airlines depend upon a regular, predictable supply of fuel at reasonable prices. Thus, the fuel crisis has created problems for all airlines because no airline has a predictable supply of jet fuel today, and most of the fuel that is available is sold at rapidly escalating prices. Both the supply and price aspects of the fuel crisis have created acute problems for Pan Am and the Foreign-Flag airlines because the fuel available in the U.S. for their international services is unallocated and is not price controlled.

At the beginning of 1973 Pan Am anticipated a modest profit for the year. Indeed, at the end of the first nine months of that year Pan Am was on target in the black. The impact of the fuel crisis in the last quarter of 1973, however, turned that profit to a loss, and Pan Am now faces substantial losses in 1974-75, due solely to the problem we are discussing here today.

Among the US-Flag and Domestic airlines, none has been more adversely affected than Pan Am because Pan Am is the only airline which has no choice under existing Federal Energy Office regulations but to purchase at the US points it serves the very highest priced fuels. During the FEO 1972 base period, Pan Am's fuel was acquired from three sources: foreign (about 54%), US bonded (about 41%), and US domestic (about 5%). Pan Am estimates about the same ratios for its 1974 fuel

consumption. Thus, the only fuel that Pan Am has access to that is presently within the FEO petroleum allocation program is the domestic fuel--5% of Pan Am's total--which the Company uses for domestic flight crew training, positioning flights in the U.S., and turnaround services between California-Hawaii and U.S.-Alaska. Thus, 95% of Pan Am's fuel requirements lie outside the current US allocation and price control systems.

I will discuss the problem of price and supply as they affect Pan Am, and will then discuss the Company's 1974 financial outlook.

With regard to supply, the basic premise is that the public interest is best served by the publication of schedules which are fixed reasonably in advance of the date of flight and which can be relied upon by the traveling public for fulfillment of their travel plans. Necessarily, a predictable and orderly supply of fuel sufficient to operate scheduled flights is an essential ingredient of a scheduled air transportation system.

Since November 1973, Pan Am's contract fuel suppliers have not provided Pan Am with advance information on bonded fuel availability, by stations, except in a fragmentary manner, and then only for the forthcoming month. This situation became critical during early December, when on December 7, 1973, Pan Am was obliged to notify the Government that the Company forecast jet fuel run-out dates at 10 of the 18 U.S. cities it serves, beginning December 12th in Seattle and Philadelphia. This notification resulted in meetings involving officials of FEO, DOT and CAB. The first of these meetings produced assurances to Pan Am that JP-4 fuel would be made available for the exclusive use of international carriers and that Pan Am would not be permitted to run out of fuel prior to the time JP-4 would be available. Thus, the December 12th crisis

was averted. Subsequently, Chevron agreed to an early release of approximately nine million gallons of Pan Am's January 1974 allotment of bonded fuel. To cover the requirements of the other US-Flag airlines during January, Mr. Simon also directed a diversion of DOD JP-4 into the bonded area.

On January 24, 1974, Chevron informed Pan Am that on February 1, 1974 Pan Am would cease receiving the normal supply of fuel at three of its major U.S. locations (Miami, San Francisco and Honolulu). Pan Am was thus obliged to again seek relief from FEO on very short notice, adding to the uncertainty of Pan Am's February operations at these three major U.S. gateways. While the supply problem during the remainder of February was calmer, conditions remained unstable both in the U.S. and at many foreign stations. And whenever DOD elects to rebuild its jet fuel inventories, the supply problem in the U.S. can become critical overnight. To date, the March supplier allocation notices--which we just received last week--indicate that an adequate supply probably will be available during March.

An important aspect of our supply problem in foreign countries is that whenever a Foreign-Flag airline is discriminated against (or feels that it has been) by the US Government and not allowed its fair share of fuel at the US points it serves, that carrier's Government may (and probably will) take retaliatory action against the US-Flag airline serving that Government's territory. Thus far, Pan Am has encountered several threats of retaliation, but no implementation--although the possibility of retaliation continues to exist, and adds a further uncertainty to our operations.

In sum, while the bleak fuel-shortage days of December and January are behind us, we still have to plan and operate our airline on a week-to-week, month-to-month basis, which is an inefficient and highly expensive handicap to have in providing the kind of priority international air transport service the Congress referred to in passing the Emergency Allocation Act of 1973 last November.

Thus, the supply side of the problem for Pan Am remains unpredictable. Now, however, the more serious threat is the repeated, uncontrollable, unprecedented and staggering fuel price increases that have hit and will continue to hit us. On a total system average basis, Pan Am's estimated fuel cost per gallon in February 1974 was 29.40¢ per gallon, 141% greater than during the same month one year ago. The table in Attachment 1 shows the actual cost increases at many US stations, and they are huge. The current price spread between bonded and non-bonded fuel is greater than 12¢ at six stations. The price of bonded has more than doubled at all but one of these stations and has more than tripled at two--Miami and Seattle. We are today paying over 42¢ a gallon for bonded at Seattle (vs. 18.8¢ for non-bonded), and over 31¢ a gallon for bonded at Miami (vs. 19¢ for non-bonded), whereas in September 1973, bonded fuel at Seattle was priced at 1¢ below the non-bonded product, the current price of bonded is 24¢ above non-bonded fuel.

Additional fuel cost and supply data, and the adverse impact on Pan Am, are set forth in more detail in the affidavits submitted as Attachments 2 and 3 by two Pan Am officials.

It should be noted that all the Pan Am fuel cost increases I have mentioned are for fuel supplied by Pan Am's regular suppliers pursuant

to existing fuel supply contracts. None of the increases are so-called "spot purchase" fuel, nor has Pan Am purchased any fuel from brokers or persons other than its regular suppliers. During the past two months offers for bonded and non-bonded jet fuel have been received by Pan Am from temporary suppliers at 39¢ to 65¢ per gallon. We have supplied a list of such offers to FEO, as well as to this Subcommittee in our response to the Subcommittee's January 1974 questionnaire. We do not know whether such fuel is coming from domestic or foreign sources.

Why are our fuel prices so high? For two reasons. First, we have no leverage with our regular suppliers. We are "locked in" and must continue with them since we cannot get competitive bids from other suppliers at any of the 18 US stations we serve. Our suppliers know this and take full advantage of the situation. Second, under the current FEO regulatory scheme--which we believe contravenes the Emergency Petroleum Act of 1973--the fuel available in the U.S. to Pan Am is limited, for the most part, to bonded fuel that is not price controlled, and is available only at prices the supplier demands--prices that are substantially higher than those charged for similar fuel available to domestic carriers. Based upon Pan Am's estimated US uplift fuel requirements, the price differential between bonded and non-bonded jet fuel will increase Pan Am's costs in 1974 by approximately \$60 million at a minimum.

We have continued to seek relief from FEO, urging modification of the current FEO regulations which discriminate unlawfully against international carriers with regard to bonded fuel. We have been advised by FEO that a notice of proposed rulemaking will be issued soon, which--if ultimately adopted at the conclusion of the rulemaking--may enable

Pan Am to reduce a portion of the \$60 million price differential between bonded and domestic jet fuel referred to above.

Even with the elimination of the \$60 million bonded-domestic jet fuel differential, Pan Am would still foresee fuel cost increases in 1974 of nearly \$110 million, which is clearly more than Pan Am can afford to absorb.

In sum, Pan Am's 1974 fuel cost outlook is as follows: Our fuel costs in 1973 amounted to \$170 million. Even if Pan Am could maintain throughout 1974 its February system estimated average cost of 29¢ per gallon, fuel costs in 1974 for the slightly more than one billion gallons Pan Am will consume would amount to \$306 million--and this at a projected level of operations which is 88% of that performed in 1973. In fact, however, we are forecasting that our average fuel costs will reach 35¢ per gallon during the last six months of this year, and thus, the average cost of fuel during 1974 is expected to be 32¢ a gallon. Consequently, Pan Am is forecasting a fuel bill for 1974 at \$339 million, an increase of almost \$169 million over 1973. This increase is equivalent to 12% of Pan Am's forecast transportation revenues in 1973--a year in which, due to increased fuel prices, the Company lost \$18.4 million.

Pan Am has taken and will continue to take every conceivable step to reduce its costs and increase its revenues while maintaining adequate service for the traveling public.

Thus, Pan Am has sought and received authority from the Civil Aeronautics Board to suspend service at a number of points. It has also, both unilaterally and following capacity reduction agreements with other carriers, reduced its schedules substantially. It has laid off some

2,474 employees in the past four months. It has sought to reduce costs in every other conceivable fashion.

Pan Am has also instituted vigorous fuel conservation practices which saved 21 million gallons of jet fuel during the last six months of 1973, and which it estimates will save an additional 41 million gallons during 1974.

We have also, of course, applied for and received some fare and rate increases, and we have additional requests for fare and rate relief pending. However, we must offset against the increased profitability from those fare increases some loss of traffic due to price elasticity. We have to keep this factor constantly in mind in applying for additional fare increases.

Because the FEO relief I described earlier can, at best, only deal with the \$60 million US portion of our estimated \$169 million fuel cost increase for 1974, Pan Am, along with other US-Flag airlines, is discussing ways to obtain relief from the substantially higher cost of fuel used in international service, including fuel purchased at foreign points over which FEO has no jurisdiction. In Pan Am's case, you will recall, some 54% of our total fuel must be purchased abroad, where fuel prices are already higher than current bonded levels in the U.S. Moreover, per-gallon fuel costs at some of Pan Am's foreign points have reached exotic proportions--Karachi - 59.46¢, Kinshasa - 65.95¢, and Ankara - 62.58¢.

Relief for the US Domestic Airline System is available in existing law and regulation. The Civil Aeronautics Board is in full control of rates and fares, and can thus permit prompt flow-through of increases in fuel costs. The Federal Energy Office has wide powers to control

the supply and price of domestic fuel. However, with respect to international air services, fares and rates cannot be promptly adjusted to cope with higher costs. Fares and rates are set by international negotiations. And regardless of rapidity of response, some governments are unlikely to approve fare increases high enough to cover increased fuel prices. And there is, of course, no US control over the supply or price of fuel at foreign points.

Finally, it is certain that there will continue to be international air commerce. No acceptable alternative transportation is available. Surface shipping services are no longer adequate. The question now is will the US-Flag System be able to continue its role of preeminence in the world of international air commerce? It cannot do so without help from its government in this critical fuel emergency. We can be certain that foreign governments will make sure that their Foreign-Flag Airline Systems are kept viable and vigorous in order that they may serve the national interests of such governments.

As indicated earlier, Pan Am and probably other U.S.-Flag airlines are in no position to pay anything like the added fuel costs with which we are confronted. In Pan Am's case, there is no realistic possibility of recovering such fuel cost increases through rate and fare adjustments.

It is evident that there is an immediate need for financial assistance, probably retroactive to November 1, 1973, by a number of scheduled air carriers if they are to continue to carry out their assigned role of providing transportation in the public interest and for the commerce, Postal Service and national defense of the United States. This immediate need has been created solely by the current energy and fuel crisis. As is well known, this present crisis was caused by an international political

crisis of the greatest magnitude. It was caused by nations not airline managements. Deeply involved in this serious international crisis is our own Government. Would it not be a tragedy, or a most serious defeat, if our Government were to win its objectives in the Middle East but lose its predominant position in foreign air commerce. This loss of position in foreign air commerce is put in proper perspective when you bear in mind that the two US-Flag air carriers most adversely affected by this fuel crisis carry approximately three-fourths of this country's total scheduled passenger foreign air commerce and approximately 50% of the cargo. If, as a country, we lose our position in foreign air commerce, our predominant position in the field of US aircraft sales abroad might also be lost.

It is not known how long this crisis will last. We earnestly hope that it will end shortly. But in the interim the US-Flag air carriers must be kept in a position to be able to maintain their activities on the same footing as their Foreign-Flag competitors. You can be sure that the foreign airlines which are all supported and generally owned in whole or in part by their own governments will be kept intact.

My appeal to this important Subcommittee is that it sponsor legislation in whatever form it sees fit to adopt for the purpose of providing relief, including financial relief, to meet this fuel emergency situation of the US-Flag Airline System, and that in doing so it make clear that our US-Flag System must be preserved in its position of worldwide leadership in international air services because of its importance to the national interests of the United States, including our commerce, our Postal Service, and our national defense. As the President of the

United States said on February 13, 1974, in his address to the Congress, "Let us maintain our worldwide supremacy in air commerce."

In seeking a way in which the US Government can provide the interim relief required by its own Flag airlines, we find one possibility to be to amend Section 410 of the Federal Aviation Act. The present provisions of that Section, for example, could be made paragraph "(a)" and a new paragraph "(b)" could be added. In "(b)" it would be the intent to provide that it is in the public interest that the US-Flag System be preserved and that to achieve this objective in the event of any crisis, such as the one with which we are now confronted and which is beyond the control of airline managements, and not permanent in nature, the CAB is empowered and directed to fix and determine, without reference to the provisions of Section 406 of the Act, the amount of government financial aid necessary to effect such preservation of the system. All certificated US-Flag airlines operating internationally would be eligible to apply to the CAB for such aid. The order of the CAB (made in accordance with appropriate regulations established by it) would then be processed through the appropriations channels of the Congress.

My appeal to this important Subcommittee is that it sponsor legislation in whatever form it sees fit to adopt for the purpose of providing relief, including financial relief, to meet this fuel emergency situation of the US-Flag Airline System, and that in doing so it make clear that our US-Flag System must be preserved in its position of worldwide leadership in international air services because of its importance to the national interests of the United States, including our commerce, our Postal Service, and our national defense. As the President of the United States said on February 13, 1974, in his address to the Congress, "Let us maintain our worldwide supremacy in air commerce."

ATTACHMENT A

APPENDIX K—LETTER FROM HON. ARTHUR F. SAMPSON TO
HON. WILLIAM S. MOORHEAD

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., September 18, 1973.

HON. WILLIAM S. MOORHEAD,
Chairman, Subcommittee on Foreign Operations and Government Information,
Committee on Government Operations, House of Representatives, Wash-
ington, D.C.

DEAR MR. MOORHEAD: This is in further response to your letter of July 17, 1973, concerning the proposal for a worldwide air shuttle system to transport the Government's overseas travelers.

During the Subcommittee hearings on the economy and efficiency of international air travel by Government officials, we testified that the General Services Administration, supported by other agencies, was progressing toward the development of initial plan to reduce the cost of official international air travel. In this regard, we have sent the enclosed letter, which sets forth a definitive plan to accomplish this objective, to all agency heads requesting their views on the proposed air charter system with regard to its adequacy in terms of their international travel requirements.

When agencies' travel projections are received and evaluated, a determination of the economic and operational feasibility of the air charter system will be made based upon the number of seats to be purchased each month by the civil agencies and the Department of Defense. We will advise you further at that time.

In the meantime, if we can be of any further assistance, please let us know.
Sincerely,

ARTHUR F. SAMPSON, *Administrator.*

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., August 14, 1973.

To: Heads of all Departments and Agencies.

We very much appreciated your agency's prompt response to my request dated November 7, 1972, for statistical data required to study international air passenger costs and requirements of the civilian agencies. The information developed from this survey has been most helpful in our evaluation of these costs and analyzing the potential for effecting economies.

Since July 1972, following hearings by the Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations, the General Services Administration (GSA), supported by other civil agencies, has been engaged in concerted efforts to reduce the cost of civil agency official international air travel. This has involved a series of definitive meetings with the scheduled and non-scheduled U.S.-Flag International Airlines. These discussions have centered around four conceptual options for lowering the cost of transporting Federal employees overseas. (The options are: (1) extension of Category Z (military) tariffs to all official international air travel; (2) varying Category Z type fares to avoid peak traffic days; (3) contracting for blocked space on regularly scheduled flights, and (4) contracting for full paneload charter flights.

To date, GSA's proposals to the airlines have been unproductive with regard to the broad application of reduced air fares on the basis of individual travel or blocked space contracts. The civil agencies, therefore, must initially look to the feasibility of an air charter system with U.S.-Flag International Airlines as a means of achieving lower fares for official international travel.

On July 3, 1973, representatives of General Services Administration, Department of Defense, and Department of State reached an agreement regarding a proposed plan and a tentative route structure for an initial air charter system

designed to reduce the cost of civil agency and Department of Defense official international air travel.

The proposed plan would combine civil agency international air travel requirements with those of the Department of Defense on a tentative route structure from Dulles International Airport, Washington, D.C., to McGuire AFB, New Jersey; London, England; Frankfurt, Germany; and Rome, Italy. The schedule will provide a round trip three times per week. Other final destinations are anticipated by connection with regularly scheduled air service at these points.

Implementation of the system would be accomplished by expansion of current Department of Defense (DOD) air charter contracts with U.S.-Flag International Airlines. The DOD air charter contracts are at a seat-mile cost slightly below 2 cents per mile. The civil agencies currently pay more than 7 cents per seat-mile at tourist air fare rates on the scheduled airlines. The commercial aircraft chartered by DOD on the planned route are configured to carry 165 passengers, and are modern jet aircraft currently in commercial service with the scheduled U.S.-Flag International Airlines and the Supplemental (charter) Airlines. The cabin service is superior to tourist class and the leg room comparable to that in first class sections.

Based on the current level of commercial air fares, our statistical analysis indicates that an average round trip transportation cost savings of \$350 per charter passenger could accrue to the civil agencies on the proposed route. This computation includes an averaging of additional air transportation costs for civil agency travelers terminating on the charter short of their final destination, but does not include additional per diem which could be incurred in some cases. On this particular route, additional savings for the Department of Defense would also be anticipated through transportation of personnel now traveling at higher Category Z rates.

In view of the foregoing and with reference to the previous statistical and cost data furnished by your agency, we will appreciate your views on the proposed air charter system with regard to its adequacy in terms of your agency's travel requirements.

In addition, based on a per seat cost of approximately \$100 one way to any of the destinations listed on the proposed system, please provide a six-month projection of the number of travelers per month that could be expected to utilize the charter system including the beyond traffic, with particular emphasis on a firm projection for the months of October, November, and December, beginning October 1, 1973.

A subsequent determination of the economic and operational feasibility of the air charter system will be made based on the total number of seats to be purchased each month by the civil agencies and the Department of Defense.

We will appreciate your reply by September 7, 1973. If there are any questions, please contact Mr. Budd Faught, Federal Supply Service, 703-557-8797 (IDS 16-78797).

Sincerely,

ARTHUR F. SAMPSON, *Administrator*,

ATTACHMENT B

APPENDIX J.—LETTER FROM HON. WILLIAM S. MOORHEAD TO HON.
ARTHUR F. SAMPSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

HOUSE OF REPRESENTATIVES,
FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., July 17, 1973.

HON. ARTHUR F. SAMPSON,
Administrator, General Services Administration,
Washington, D.C.

DEAR MR. ADMINISTRATOR: In concluding the Subcommittee hearings on the economy and efficiency of international air travel by Government officials, I pointed out that "the Administrator of GSA is to prescribe policies and methods of procurement for nonpersonal services—including transportation—to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service. While he is to give due regard to the program activities of the Executive agencies, it is the GSA Administrator who has the statutory authority and responsibility for prescribing policy and deciding on what methods shall be used to transport the Government's overseas travelers."

Subsequent to the hearings, I have had the Subcommittee staff study both the DOD and non-DOD overseas passenger traffic which was transported on regularly scheduled airlines during 1972. On the basis of the study and discussions with personnel of State and DOD, it would appear that there is a very real potential for substantial monetary savings to the Government by the operation of a worldwide chartered air shuttle system between Washington, D.C., and the shuttle stops shown on the attachments hereto.

I currently understand that it is planned to begin operation of the first of these shuttles—to the cities in Europe—on October 1, 1973. I sincerely hope that there will be no further delay in establishing the Europe shuttle. I would also urge that the remaining three shuttles be put into operation without much delay thereafter.

In this regard, I think it is well recognized that DOD is currently the Government's expert in operating chartered air transportation services. Further, based on the 1972 passenger statistics, it would seem that 75 percent of the Government's traffic on these shuttles will be DOD personnel, though the non-DOD overseas passenger movements for 1972 appear to be understated. In view of DOD's expertise and also considering that DOD would be the major user, it would seem that you should designate DOD as the single manager to operate chartered air transportation services to move a mixture of defense and civil agency travelers.

By permitting DOD to handle the operational phase of the international transportation of all Government personnel—including reservation systems, passenger handling, and direct billings to using agencies—GSA could then concentrate more fully on determining whether a similar system could be established for the domestic air transportation of all Government personnel.

I would appreciate your comments and assurances that you will promptly designate DOD as the agency to manage and operate a worldwide air shuttle system to transport the Government's overseas travelers!

I would also appreciate it if you will provide an estimate of the annual cost to the Government of subsidy programs—such as mail, airport aid, air traffic control, and so forth—which directly benefits the airline industry.

With warm personal regards,

Sincerely,

WILLIAM S. MOORHEAD, *Chairman.*

Atts.

POTENTIAL SHUTTLE¹
EUROPE

Shuttle stop and passenger destination	1972 traffic		
	Category Z	Civil	Total
London, England:			
United Kingdom	6,817	919	7,736
Ireland	21	45	66
France	1,024	1,044	2,068
Belgium	2,910	373	3,283
Netherlands	1,209	227	1,436
Denmark	251	95	346
Norway	446	81	527
Sweden		159	159
Finland		55	55
Total	12,678	2,998	15,676
Frankfurt, Germany:			
Germany	9,446	973	10,419
Luxembourg		18	18
Switzerland	66	513	579
Czechoslovakia		55	55
Poland		202	202
U.S.S.R.		337	337
Hungary		72	72
Total	9,512	2,170	11,682
Rome, Italy:			
Italy	13,107	602	13,709
Malta		19	19
Tunisia		352	352
Libya		26	26
Bulgaria		35	35
Austria		211	211
Yugoslavia		495	495
Rumania		73	73
Total	13,107	1,813	14,920
Grand total	35,297	6,981	42,278

¹ Alternating: Washington-London-Frankfurt-Rome-Washington, Washington-Rome-Frankfurt-London-Washington.
Note: Based on passenger traffic moved during 1972. Does not include potential post to post passengers.

POTENTIAL SHUTTLE
AFRICA AND MEDITERRANEAN

Shuttle stop and passenger destination	1972 traffic		
	Category Z	Civil	Total
Madrid, Spain:			
Spain ¹	2,186	238	2,424
Portugal	381	85	466
West and South Africa	1,194	3,447	4,641
Total	3,761	3,770	7,531
Athens, Greece:			
Greece	6,153	261	6,414
East Africa	292	999	1,291
Yemen		12	12
Israel	88	302	390
Jordan		60	60
Total	6,533	1,634	8,167
Istanbul, Turkey:			
Istanbul, Turkey	4,259	45	4,304
Lebanon	672	171	843
Syria		2	2
Total	4,931	218	5,149

¹ See footnote at end of table.

POTENTIAL SHUTTLE—Continued
AFRICA AND MEDITERRANEAN—Continued

Shuttle stop and passenger destination	1972 traffic		
	Category Z	Civil	Total
Ankara, Turkey:			
Ankara, Turkey.....	4,727	327	5,054
Cyprus.....		73	73
Iraq.....		3	3
Kuwait.....		43	43
Saudi Arabia.....	13	87	100
Bahrain.....		1	1
Trucial States.....		12	12
Iran.....	1,834	251	2,085
Afghanistan.....		335	335
West Pakistan.....		326	326
India.....	51	991	1,042
Nepal.....		220	220
East Pakistan.....		150	150
Ceylon.....		41	41
Total.....	6,625	2,860	9,485
Grand total.....	21,850	8,482	30,332

¹ Department of Defense is currently operating category B service from McGuire to Torrejon (Madrid) Spain.

Note: Based on passenger traffic moved during 1972. Does not include potential post to post passengers.

POTENTIAL SHUTTLE
PACIFIC AND FAR EAST

Shuttle stop and passenger destination	1972 traffic		
	Category Z	Civil	Total
Honolulu:			
Hawaii.....	24,367	714	25,081
New Zealand.....	155	47	202
Australia.....	498	245	743
Guam.....	1,417	185	1,602
Other South Pacific Islands.....	33	447	480
Total.....	26,470	1,638	28,108
Tokyo:			
Japan.....	2,873	647	3,520
Korea.....	1,291	439	1,730
Peking, China.....		3	3
Okinawa.....	1,861	19	1,880
Taiwan.....	945	355	1,300
Total.....	6,970	1,463	8,433
Hong Kong:			
Hong Kong.....	248	216	464
Canton, China.....		1	1
Philippines.....	1,648	911	2,559
Indonesia.....	34	301	335
Total.....	1,930	1,429	3,359
Saigon:			
Vietnam.....	2,927	921	3,848
Cambodia.....		105	105
Total.....	2,927	1,026	3,953
Bangkok:			
Thailand.....	2,196	1,234	3,430
Burma.....		66	66
Laos.....		637	637
Malaysia.....	3	299	302
Sumatra.....		9	9
Singapore.....		94	94
Total.....	2,199	2,339	4,538
Grand total.....	40,496	7,895	48,391

Note: Based on passenger traffic moved during 1972. Does not include potential post to post passengers.

POTENTIAL SHUTTLE¹
LATIN AMERICA

Shuttle stop and passenger destination	1972 traffic		
	Category Z	Civil	Total
Miami:			
Bahamas.....		73	73
Jamaica.....		419	419
Merida, Mexico.....		1,217	1,217
Cuatemala.....		500	500
British Honduras.....		178	178
Honduras.....		163	163
El Salvador.....		388	388
Nicaragua.....		153	153
Total.....		3,091	3,091
Canal Zone:			
Panama.....	4,586	3,614	8,200
Costa Rica.....		223	223
Colombia.....		638	638
Venezuela.....	48	359	407
Guyana.....		119	119
Surinam.....		9	9
French Guiana.....		5	5
Brazil.....	281	973	1,254
Paraguay.....		150	150
Uruguay.....		120	120
Argentina.....	203	412	615
Chile.....	72	253	325
Bolivia.....	66	186	252
Peru.....	65	375	440
Ecuador.....		473	473
Total.....	5,321	7,909	13,230
San Juan:			
Puerto Rico.....	11,356	712	12,068
Dominican Republic.....		246	246
Haiti.....		67	67
Leeward Islands.....		111	111
Windward Islands.....		89	89
Trinidad.....		72	72
Dutch Antilles.....		16	16
Total.....	11,356	1,313	12,669
Grand total.....	16,677	12,313	28,990

¹ Alternating: Washington-Miami-Panama-San Juan-Miami-Washington. Washington-Miami-San Juan-Panama-Miami-Washington.

Note: Based on passenger traffic moved during 1972. Does not include potential post to post passengers.

ATTACHMENT C

GOVERNMENT AIR SHUTTLE VS. U. S. FLAG SCHEDULED SERVICE
COST ANALYSIS -- CIVIL TRAFFIC

Between Washington and:	Shuttle Cost To/From European Gateways	Connecting Foreign Flag Carrier Cost	U. S. Govt. Revenue Loss**		Ground Transfer Cost	Layover Per Diem Cost	Productive Day Salary Loss	Shuttle Service Cost	Scheduled Service Cost	Shuttle Service	
			\$	Loss**						Reduces Cost	Increases Cost
London, U. K.*	111.50	\$ 38.10	\$ -	22.90	5.00	\$ -	70.00	\$ 111.50	\$ 280.60	\$ 169.10	\$ 31.70
Dublin, Ireland	111.50	40.50	44.00	24.30	5.00	44.00	70.00	291.50	259.80	1.40	
Paris, France*	111.50	46.20	44.00	27.80	5.00	44.00	70.00	295.30	296.70		7.80
Brussels, Belgium*	111.50	44.00(1)	44.00	-	5.00	44.00	70.00	304.50	296.70		
Amsterdam, Neth.*	111.50	106.60(1)	44.00	-	5.00	44.00	70.00	274.50	296.70	22.20	
Copenhagen, Denmark*	111.50	116.50	44.00	69.90	5.00	44.00	70.00	337.10	324.90		12.20
Oslo, Norway*	111.50	142.60	44.00	85.60	5.00	44.00	70.00	419.90	317.40		102.50
Stockholm, Sweden*	111.50	120.70	44.00	72.40	5.00	44.00	70.00	458.70	339.90		118.80
Helsinki, Finland	111.50	-	-	-	-	-	-	309.60	354.10	44.50	
Frankfurt, Germany*	111.50	36.20(2)	-	-	-	-	-	111.50	317.40	205.90	
Luxembourg	111.50	64.70	40.00	38.90	5.00	40.00	70.00	147.70	305.70	158.00	
Geneva, Switzerland*	111.50	65.50	40.00	39.30	5.00	40.00	70.00	330.10	317.40		12.70
Prague, Czech.*	111.50	113.90	40.00	68.40	5.00	40.00	70.00	331.30	333.40	2.10	
Warsaw, Poland*	111.50	233.00	40.00	139.80	5.00	40.00	70.00	408.80	357.90		50.90
Moscow, U. S. S. R.*	111.50	73.60	40.00	44.20	5.00	40.00	70.00	599.30	431.90		167.40
Budapest, Hungary	111.50		-	-	5.00	-	-	234.30	329.90	95.60	

*Has direct U. S. Flag scheduled service.

**See Attachment E for explanation of formula. Amounts are 60% of the connecting foreign flag carrier cost.

(1)U. S. Flag connection used.

(2)No U. S. Flag service to Luxembourg.

See Attachment D "Rationale of Costs" for cost data.

ATTACHMENT D

GOVERNMENT AIR SHUTTLE VS. U. S. FLAG SCHEDULED SERVICE
COST ANALYSIS -- MILITARY TRAFFIC

Between Washington and:	Shuttle Cost To/From European Gateways	Connecting Foreign Flag Carrier Cost	U. S. Govt. Revenue Loss*	Ground Transfer Cost	Layover Per Diem Cost	Productive		Shuttle Service Cost	Scheduled Service Cost	Shuttle Service Reduces Cost Per Passenger
						Day	Loss			
London, U. K.	\$ 111.50	\$ -	\$ 22.90	\$ -	\$ -	\$ -	\$ -	\$ 111.50	\$ 156.87	\$ 45.37
Dublin, Ireland	111.50	38.10	24.30	5.00	44.00	23.00	23.00	244.50	151.07	93.43
Paris, France	111.50	40.50	27.80	5.00	44.00	23.00	23.00	248.30	157.87	90.43
Brussels, Belgium	111.50	46.20	-	5.00	44.00	23.00	23.00	257.50	164.77	92.73
Amsterdam, Neth.	111.50	44.00	-	5.00	44.00	23.00	23.00	227.50	163.97	63.53
Copenhagen, Denmark	111.50	106.60	-	5.00	44.00	23.00	23.00	290.10	165.97	124.13
Oslo, Norway	111.50	116.50	69.90	5.00	44.00	23.00	23.00	369.90	159.47	210.43
Frankfurt, Germany	111.50	-	-	-	-	-	-	111.50	172.07	60.57
Geneva, Switzerland	111.50	64.70	38.90	5.00	44.00	23.00	23.00	287.10	172.37	114.73

*See Attachment E for explanation of formula. Amounts are 60% of the connecting foreign flag carrier cost.
Rationale for costs: the following factors were used:

- To be timely with other submissions, cost/fare data effective August 1, 1973 was utilized.
- Traffic flow data from Attachment B
- \$111.50 shuttle passenger costs are based on \$100 per seat cost to destination per Attachment A. Using a 100% utilization on the Washington-London sector, the above mentioned traffic flow data indicates an 94.4% average seat factor. Additionally, a modest 5% allowance is made for imbalanced traffic, no shows, low season utilization; etc.
- Shuttle service will result in passengers requiring layover at the connecting points with both per diem cost and productive day's salary cost (State Dept. average \$70, DOD \$23.).

Tax Revenue Loss

The proposed Air Shuttle requires considerable expenditures for connecting foreign flag carriers to/from the overseas points of origin/destination, i. e., Moscow, Vienna, Warsaw, etc. This represents a diversion from expenditure that would and should be placed with U. S. Flag carriers and thus remain in the mainstream of the United States economy. Recognition must be given to the loss of tax revenues which will result from the implementation of the program. This revenue loss would include the tax revenues arising out of the entire stream of incomes generated by their expenditures and by subsequent stages in the income-expenditure generation or "multiplier" process. While the size of the "multiplier" -- the ratio of the ultimate increase in the Gross National Product to the initial autonomous expenditure -- varies over time and with the type of expenditure, a number of economists accept a numerical value of two as a reasonable approximation or rule of thumb.¹ Another widely accepted rule of thumb is that for every dollar of extra GNP, the federal budget surplus is increased by about 30 cents.² Thus, a dollar increase in Government purchases, as a result of generating two dollars of GNP, should be expected to increase the surplus (or reduce the deficit) by 60 cents.

Therefore, conversely for every \$100 spent on foreign flag carriers, that could have been retained in the U. S. economy by using direct U. S. Flag services, the Government loses some \$60 of income.

1/The President's Council of Economic Advisers estimated in 1963 that the ultimate effect of an increase in consumption of \$8 billion would be an increase in GNP of roughly \$16 billion. (Economic Report of the President, January 1963, p. 48.)

2/Otto Eckstein, Public Finance, Foundations of Modern Economics Series (Prentice-Hall, Inc., Englewood Cliffs, N. J. 1964) p. 89.

CIVIL AERONAUTICS BOARD
WASHINGTON, D.C. 20428

September 10, 1973

Honorable Arthur F. Sampson
Administrator
General Services Administration
Washington, D.C. 20405

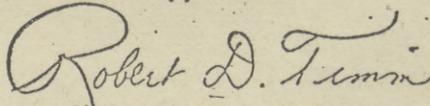
Dear Mr. Sampson:

This is in response to your letter of August 14, 1973, requesting the Board's views on a proposed air charter system for civil agency personnel travel and a six-month projection of Civil Aeronautics Board travelers that could use such a system.

At this time, the Board has no comment on the merits of the proposal because these matters may come before the Board at a later date in the normal exercise of its regulatory functions.

A six-month travel projection shows that the Board may have approximately two travelers a month on average who could utilize the proposed service, including two travelers a month each for October, November and December 1973.

Sincerely,


Chairman

Wasteful Expenditures of International Balance of Payments Dollars

The unneeded thrice weekly Air Shuttle will require the following annual foreign expenditures:¹

- Unneeded connecting foreign flag carrier expenditures:		
DOD	=	\$232,943
Other Government offices	=	<u>231,661</u>
		\$464,604
- Landing fees - Boeing 707:		
London	\$807 x 312 =	\$251,784
Frankfurt	\$653 x 156 =	<u>\$101,868</u>
		\$353,652
- Fuel: ²		
21,400 gallons per trip x 156 trips		
at an average price of .16¢ per gallon = \$534,144		
- Enroute navigational charges		
\$577.68 x 156 trips	=	<u>\$ 82,998</u>
		<u>\$617,142</u>
	Total	\$1,435,398
- Foreign ground handling expenses are not included in the above.		

In terms of foreign currency, the dollar has depreciated by 21.13¢ between June 1970, when the dollar was first challenged, and August 1973. Unwarranted expenditures of this kind contribute to the continued depressed value of the dollar abroad.

1/The base period of August 1973 was used for all costs. Projected fuel costs have more than doubled, other costs have increased considerably.

2/The Air Shuttle operator will use foreign fuel, including "in bond" fuel in U. S. A. - all stations except McGuire AFB.

REVENUES DIVERTED FROM PAN AM

Mr. RICE. The shuttle will divert from Pan American on European flights \$7 million yearly; on the worldwide basis, if implemented, it is going to be \$20 million yearly.

A considerable amount of this money will go to our foreign competitors.

Since 1969, as you know, we have lost \$17 odd million. We thought we saw the light for the first 9 months of this year and we wound up actually after the fuel crisis losing money. It was unfortunate and very disappointing.

Chairman Bill Sewell testified 2 weeks ago to the Senate Aviation Subcommittee of the Commerce Committee. I want to submit this testimony as part of our record.

I would like to take note of a couple of pertinent points. Pan American is forecasting a fuel bill for 1974 of \$339 million. That is an increase of almost \$169 million over 1973.

This is equivalent to 12 percent of Pan Am's forecast of transportation revenues in 1973, in which we lost \$18.4 million.

Pan American has taken and will take every step conceivable to reduce its rates and increase its revenues while maintaining adequate service for the public. However, the effect of the increased fuel costs are beyond management's control.

Mr. Moorhead's committee, in recommending the shuttle, overlooked several very important policies and fiscal considerations vital to the overall U.S. welfare. These factors include legal, moral, total cost comparisons, fuel waste, international balance of payments losses, use of foreign-flag carriers as a competitive tool against use of the U.S.-flag carrier system. Also Government employee productivity losses, and other important considerations. Furthermore, the claims of savings fail to include major considerations inherent to the air shuttle program.

SUPPLEMENTAL CARRIERS

I would like to skip on into the supplemental carriers here which become a point of interest. Any consideration to provide a special award of Government travel revenue to supplemental carriers would be truly inequitable. The U.S. air carriers are a heavily regulated industry and the present delicate balance should not be trifled with willy-nilly; 87.7 percent of the proposed shuttle traffic will generate from the Department of Defense. Over many years DOD has developed, implemented, and updated a procurement policy that is especially designed to encourage aircraft modernization and increase the capability for emergencies.

All carriers, both scheduled and supplemental, share equitably in this program which is based on the number, type of aircraft made available for times of emergency.

The DOD procurement policies are cleared through, approved by appropriate congressional committees. These policies should not be subverted. Deliberate diversion of traffic from scheduled carriers weakens their position in the competitive struggle for a greater share of the world market of passengers, cargo, and mail. On the other hand, support, assistance, and increasing schedules is a major factor in increasing the market.

SAVINGS FOR GOVERNMENT

Getting on to the savings of the Government, the General Service Administration forecasted a savings of \$175 per shuttle passenger, or \$350 round trip. Roughly, this should save some \$10 million on the Atlantic. However, major experiences directly related to the charter program which are necessary to provide a fair cost comparison were overlooked. For example, no transfer of costs to connecting airlines were included, nor was U.S. tax revenue loss due to diversion of dollars are necessarily spent on foreign-flag carriers.

Additional per diem costs as well as productive day salary costs, there was no evaluation of the costs for administration, reservation services, ground handling and the like.

Using the hearings data detailed cost comparisons which we have in our submission for certain civil and DOD traffic between the Government charter program and scheduled service show an average savings of only \$51.98 for civil Government passengers and \$13.99 for DOD passengers. Total yearly savings would be a mere \$570,000 in the Atlantic area with no cost as I said before included for administration, reservations, and so forth.

There is one other major cost factor that has to be also considered. I said that 87 percent of the traffic was potential passengers that were category Z passengers in 1972. In response to the shuttle we can be expected to cancel out the category Z fares if they are not going to be generally used. As low frequency shuttle service will not be responsive and usable to all of those urgent and timely missions that some of the DOD people have to accomplish some will be paying higher fares.

They will be paying the economy fare rather than the CAB category Z fare. If only 20 percent of the passengers of category Z continued to require the use of schedule service the additional expenses will be over \$600,000 putting the air shuttle program in the Atlantic area in the red.

There is a very serious question as to the inputs and methods used to arrive at this \$20 to \$30 million savings from the shuttle. We have seen nothing that equates to anything but a very marginal profit without many factors that have to be considered.

FOREIGN-FLAG SERVICE

I am not going to get into the legal problem. That has been worn out. But there is really one major problem with the diversion of traffic from the U.S.-flag carriers to foreign flag.

Over 7,000 passengers will be using connecting foreign-flag service. This total group of over 7,000 will be paying more in the total cost comparison for the connections when they use the foreign-flag carriers than they would be when using Pan Am or TWA even more amazing, some of the DOD travelers that have been put into the examples used will be paying more for just transportation via Frankfurt on to Moscow, for example, than they would be on Pan Am.

In effect, the Government intends to set up a combination of U.S.-flag service and foreign-flag scheduled services to compete with their own tightly regulated U.S.-flag scheduled carriers. Another factor is that there will be under the shuttle program 5½ million

gallons of fuel wasted every year in the Atlantic area. We will continue to maintain same levels of service we have in the Atlantic area. We did at one time as you probably know, just recently tried to reduce service out of Baltimore. The CAB under our certificate of convenience and necessity had to continue serving. So, the air-shuttle program is going to waste a hell of a lot of fuel at one time. Excuse the word.

There is also a wasteful expenditure of \$1½ million, the gold flow, which is going to go into foreign-flag carriers, landing fees, even route navigational charges and so forth. There is a sheet in my attachment that explains it in detail.

As I said before we have lost \$171 million over the last 5 years. We are suffering from excessive competition. Three U.S.-flag carriers, 26 foreign scheduled carriers, 5 U.S.-flag, and 14 foreign-charter carriers, to supplement the competition. The Government now proposes another diversion of traffic. We have another major problem. Our yields are way down compared to our domestic carriers. We are more than 1 cent below in yields. If we had the same yields in the overseas market that our major trunk domestic carriers got in 1972, we would have had an operating profit of \$146 million.

LANDING FEES

Everyone wants the discounts from our overseas carriers. We have given it. Our landing fees are excessive. Look at this: To land at Sydney it costs \$4,199, and \$1,965 for a 707. At Amsterdam it is over \$1,000. At Paris, \$1,200 for a 707, Tokyo, \$1,200, New York is only \$373 for the same airplane. A 747 lands at Miami for \$68, and at Los Angeles for \$178.

In summary, there is a real serious unresolved legal problem. The charter proposes to divert Government travel from U.S.-flag carriers to a combination of foreign-flag and U.S. chargers.

Using this method would be 55.4 percent of the non-DOD traffic, usually at higher costs. The major fuel waste, there is a diversion of dollars, the elimination of category Z fares will cause an expense item to the Government. There is a real moral factor involved here. For example, a State Department employee might arrive in Moscow by the Russian airlines and a Pan American aircraft arriving at the same time. Using this method it would have cost the Government \$167.40 more in using their own U.S.-flag carrier. When totally evaluated it will be both costly to the Government and it is not in the national interest.

In conclusion, there is absolutely no valid reason to inaugurate the Government air shuttle. Pan American urges this important subcommittee to direct the General Services agency to defer any implementation until all appropriate committees have an opportunity to review and evaluate the program.

Thank you, very much.

Senator BELLMON. Thank you, sir.

Mr. Taylor, do you have a statement?

PREPARED STATEMENT

Mr TAYLOR. I would like to stand on my written submission, Senator.

Senator BELLMON. You have nothing to volunteer orally?

Mr. TAYLOR. I think maybe the most important point is that we do believe the proposal is in derogation of the intent of Congress as announced in the policy declaration of the Federal Aviation Act.

Thank you.

Senator BELLMON. That is the thrust of your statement?

Mr. TAYLOR. Yes, sir.

Senator BELLMON. The statement will be made a part of the record.
[The statement follows:]

My name is Thomas K. Taylor, Vice President-Government Affairs of Trans World Airlines, Inc. We would first express our appreciation to the Committee for affording us this opportunity to appear and make known our views on the matter you are considering today.

In a basic and fundamental sense, the policy issues here involved are about 20 years old. From 1954 to 1960, there was a protracted debate about the impact of government operated air services on United States civil air carriers. This debate generated volumes of reports by a number of committees of the Congress and special studies by groups ranging from the old Air Coordinating Committee to the Hoover Commission. Among the sub-issues of the broader question was the authority of the Civil Aeronautics Board to establish rates for the carriage of Defense Department traffic by civilian airlines.

While we are dealing with a somewhat different aspect of the matter today, there is precedential value in the reports dated back to 1955. One of the most perceptive of these was prepared by the parent committee of this subcommittee in 1957. The theme of that report is reflected in one sentence which reads "We do not feel that sufficient effort has been made by the Department of Defense in the international and overseas field to 'adjust its use of air transportation so as to use existing unutilized capacity of United States Air Carriers'".

The inquiry of the late fifties had to do with whether the Military Air Transport Service (MATS), as it was then called, was being operated excessively, expensively and unnecessarily to provide airlift that was otherwise available on U. S. certificated carriers. That matter was resolved fairly satisfactorily 14 years ago, including the question of who was to set the rates at which the Department of Defense procured commercial lift. MATS was moved off routine "channel" operations and told to concentrate more on hard core military activities. To the extent MATS used commercial carriers, the Civil Aeronautics Board set the fares for passengers and rates for cargo.

As I said a few moments ago, we are dealing with a somewhat different aspect of the matter today. Instead of facing competition from airplanes owned by the government and flown by MATS, we would now face competition from airplanes owned by civil carriers and chartered by the government. Nevertheless, the policy issue remains the same.

That issue, in our opinion, is whether the policy of the government is to support or to subvert the U. S. flag civil, certificated and regularly scheduled air transport system. A parallel question is whether our long-suffering stockholders, and our customers who pay published tariff rates and fares, are to maintain and pay for a world wide transport system while Uncle Sam looks for a special and discriminatory service which would impact adversely on the system as a whole. The resources afforded to our country by the global operation of the scheduled airlines have been found repeatedly to be in the public interest. They are important to our national defense, to the commerce of the United States and to the Postal Service.

It was for these reasons that MATS was asked to move over and suspend services flown on our regular routes. And it is for these same reasons that a new government airline should not be permitted to operate an 'overlay' on existing schedules. There can be no question that the proposed service would be an overlay in the sense that it would be in addition to and not in place of services we now operate. In the interest of saving time, I will not elaborate on this point but the fact is that we are at minimal levels of service in all major international markets right now. Any additional reductions in service would amount to surrendering the markets to foreign air carriers, thus compounding the problem.

This entire matter is particularly critical at the present time; indeed the proposal represents the absolute opposite of what the United States should be doing. U. S. Flag lines operating in foreign air transportation are facing a crisis due in large part to increased costs occasioned by the rise in the price of jet fuel. Foreign air carriers have the same problem to a greater or lesser degree. Their governments, which in most cases own the airlines, are helping them and will see to it they stay in business. The proposal before you, instead of helping us, would undercut us by creating an unnecessary, competitive and duplicative method of transporting government personnel.

One final point should be made. It is also quite a fundamental point of legislative and regulatory policy. The charter program espoused by the Government Operations Committee is in derogation of the declarations of policy adopted by

the Congress when the Federal Aviation Act was enacted. However commendable the actions of that Committee may be in seeking to assure economy in government, I think theirs must be characterized as a keyhole view in this instance.

Congress said it wanted to foster and develop an air transport industry. The Federal Aviation Act instructs the Board to encourage and promote civil air transportation. The policy declaration calls for, at Section 102(c) "The promotion of an adequate, economical and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices."

We believe the proposed Government charter program is in contravention of this policy and are therefore unalterably opposed to it.

CLOSING REMARKS

Senator BELLMON. Gentlemen, in the interest of time I am going to forego asking questions. We appreciate your statements and if we need further information we will be back in touch with you.

Mr. RICE. We also hope that during the course of this study that have been announced, reexamine these issues, that the airline industry will have an opportunity to participate.

Thank you.

ADDITIONAL CORRESPONDENCE

Senator BELLMON. I will insert in the record at this point letters to the subcommittee from American Airlines and Delta Air Lines that tends to support the testimony of you gentlemen.

Again, I thank you for being here this afternoon.

[The letters follow:]

American Airlines

March 19, 1974

Honorable Joseph M. Montoya
Chairman, Subcommittee on Treasury,
U. S. Postal Service, General Government
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

American Airlines supports the position of the Air Transport Association in opposition to the operation of a Government charter air shuttle system pursuant to a policy directive from the House Government Operations Committee to the General Services Administration. Although American would not initially be subject to the diversion of traffic that will result to the U. S. carriers in the North Atlantic market, nevertheless, we believe that this proposal will have a serious impact on the entire U. S. scheduled air carrier industry.

On its face, a system to provide cheaper air transportation for Government employees is a very attractive scheme. We are convinced, however, that an in-depth analysis of the proposed system will demonstrate that the long-range adverse consequences to the scheduled air transportation system far outweigh the dollar savings to the Government. Basically, the proposed Government air shuttle runs afoul of two fundamental concepts of our present framework of regulated air transportation: 1) privately owned and operated air carriers free from Government competition, and, 2) a policy against discount fares for volume users.

The establishment of a Government charter air shuttle system would have the effect of putting the Federal Government in the scheduled air transportation business as an indirect air carrier in competition with private carriers. As the system expands according to the projections of the House Committee to encompass other international and eventually domestic markets, the impact on the private U. S. scheduled carriers will threaten their very livelihood. The Federal Government would soon be operating the largest U. S. scheduled air carrier with a route system that encircles the globe. From this posture, it would be a short step to a nationalized air transportation system.

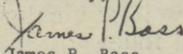
The air shuttle proposal is bottomed on a theory that all Government travel should be discounted because the cost to the carriers to provide the travel would be less than for other revenue passengers. In short, it is argued that volume users, like the U. S. Government, should pay less. Regulatory policy governing discount fares is outlined in the Federal Aviation Act of 1958, as amended, and has been carefully developed by regulations of the Civil Aeronautics Board. Essentially, discount (discriminatory) rates can be justified if the CAB determines that they are truly promotional, or if they serve the needs of the Postal Service or the national defense. Federal civil servants, with the exception of employees of the Department of Defense, do not appear to qualify on these criteria. Furthermore, the regulatory policy governing charter rates does not encompass the kind of system proposed here. U. S. charter policy is

designed to provide reduced rate air transportation to clearly-defined groups on a non-scheduled, individual flight basis. The Government air shuttle system contemplates scheduled operations over a network of predetermined routes.

As a matter of practical airline economics, discount fares have recently been the subject of an extensive CAB investigation as a part of the Domestic Passenger Fare Investigation. The Board has concluded that such discount fares as the youth fare, Discover America fares, and family plans should be eliminated because of their adverse effect on revenue yield and the increased burden on full-fare passengers. The Government charter air shuttle system would have the same effect on the commercial airlines and their passengers.

In summary, the proposal of the House Government Operations Committee to establish a worldwide air shuttle network for Government employees involves a significant departure from the concept of scheduled air transportation in the United States as we know it today. Such fundamental changes should not be made without legislative action by both houses of Congress after a thorough review of the proposed changes by the appropriate congressional committees. Therefore, we recommend that, before this system is permitted to go forward, the Senate Commerce Committee and the House Interstate and Foreign Commerce Committee should have the opportunity to review it.

Sincerely,


James P. Bass
Vice President

DELTA AIR LINES, INC.

March 18, 1974

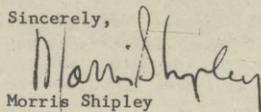
Hon. Joseph M. Montoya
United States Senate
Washington, D. C. 20510

Dear Senator Montoya:

We understand that your Appropriations Subcommittee will soon take up the subject of the establishment of an international air shuttle for government employees, the so-called "GSA Airline". **Delta Air Lines is opposed to the operation of this type of service.** While the initial GSA proposal is strictly international, we foresee the next step being establishment of similar services domestically. The scheduled air patterns have been carefully built over many years and this type of government competition with private industry could have serious consequences.

With the many problems facing the industry and with the current fuel situation, and this operation would mean increased fuel use, **this is not the time for experiments of this type.**

Sincerely,


Morris Shipley
Vice President-
Government Affairs

STATEMENT OF EDWARD J. DRISCOLL, PRESIDENT, NATIONAL AIR
CARRIER ASSOCIATION

ACCOMPANIED BY:

JERROLD SCOUTT

CLAYTON L. BURWELL

Senator BELLMON. Our last panel of witnesses also represent the airline industry. The panel includes Mr. Jerrold Scoutt, attorney for World Airways; Mr. Clayton L. Burwell, counsel for Trans International Airlines, Inc.; and Mr. Edward Driscoll, president of the National Air Carrier Association, Inc.

If you gentlemen will have seats, we will be pleased to receive your testimony.

I understand Mr. Driscoll may be the leadoff witness.

Mr. DRISCOLL. Yes, sir.

PREPARED STATEMENT

Mr. Chairman, I would like to submit my statement for the record and to summarize it or highlight it and make a few comments.

[The statement follows:]

My name is Edward J. Driscoll, and I am President of the National Air Carrier Association which is composed of the leading certificated U.S. supplemental airlines - - the charter specialists of the air transport industry.

I am very grateful for the opportunity to present the views of our industry on the proposal of the General Services Administration (GSA) to provide international air transportation for federal employees traveling on official business, in combination with existing requirements of the Department of Defense.

We understand that the Air Transport Association (ATA), the trade association representing United States scheduled air carriers, has raised certain legal and policy questions about the proposal. Because we feel that the ATA comments incorrectly state the legal and policy implications involved in the GSA proposal, we think it appropriate to give you our own views in order that the various questions which must be answered are considered in a more complete context.

It seems apparent to us that the GSA, as the financial watchdog of the federal government, has a duty to reduce the cost of official government air travel as much as possible, consistent with high standards of safety and service. This is obviously the goal of that agency in exploring the feasibility of an air charter system utilizing U.S. flag carriers. The lower cost to the government or to a private user of chartering aircraft on a full plane-load basis has been demonstrated time and again, and the GSA studies bear this out.

The Air Transport Association has apparently taken the position that the proposed system is illegal. That position is simply incorrect. Any individual, firm or organization may as

a "single entity" charter an aircraft for his or its own use. The Department of Defense, the Agency for International Development and other government organizations have, as "single entities," frequently moved their personnel and cargo by chartering aircraft from scheduled and supplemental airlines. This method is well recognized by the Civil Aeronautics Board (Parts 207 and 208 of the Board's Economic Regulations), and is an important part of the charter services performed by both classes of carrier. The basic requirement with respect to such charters is that a single charterer hires the aircraft and does not resell the capacity--i.e., the individual passengers pay nothing.

There is no reason why the United States government cannot itself be a "single entity" for charter purposes. Indeed, in our view it would be most unfair if the government could not do so: first, this charter method is available to other organizations, and should be available to the government also; second, in our view, if the government fails to utilize low-cost charter transportation, this results in discrimination against the American taxpayer, who, in the end, must pay for the movement of government personnel on official business.

In addition there is no logical reason why the Department of Defense, as an agency of the government, could not be the contracting agent for the proposed system. Since the Department of Defense has had substantial experience in the use of charters, this in itself could significantly cut down on the start-up problems which will be encountered when any new system is installed.

A number of large U.S. corporations utilize single entity charters on a regular basis. Such charters meet the transportation

needs of these corporations, at a cost far below the cost of scheduled service. The government should not place itself in a position of requiring the taxpayer to pay more than is necessary.

We fully agree with the Air Transport Association's point that the U.S. government should not create an airline of its own. However, in this instance, we believe that ATA has misconstrued the facts. The chartering of aircraft for movement of personnel is not tantamount to the creation by the government of its own airline. We are certain that ATA would not assert that the Department of Defense has created its own airline by chartering aircraft from civil carriers for its own use. It should be noted that a large number of scheduled carriers contract with DOD, and make their aircraft available on a charter basis for the transportation of personnel and cargo. Exactly the same principle would apply for the movement of civilian government employees.

We think that ATA's position that international government travel should be performed on scheduled service raises another serious policy question. To require official government travel to be performed only on scheduled service is, in effect, the granting of a subsidy to scheduled air carriers. It would not appear appropriate for the government to do indirectly what it does not do directly.

We are not suggesting, of course, that the proposed charter system be all-encompassing. The tentative route structure suggested by GSA takes advantage of the long-haul economies of charters. On the other hand, short-haul travel on a sporadic

basis would probably not fit well into a charter program. We do see, however, a place for a balanced system of government transportation utilizing the advantages of scheduled and charter service, at the lowest feasible cost consistent with requirements.

For the reasons set forth herein, we strongly recommend that GSA and all other appropriate federal agencies with the Department of Defense immediately implement the proposed program which would make low-cost charter travel available for the movement of all government personnel.

SUMMARY OF STATEMENT

Mr. DRISCOLL. We are pleased at this opportunity to present our views and I might add that we did not inaugurate or in any way suggest this system of chartering. We were contacted by GSA after they had apparently failed in their category Z efforts and asked if chartering would raise certain advantages or give advantages to the Government.

We advised them; yes, we were asked at that time whether we would be interested in submitting proposals to them if they inaugurated this system and we advised them affirmatively. I think it essential, Mr. Chairman, if we can—for purposes of our discussion here, at least from our panel—differentiate between the term charter and the term category Z, because I think the intermingling of those two here this afternoon has raised possibly certain legal and policy issues which are not present in the chartering.

There is no legal prohibition against a Government agency chartering an airplane. They do it today. The Agency for International Development, NASA, Peace Corps, and others charter airplanes for the movement of Government traffic because they find it to be the most economical way of moving traffic.

What GSA is trying to do is follow this system insofar as passenger traffic is concerned and the Civil Aeronautics Board did advise Congressman Moorhead on, I believe, May 18, 1973, in answer to a question he raised, and it quotes in the second paragraph of that letter:

In response to your inquiry as to whether there are any factors which might preclude governmental use of chartered aircraft to transport official Government travelers under current board regulations, a Government agency is eligible to charter an airplane.

I think that goes to the heart of the subject, Mr. Chairman. I might add that I have been very familiar over the years with the development of Government programs since prior to my joining the industry I was an Assistant Deputy, Assistant Secretary of Air Force for Transportation and Communications, and in that capacity served as the chief architect of defense transportation program. I later served as Executive Director of the Civil Aeronautics Board.

While there have been a lot of statements made that this system that has been proposed by GSA raises innumerable policy and legal questions, I think the one policy question it does raise is: Is the Government to require all of its official travel of persons to move only on scheduled airlines which would produce, in our judgment, a subsidy to the U.S. scheduled carriers, or is the U.S. Government to be in a position to take advantage of low-cost charters the same as any other business entity can and does.

I think, Mr. Chairman, we should recognize one other factor. We are not here advocating that only charter service be used. We are advocating that the lowest cost form of transportation be utilized consistent with the requirements of the traveler, and if it is cheaper to move him from point A to point B on scheduled service, that should be utilized.

But if it is cheaper to move him on charter, then in our judgment, the Government should be able in the same position as any other business such as Sears Roebuck, General Motors, Ford or anybody

else, or the same as any other agency now, AID, NASA or the Peace Corps.

That will conclude my remarks, Mr. Chairman.

If you wish, Mr. Scoutt, I think, has a few remarks or I will be willing to answer questions, sir.

AGENCIES USING CHARTER AIRCRAFT

Senator BELLMON. You are saying that these agencies you just mentioned—NASA, and Peace Corps—do charter aircraft now?

Mr. DRISCOLL. Yes, sir. That has been going on for a good number of years, sir. I might add that in connection with setting up the Department of Defense system this was not an easy system for the Department of Defense to bring into being. We brought it into being back in the 1960's and 1961, and we had some of the same problems at that time trying to get the scheduled airlines to offer to the Department of Defense the category A, and the category Z rates. They did it most reluctantly.

But they did offer the charter service and we built the whole base on charter and set up a real good system which now GSA is attempting to take advantage of.

Senator BELLMON. You testified you were former Executive Director of the CAB?

Mr. DRISCOLL. Yes.

Senator BELLMON. Do you feel this issue should properly go before the CAB?

Mr. DRISCOLL. I believe it should be given to the CAB under limited questions. I think those questions are: Is there a limited prohibition against a Government agency charter? Insofar as the rates to be charged to the service, are the rates—and we haven't seen the rates—reasonable?

We would agree that the Board should have something to say and they do have something to say about the carriers' tariffs that they file and the CAB is at liberty at any time to suspend a carriers' tariff if they see it to be below cost or excessive in cost.

So they have that control. I don't believe that this thing should be deferred so it takes 6 months for study. I agree with the 3-week statement that was made by the Office of Management and Budget and the 3 weeks made by the Department of Transportation. I think this issue on policy and legal grounds can be answered in 3 weeks. It has been studied to death already.

Senator BELLMON. Do you think CAB could hand down their findings in 3 weeks or should the GSA proceed and give the CAB an opportunity for comment?

Mr. DRISCOLL. I would suggest, sir, that I don't want to try to prescribe the time period for the Civil Aeronautics Board, but in my judgment, with the issues involved here, I think by testing the system that would be one way of finding out some facts. I think Mr. Scoutt has some very interesting figures here for the committee insofar as comparing the test experiment that was suggested of the total value involved there and the potential savings to the Government, and what can happen from the limited experience of running it for a period of even 6 months to see what happens.

Over the route of Dulles, McGuire, Frankfurt, we see that there would be no tangible harm to anyone by testing that.

STATEMENT OF JERROLD SCOUTT

Senator BELLMON. Mr. SCOUTT, if you are prepared we will have your testimony at this time.

Mr. SCOUTT. Thank you, Senator.

I would like to comment briefly on the legal question that has been raised by some of the earlier witnesses and simply call the committee's attention to the Federal—

Senator BELLMON. If you like, we will have your whole statement put in the record.

Mr. SCOUTT. I am simply going to summarize a couple of points.
[The statement follows:]

Mr. Chairman:

My name is Jerrold Scutt, Jr. I am a member of the Board of Directors and am counsel for World Airways, Inc., whose principal office is located at Oakland International Airport, Oakland, California. We are pleased to appear before this subcommittee and present testimony in favor of the Government Employees Charter Program which we understand the General Services Administration and the Department of Defense are preparing to inaugurate in the near future.

World Airways, Inc. is the largest and financially strongest supplemental air carrier holding a certificate of public convenience and necessity from the Civil Aeronautics Board. It was first organized in 1948 when it began operating as a "large irregular air carrier" with World War II surplus aircraft. By 1964, World was authorized by the Board to perform trans-Pacific charter operations using modern jet aircraft; similar trans-Atlantic authority was received the following year. Since 1966, it has had authority to operate charter flights to points throughout the world except between the United States and Mexico and Canada.

World presently has assets of approximately \$188,190,000, a net worth of approximately \$76,892,000 and during 1973 had operating revenues of \$94,000,000.

The proposed charter program for civilian government agencies is an appropriate and logical extension of the Department of Defense's (DOD's) Military Airlift Command (MAC) and Civil Reserve Air Fleet (CRAF) programs, which have operated successfully since 1960. CRAF is a government program in which United States civil air carriers contractually commit themselves to provide personnel, services and aircraft to DOD under certain stated conditions. MAC is the procuring agency within DOD to purchase air transport services from those air carriers participating in the CRAF program. The principal purposes of CRAF are to provide a mobilization base upon which the military can call in the event of an emergency and to give carriers an

incentive to purchase and use modern aircraft suitable for use by the military services.

That this program has worked well is shown from the fact that the TET offensive of February 1968 caused the DOD to need 50% more cargo lift capacity and 13% greater passenger capacity than had been planned for. MAC, by calling on the CRAF participants, increased its cargo capacity by 88% in only one month. Further, modernization of the long range CRAF has been dramatic during the period MAC has been purchasing air transportation pursuant to current procurement policies. At the beginning of fiscal year 1962, the cargo capability was made up of 144 piston aircraft and one Canadian turbo prop aircraft. In 1972, by contrast, the cargo capability was 190 jet aircraft of which 124 were fully convertible between cargo and passenger use.

The rates for providing this service are approved, and in effect determined, by the Civil Aeronautics Board. These rates not only enable the carrier to provide transportation service to military agencies at prices far below those for comparable commercial service, but the carriers earn an adequate return on investment.

World has had substantial experience performing charter services for MAC and is a participant in the CRAF program. For the current fiscal year, World has two contracts with MAC totalling approximately \$15,400,000. For these funds, World provides transportation services in the Far East with Boeing 727 aircraft, and between the United States and other parts of the world with Boeing 707 and 747 and DC-8 aircraft, all of which are modern and fully convertible between cargo and passenger use. World has consistently been among the top three carriers, in terms of dollar amount of contract awards. It received 9.9% of the total value of contracts awarded by MAC for FY 1973.

World is, of course, not the only air carrier participating in the MAC program. Other supplemental and scheduled air carriers are also major

participants in this program too:

MILITARY AIRLIFT COMMAND CONTRACTS FOR FY 74

<u>CARRIER</u>	<u>SHORT RANGE</u>	<u>LONG RANGE</u>
Airlift International Miami, Florida		\$ 3,568,687.20
Capitol International Airways, Inc. Smyrna, Tennessee		3,760,884.25
Eastern Airlines, Inc. Miami, Florida	\$2,610,098.40	171,608.40
Flying Tiger Line, Inc. Los Angeles, California		11,563,705.53
Overseas National Airways, Inc. Jamaica, New York		5,697,398.88
Pan American World Airways, Inc. New York, New York		21,629,582.04
Saturn Airways, Inc. Oakland, California		2,622,123.60
Seaboard World Airlines, Inc. Jamaica, New York		3,626,472.87
Trans International Airlines, Inc. Oakland, California		7,119,567.36
World Airways, Inc. Oakland, California	\$6,119,139.08	9,263,508.41
TOTALS	\$8,729,237.48	\$69,023,538.54

It is anticipated that all of these carriers would also participate in the proposed Government Employees Charter Program (or "Air Shuttle" as it is being called). Thus scheduled and supplemental air carriers will provide this service.

It is fundamental government procurement policy, as well as common sense, that the government should procure goods and services through the maximum use of competition and thereby obtain the most advantageous contract prices, quality and other factors considered. The proposed Air Shuttle is entirely consistent with such policy. Furthermore, it seems axiomatic that rates determined to be fair and equitable for the Department of Defense must be considered as fair and equitable for all other agencies of government when the same service is provided. As noted, the Civil Aeronautics Board has determined that the rates charged by air carriers, including World, for transportation for DOD personnel are fair and equitable.

World is certainly willing and able to provide the same service to other government agencies at the same rates.

Various objections to the proposed Air Shuttle service have been offered. First, a question with respect to the legality of the proposed shuttle service has been raised. No specific legal challenge has been offered, however. In my judgment, the Federal Property and Administrative Services Act of 1949, 40 U. S. C. §481(a), specifically authorizes the Administrator of the General Services Administration to procure transportation services for the government in a manner that he regards as "advantageous to the government in terms of economy, efficiency, or service and with due regard to the program activities of the agencies concerned." The Administrator has determined that the Air Shuttle system does provide efficient air transportation service at rates substantially below those presently being paid by the government, other than DOD, and other federal agencies, including the Department of State, agree. I am not aware of any statute or regulation that would prevent the Administrator of GSA from procuring this air transportation service in precisely the manner in which he has acted. To the contrary, both GSA and DOD have statutory authority to support their actions.

A second argument advanced by a scheduled carrier has been that traffic would be diverted from U. S. flag carriers to foreign flag carriers. This simply is not the case, for U. S. flag carriers will be providing the long haul service with connections, just as is the case now, from the various points within the United States to the final destinations abroad. Government employees traditionally have taken advantage of the best connecting service available, whether on a U. S. flag carrier or on a foreign flag carrier, and presumably they will continue to do so. The only difference between the carriers who have been performing the air transport service and those who will be performing it under the Air Shuttle system is that U. S. supplemental carriers, such as World, will be able to provide a pro-rata portion of the

service. Of course, U.S. scheduled carriers will also continue to provide a pro-rata portion of the service but the rates charged the government agencies other than DOD will be the same as the rates charged for carrying DOD personnel.

A third argument is that the new Air Shuttle service will waste over 4,300,000 gallons of aviation fuel per year. To the contrary, more efficient utilization of aircraft, as the Air Shuttle service will permit, will save fuel, not waste it.

It has also been noted that scheduled carriers will suffer revenue losses as a result of the Air Shuttle operation. Of course, this is true, but why should the taxpayers be subsidizing the U.S. scheduled air carriers via the indirect means which have been used for the last 14 years or so? The Air Shuttle service will provide a rational, as well as economical and efficient, air transportation service for government employees, thus saving what has been estimated to be \$2,000,000 per month for the taxpayers. Further, scheduled carriers still carry DOD mail abroad, for which they receive over \$100 million per year. Supplemental carriers, such as World are not presently permitted to participate in this program.

There is an affirmative case for the Air Shuttle beyond the lower fares for transporting government personnel internationally. The MAC program has been declining substantially since the return of United States military personnel from Vietnam. The additional passengers who will originate from the civilian agencies of the government will help to offset some of the loss of military traffic. This will enable the MAC program to provide more frequent service than would otherwise be the case. The United States aviation industry, which participates in the MAC program will benefit too, for the MAC business is and has been helpful to the industry in providing some assured business on an annual basis at fair rates.

The nation benefits from this program, not only as a result of the significant savings which result from the use of the Air Shuttle, but also in the maintenance of a healthy aviation industry with a fleet of modern jet aircraft and crews to fly and maintain them, which are available on short notice in the event of a national emergency.

In short, common sense as well as sound economical government procurement policy dictates that the Air Shuttle service be implemented. Scheduled carriers are arguing to the contrary only because they do not want competition in transporting civilian government personnel on international flights. Yet, the American free enterprise system is once again working, for competition from supplemental carriers (not, I emphasize, a replacement for scheduled carriers in providing this service) will result in significantly lower fares for government employees on their international journeys.

PURCHASE OF TRANSPORTATION SERVICES

Mr. SCOTT. The Federal Property and Administrative Services Act of 1949, which is in title 40 of the United States Code at sections 482(a) specifically authorizes GSA to purchase transportation services for the government in the most advantageous manner he deems available.

Another section, 486, authorizes the assignment of that authority to the Department of Defense. It seems absolutely clear to us, Senator, that the Government agencies have the statutory power to charter from air carriers.

All of the air carriers that have been before you today have certificates of public convenience and necessity, which are pursuant to regulations of the CAB, authorize them to charter to these government agencies. World Airways, my client, has chartered with AID, the Peace Corps and NASA. I am confident that Pan American and TWA have done likewise. I don't think there is any substantial legal question that would inhibit the operation of the plan that has been suggested by GSA.

If I may be presumptuous enough to suggest that I think the principal question is for your committee and it is this: that is whether the civil agency traffic with which we are here concerned, which is now carried on the Atlantic by Pan Am and TWA at something in the area of 7 to 8 cents a mile should be shared by all of the civil carriers participating in the MAC program, and that includes Pan Am and TWA, at something in the area of 2 and 3 cents a mile.

The answer to that question depends on a resolution of sort of a conflict that is before you. That is the conflict that you have that the Government ought to purchase its services at the lowest reasonable price and the desire on the otherhand of being sure that Pan American and TWA remain viable, economic airlines.

I think the committee would make a mistake I respectfully suggest if it confuses procurement policies with the need for financial support of Pan Am and TWA. They have problems, my client has financial problems, but the solution to those problems is not going to be in directing a procurement of transportation from the Government at a price in excess of what is available from other sources.

Just to put this a little bit in perspective using some of the numbers that earlier witnesses have presented to you, apparently there are 900 passengers in the civil agencies to be available for the experimental service on the authority Atlantic.

If all of those passengers travel to Frankfurt and London at an average fare of \$500 round trip on economy services per day, that is \$450,000 per month or about \$5 million a year accruing to Pan Am and TWA.

That is the total amount that they could lose if this plan were to be implemented.

SAVINGS ON CHARTER SERVICES

About two-thirds of that amount would be saved by the Government if the passengers moved on chartered services. Frankly, I don't think it makes a lot of difference whether the charter service net cost

is 2½, 3, or 4 cents or whether the scheduled services today are 7, 8, or 9 cents.

There is no one in this room today who would deny the fact that moving these people by chartered services is the cheapest way to do it. It can be done. The Department of Defense has demonstrated that it is feasible.

I must confess that I am distressed to hear that half a dozen agencies of this Government and several committees of this Congress believe it is necessary to conduct further study of this problem.

This is the surest way to kill the idea. The report of the House committee has correspondence in it that goes back for 20 years and this problem, this idea has been kicking around for a long time. It is time that the issue be faced and be faced squarely.

I think the best way to get a fair answer to the questions that are legitimately raised is to permit the experiment to be conducted for a reasonable test period.

Senator BELLMON. What would you consider to be a reasonable test period?

Mr. SCOUTT. I would think a year would be adequate.

Senator BELLMON. With regard to the charters by AID, Peace Corps, and so forth, are the charter rates comparable to the Military Airlift Command rates?

Mr. SCOUTT. They are quite comparable, yes. I might say that the rates for the military, to DOD today under the MAC program are not governed by tariff. They are rather governed by a Board regulation which has been referred to as part 288.

The rates that we would charge AID, for example, would be a tariff rate. In actual fact, those rates are quite close and less than one-half the scheduled fare.

Senator BELLMON. Do you feel there would be competition between the airlines for this shuttle business?

Mr. SCOUTT. I would assume that the Government business would be allocated among the airlines in the same way that the MAC business is today allocated, which is based in very large part on the aircraft that they make available to the Civil Reserve Air Fleet.

Senator BELLMON. Our other witness is Mr. Clayton L. Burwell.

STATEMENT OF CLAYTON L. BURWELL

Mr. BURWELL. Senator, I will only be a minute. I did not prepare a statement. I want to associate myself with the remarks of Congressman Moorhead and with Mr. Driscoll and Mr. Scoutt. I only want to touch on one or two small points that perhaps they didn't bring to your attention.

One, I agree with Mr. Scoutt and Mr. Driscoll that there is no substantial legal problem here. It is sort of a haze which has been infused over the whole thing. But in my opinion there is none.

The Chairman of the Civil Aeronautics Board hesitated and then said that perhaps there was a legal problem here in contrast to the DOD procurement program because of defense.

I would like to point out that the aircraft, that certainly the supplemental carriers would use, would be craft, aircraft and the whole purpose of the DOD program is in large measure to create an incentive

for the purchase and increase of certain types of aircraft that are both passenger and cargo capable.

So if that condition were put on the experimental proposed charter it would have the same effect augmenting the craft program as is the case with the DOD.

So I don't think there is any substantial difference in the contribution to defense. It would simply increase it.

There further was conversation talking about the negative impact on the energy crisis. I think the record is clear, but if not, obviously a 90-percent load factor on a big aircraft with many more people in it conserves fuel rather than expends it when compared to smaller aircraft with load factors of 50 or 60 percent.

That is obviously just a mathematical computation on the gas consumption per passenger mile. So that I don't think there should be any confusion about that.

Lastly, it seems to me, as I think that Mr. Scoutt put forward, that there is a policy issue here. I don't believe that any of the agencies that have been here will really grapple with that as this committee can; that is, there is no doubt that Pan Am and TWA are having a hard time.

The question really, it seems to me, is whether or not an indirect subsidy should be given to them by protecting this type of service or whether the subsidy question either by this committee or another committee, or the Congress should be faced up to, and, if subsidy is needed, then at least it would be identifiable rather than making the GSA a prisoner of high costs.

I believe that someone called my attention to the fact here that on page 23 of the House Report 93-599 that Congressman McCloskey, I believe, made the point that if subsidy is needed it should be faced as such.

Thank you very much, sir.

Senator BELLMON. Mr. Burwell, we have the testimony from the House committee that you have cited.

Gentlemen, you have presented another viewpoint opposite from the one we have been hearing for some time. Do you feel the aircraft that would be needed to operate such a charter service would be available readily?

Mr. DRISCOLL. Without question, sir.

Mr. BURWELL. There is no doubt about it.

CONTRACTS

Senator BELLMON. I am not clear on how this would operate. Would a contract be—

Mr. DRISCOLL. The contracts, sir, not to interrupt you, are contracts currently in existence with the Department of Defense by what we call the contract operators.

That includes the five U.S. supplementals we represent: Pan Am, TWA, and quite a few of the other scheduled carriers, Northwest.

Presently if we look at the total dollars that are expended by the Department of Defense for their total Government movement the scheduled carriers receive 78 cents of every dollar expended by the Department of Defense and the supplemental carriers receive about 22 cents of that dollar.

The Department of Defense enters into yearly contracts, and has a base contract to which they can add expansion on certain notice to the carrier, either on a program 30-day, 60-day or an on immediate basis.

So that the aircraft that we are talking about here are readily available, they would be some of the same aircraft that are being used by the Department of Defense and in fact they would be the same.

JOINT UTILIZATION OF AIRCRAFT

As I understand the latest proposal from what was said here today, the military would be utilizing an aircraft jointly with GSA. Seventy-five passengers would be boarded at Dulles, which would be Government official travel for civilian agencies.

The airplane would go to McGuire and here at McGuire it would be filled out with military passengers, continue into Frankfurt. I might add that in Frankfurt our airplanes today going in both to the civilian and the military sides, so there would be no inconvenience to the civilian passenger or the military passenger.

Then they would load the same way and bring a load back, both through McGuire and to Dulles. So that there would be no, as we see it, problem in the contracting stage.

Senator BELLMON. That sounds very simple. ,

Mr. Driscoll, I don't want to embarrass you, but just to get the record straight, as the record now stands it appears you were in the Defense Department and worked out this charter arrangement and then went with one of the airlines.

Mr. DRISCOLL. No, sir. I went from the Department of Defense to the Civil Aeronautics Board as Executive Director. I left the Civil Aeronautics Board in 1966. I was in the Department of Defense for 20 years, and in my latest position there as a Deputy Assistant Secretary, I was charged with the responsibility under Secretary Sharp, when he was Secretary, to set up this program.

This was set up only after extensive congressional hearings involving the Government Operations Committee of the House, 22 recommendations out of Mr. Holifield, and extensive review by President Eisenhower and a special committee he appointed.

It came out with a report known as the MAC's role in peace and war, which governed the use of civil carriers and many other Government committees, including the Armed Services Committee of the House and many committees here in the Senate, under then the Senator Mike Monroney.

This program was established. We had it in operation in 1960. I left the Department in 1963. Served as Executive Director of the Civil Aeronautics Board from 1963 to 1966. Left and joined the civil industry. I am a lawyer by profession.,

PROBLEMS WITH PRESENT PROGRAM

Senator BELLMON. In your judgment the present program with the Defense Department is working satisfactorily?

Mr. DRISCOLL. Sir, no. We have problems with that, too. It is working, but it is not working in accordance with the original intent. We have already made our views known in testimony.

This is one where the entire civil industry is united and we have made our views known before the Senate Aviation Subcommittee as well as other committees, and there is legislation pending in both Houses of Congress which would require the military to make a set-aside to the civilian airlines for 50 percent of the traffic that is moved.

Senator BELLMON. What is the basic problem with the present program?

Mr. DRISCOLL. The basic problem is that more traffic is presently especially in the cargo area, being moved by military vehicles. They have an increasing number of military vehicles and our share of that traffic is rapidly declining.

The basic policy was put into effect back in the sixties and as the civil carriers demonstrated their dependability more and more, the normal logistics traffic should be turned over to the civilian airlines.

That was followed up until about 1965 and then there was a slight change in the policy and now the military is moving the preponderance of all cargo.

Senator BELLMON. Any passengers?

Mr. DRISCOLL. No, sir. There is a prohibition against military moving passengers. That was tied to the procurement of the C-141 aircraft. In that there was a prohibition that those aircraft could not be used for passenger movement.

TELEGRAM FROM NORTHWEST AIR LINE PILOTS ASSOCIATION

Senator BELLMON. Gentlemen, thank you very much for your testimony. At this point I will insert in the record a telegram from Northwest Air Line Pilots Association, expressing their views on this subject.

[The telegram follows:]

[Telegram]

AIR LINE PILOTS ASSOCIATION,
Minneapolis, Minn., March 18, 1974.

HON. JOSEPH M. MONTOYA,
Chairman of Treasury, U.S. Postal Service, and General Government Subcommittee,
Dirksen Senate Office Building, Washington, D.C.

Attn: Joe Gonzales

I request the opportunity to appear before your subcommittee March 20, 1974 at the hearing considering the General Services Administration proposal to establish an international air service for all government employees. I wish to address the subcommittee in opposition to this proposal as a representative of the labor groups of Northwest Airlines. If this proposal becomes implemented, it would cause a further loss of jobs to the pilots and other employees of Northwest Airlines who already have many out of work because of the fuel crisis.

ROBERT S. CAVILL,
Chairman, Northwest Council No. 1.

CONCLUSION OF HEARING

Senator BELLMON. The hearing record will remain open for two weeks for any additional material that may be provided for the record.

The subcommittee will now stand in recess, subject to the call of the Chair.

Thank you very much.

(Whereupon, at 7:20 p.m., Wednesday, March 20, the subcommittee hearing was concluded, and the subcommittee was recessed, to reconvene at the call of the Chair.)

COMMUNICATIONS

[The following communications were received by the Subcommittee subsequent to the hearing:]

TRANSPORTATION ASSOCIATION**OF AMERICA**

1101 17TH STREET, N.W. • WASHINGTON, D. C. 20036 • Telephone: 296-2470

March 20, 1974

Honorable Joseph M. Montoya, Chairman
Subcommittee on Treasury, Postal Service
and General Government
Senate Appropriations Committee
Washington, D.C. 20510

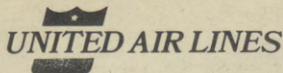
Dear Chairman Montoya:

Enclosed is a statement which we should like to have included in the record of hearings held today by your Subcommittee on the proposal by the General Services Administration to establish an international air shuttle system for use by U.S. Government civilian personnel.

Stated therein are reasons why TAA believes your Subcommittee should direct that this GSA proposal be dropped. In brief, we object to: (1) giving Government agencies special cut-rate privileges not available to commercial users of regulated transport services, (2) creating a Government-controlled transport service in competition with existing regulated-carrier service, and (3) furthering of the trend of Government agencies to seek short-run cost savings to the detriment of regulated carriers and the general public that they serve.

Sincerely,

Paul Tierney



P.O. Box 66100, Chicago, Illinois 60666

OFFICE OF THE PRESIDENT

March 21, 1974

The Honorable Joseph M. Montoya
United States Senate
5229 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Montoya:

We have been advised that your Subcommittee on Treasury, U. S. Postal Service and General Government, will soon hold hearings on a GSA proposal for an international air shuttle system to transport government employees.

United Air Lines shares the concern of other scheduled airlines about the potential adverse economic impact the GSA proposal would have on the already financially troubled U. S. flag airlines.

The present proposal is only for an international shuttle operation. However, the precedent this sets if carried over into the domestic air transportation system could have a destructive impact on the scheduled air transportation system.

United Air Lines is encouraged that your committee is going to examine this proposal, and that a thorough probe will reveal the potentially harmful affect on the airline industry without overriding advantages.

If we can be of assistance to you or your committee, please call on us.

Sincerely yours,

Edward E. Carlson
President

STATEMENT OF PAUL J. TIERNEY, PRESIDENT
TRANSPORTATION ASSOCIATION OF AMERICA

My name is Paul J. Tierney, and I am President of the Transportation Association of America, which is headquartered in Washington, D. C. On behalf of the Board of Directors of TAA, I should like to express the Association's opposition to a proposal being made by the General Services Administration that it be allowed the same right now granted to the Department of Defense, for the airlift of military personnel, to negotiate with regulated air carriers for special, reduced rates for the airlift of the Government's civilian personnel. These U.S. civilian personnel would be moved on international air routes in aircraft chartered and controlled by the Military Airlift Command, or in blocked space contracted for on scheduled commercial airline flights.

As you and the members of your Subcommittee possibly know, TAA is a national policy organization composed of transportation users, investors, and carriers of all modes -- air, freight forwarder, highway, pipeline, rail, and water carriers -- who work together to develop and maintain sound national policies designed to provide the strongest possible transportation system under private enterprise principles. Policy positions adopted by the 115-member TAA Board of Directors are first reviewed by eight permanent advisory Panels (representing the eight different transport interests referred to immediately above), which make recommendations to the Board. Approximately 250 top executives in these respective fields serve on these eight TAA Panels.

The proposal being made by GSA, which is now being reviewed in hearings before your Subcommittee, is in direct conflict with two TAA policy positions. One of these TAA policies calls for all Federal agencies to rely on publicly regulated carriers, whenever they are reasonably available, for their transportation needs. In other words, we believe the Federal Government should fully utilize our publicly regulated transportation system to the maximum extent possible, and that it should not compete with regulated carriers with its own transportation services.

The other TAA policy calls for all Federal agencies to be treated in the same manner as are commercial travelers and shippers as to the level of rates of regulated carriers. In other words, TAA believes that special, reduced rates should not be offered to Government agencies as a general rule; but, if granted, only after review and approval by an impartial regulatory agency. The only exception should be in movements involving the national security.

The GSA proposals are in clear conflict with these TAA policy views, since GSA seeks preferential treatment now extended to the DOD, but unlike the case for DOD,

without justification on national defense grounds. While the offering of special, low rates to the DOD are, in the case of air traffic, now prevented from falling too low through minimum rate regulation by the Civil Aeronautics Board, further extension of this privilege to GSA would tend to undermine the regulated carriers' basic rate structure and serve as an invitation to others to seek similar preferential treatment. Other special interests -- such as charitable, religious, physically handicapped, and elderly groups -- will be given encouragement to ask for even more favorable treatment than some of them now receive.

Any additional pressures to depress the rate structure of U.S. international air carriers could be disastrous at the present time because of their financial situation. These carriers are in dire need of all the traffic they can obtain, and, therefore, should not be subjected to the probable loss of a large share of the Government's civilian passenger traffic. According to the latest CAB statistics, the load factor of international trunk airlines dropped from 56.4 percent in 1972 to 54.1 percent in 1973. This decline brought the actual load factor uncomfortably close to what CAB calls the break-even load factor, which was 53.3 percent for 1973. The difference could be quickly wiped out entirely with further diversion of traffic.

Surely, officials of U.S. Government agencies should appreciate the need to maintain a strong, viable U.S. international air carrier system. Undermining the carriers' rate structure and diverting their passenger traffic will obviously have the opposite effect.

As we understand the probable application of the GSA proposal to move U.S. civilian employees in flights now chartered by the Military Airlift Command, the result would be a diversion of traffic from international commercial routes that would still have to be continued -- but with lower load factors. Foreign air carriers would gain -- again at the expense of U. S. air carriers -- through connecting services that would not be necessary if through-route U. S. air service were continued to be used.

While the idea of combining U. S. military and civilian international air traffic into transports now chartered by MAC may appear on the surface to be an attractive one from the standpoint of maximizing load factors at reduced fares, we foresee many resulting problems. As already indicated, it would aggravate the already perilous financial condition of certain U. S. regulated carriers. Moreover, we are fearful that a joint MAC-GSA international air shuttle would quickly be expanded to cover other routes, possibly domestic routes, and thus further duplicate services now offered by commercial air carriers.

Even though the GSA proposal does not now suggest that U. S. civilian officials move in military air transports operated directly by MAC, this could well be the next step, based on past practices and efforts of MAC to expand its own commercial-type operations. By building up the over-all traffic volume of MAC-controlled operations, we may well be inviting direct competition between Government vs. private enterprise in the international air transport field.

From a broad national policy standpoint, the GSA proposal represents an additional step in a disturbing trend. It is another example of continued attempts by several Government agencies to force down rates of regulated carriers, many of whom are in a poor financial position. These actions are making it extremely difficult for the transport regulatory agencies to discharge the Congressionally assigned responsibility of assuring an adequate and efficient over-all transportation system--including air, ground, and water transport -- that provides service to the general public at rates deemed to be fair and reasonable to all.

To illustrate this rate-cutting trend, many Government agencies still utilize the special privileges of Section 22 of the Interstate Commerce Act, which permits them to aggressively seek rates from ICC-regulated carriers lower than those available to commercial shippers and travelers. The Department of Transportation, in a 1972 report relating to its Transportation Assistance Act, noted that as early as 1960 an estimated \$56 million a year in revenues was lost by the ICC-regulated railroads and motor carriers through Section 22 rates. Current losses are unquestionably far above that level, since this special privilege still is available.

Another example is in the ocean shipping field, where the Department of Defense has refused to accept rates of U.S.-flag liner companies that are considered to be fair and reasonable by the Federal Maritime Board. DOD continues to require bidding by individual shipping lines as a way to force rates down to the lowest possible level, even though the FMC has taken aggressive action to try to keep them compensatory.

A third example of Government rate-cutting practices is in the postal field. Despite provisions in the 1970 Act creating an independent U. S. Postal Service calling for utilization of scheduled, regulated motor carriers, the Postal Service has resisted the implementation of the Congressional policy. In the movement of the mails by motor carriers, it has continued to rely almost entirely on open contracted bidding. In other words, short-run costs of the service determine the method of highway mail transport, even though regulated motor carriers contend they can provide better, more extensive, and more reliable service at reasonable rates.

Hopefully, through action taken by your Subcommittee, this list will not be further expanded to include special cut-rate privileges for the Government's civilian employees that travel overseas by air transport. If reduced rates for such traffic are warranted, they should be sought and obtained under the same procedures followed by commercial travel organizations through negotiations with air carriers and applications to the CAB.

We urge that your Subcommittee express its disapproval of the GSA proposal to join with MAC in the creation of a Government-controlled international air shuttle service that utilizes special, cut-rate privileges.

United States Senate

COMMITTEE ON COMMERCE
WASHINGTON, D.C. 20510

March 25, 1974

The Honorable Joseph M. Montoya
Chairman
Subcommittee on Treasury, U. S. Postal
Service and General Government
Committee on Appropriations
Room 1207 Dirksen Senate Office Building
Washington, D. C.

Dear Mr. Chairman:

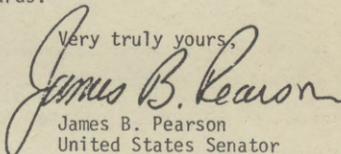
I enclose a copy of my letter to the General Services Administration Administrator and a copy of Mr. Sampson's response to me.

I request that these documents be incorporated in the record of hearing held by your subcommittee on March 20, 1974, dealing with the proposed GSA/DOD international air shuttle for government personnel.

I appreciate your consideration of this request.

Kindest personal regards.

Very truly yours,


James B. Pearson
United States Senator

January 25, 1974

The Honorable Arthur F. Sampson
Administrator
General Services Administration
18th and F Streets, N. W.
Washington, D. C. 20403

Dear Mr. Sampson:

I understand the General Services Administration has requested that the Department of Defense assume responsibility for initiating and operating a worldwide air shuttle system to transport the government's overseas passengers. The DOD, I understand further, has taken steps to initiate the first charter flights to major European ports.

This new government-sponsored charter operation is in direct competition with U.S.-flag carriers whose responsibilities include scheduled air service to Europe and throughout the world. The certificated U.S. air carriers provide about 500 seats daily to Frankfurt, for example, on a scheduled basis. On a yearly average, about 40 percent of these seats are vacant.

The GSA-DOD plan to establish worldwide charter operations for government traffic will waste fuel by duplicating U.S.-flag scheduled service. It will erode the carriers' already desperate condition on the transatlantic routes. It will put the Civil Aeronautics Board in the position of authorizing discontinuances of scheduled service to selected overseas cities, and thus deprive civilian (non-governmental) passengers of the flexibility and convenience of regular scheduled service.

For all of these reasons, I am opposed to the new plan for worldwide air shuttle operations for government traffic. The Senate Committee on Commerce is on record in opposition to unconscionable government competition against regulated, private carriers. I would hope that this decision can be reversed.

Very truly yours,

James B. Pearson
United States Senator

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

FEB 16

1974

Honorable James B. Pearson
United States Senate
Washington, D. C. 20510

Dear Senator Pearson:

Thank you for your letter of January 25, 1974, concerning the proposal for a worldwide air shuttle system to transport the Government's overseas travelers.

Please be assured that it is not our intent in establishing the air shuttle system to enter either directly or indirectly into the air transportation business in competition with the scheduled airlines. We fully support a sound transportation system based upon private enterprise, and the proposed shuttle service will utilize scheduled or supplemental U.S. air carriers holding current Civil Aeronautics Board certificates to provide the aircraft and other supporting services. Our purpose is to obtain on a Government-wide basis reduced air fares similar to those now offered to the military and to the general public by the scheduled and supplemental air carriers.

We have discussed our position with regard to reduced rates for civil agencies with individual U.S. flag international air carriers and offered several proposals which would have been beneficial to both the carriers and to the Government. However, we were unable to obtain the concurrence of the scheduled airlines in any of these proposals. Therefore, our only alternative for reducing these costs was to explore the development of charter flights serving international points, a concept which has been employed successfully by many Government agencies to move both cargo and passengers economically and efficiently.

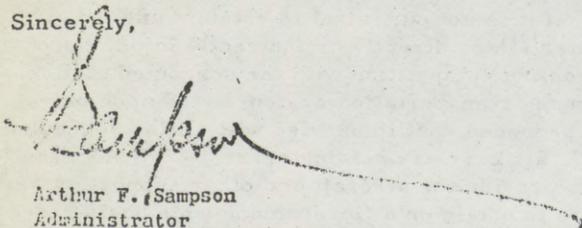
The Department of Defense has already established and is operating charter air transportation services for DoD personnel. We want to make it clear that we merely wish to "piggy-back" or participate in the existing DoD air charter system for international travel. DoD is in complete agreement, and we have developed plans for an initial test of the combined service on a Dulles-McGuire-London-Frankfurt route. We have no intention of establishing an additional or separate service.

2

We recognize the seriousness of the current energy crisis and believe the curtailment and consolidation of certain flights will make a positive contribution to our national conservation efforts through greater utilization of available seats, especially at a time when passenger load factors are averaging only 50 percent. In this regard, we believe that combining defense and civilian international air traffic requirements in full plane load charter flights will also serve this purpose by insuring optimum use of available equipment.

We appreciate your interest in this program and hope that this letter will clarify our position with regard to the matter. If you have any questions or if we can be of any other assistance, please let us know.

Sincerely,

A handwritten signature in dark ink, appearing to read "A. F. Sampson", with a long, thin horizontal line extending to the right from the end of the signature.

Arthur F. Sampson
Administrator

United States Senate

WASHINGTON, D.C. 20510

March 22, 1974

Mr. Arthur F. Sampson
Administrator
General Services Administration
18th and F Streets, N.W.
Washington, D. C.

Dear Mr. Sampson:

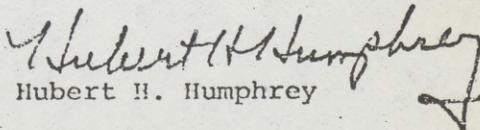
I am greatly disturbed over reports I have received that the General Services Administration plans to establish an international air shuttle system to transport government employees and their dependents at discount fare prices. Such action on the part of GSA without Congressional consultation and concurrence would be a very serious mistake indeed.

I am familiar with Senator Young's letter to you have January 25 on this subject and with your February 13 response to that letter. I also have ready Senator Young's reply to your letter of the 13th. I am in complete agreement with my colleague from North Dakota on this.

I will appreciate your providing me a report on this matter at your earliest convenience. Needless to say, a number of us in the Congress are quite upset over this and most hopeful that the proposed action will be abandoned.

Best wishes.

Sincerely,


Hubert H. Humphrey

United States Senate

COMMITTEE ON
AGRICULTURE AND FORESTRY
WASHINGTON, D.C. 20510

March 21, 1974

Dear Mr. Ash:

I would like to express my deep concern over the efforts by the General Services Administration to set up a regularly scheduled air charter operation to accomodate all official government travel in the North Atlantic, initially, and subsequently, domestically and globally.

Obviously the establishment of such a system would have a detrimental economic impact on the scheduled air carriers. An analysis of the GSA figures indicates a gross overstatement of potential savings to the U.S. government from the establishment of this air shuttle. There can be little justification, in my opinion, for forcing the certificated airlines to establish a special contract air shuttle operation at this time.

By Presidential declaration it has been, and presumably continues to be, the policy of our government not to compete with commercial enterprises. Although aircraft utilized would presumably be chartered from a U.S. carrier, the effect is to establish a government-operated, scheduled carrier in direct competition with two U.S. flag carriers currently serving the majority of points concerned.

Senate Concurrent Resolution 53, dated October 1, 1962, expresses the will of Congress that government employees and their dependents utilize U.S. flag services wherever available. This concept is also contained in Section 901 of the Merchant Marine Act of 1936, applicable to surface travel. By utilizing foreign carriers between the government airline terminal points and ultimate destinations, GSA and DOD would clearly violate the intent of the above indicated resolution.

I would very much appreciate your comments on this matter and look forward to hearing from you at your earliest convenience.

Best wishes.

Sincerely,

Hubert H. Humphrey

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

March 29, 1974

JAMES R. CALLOWAY
CHIEF COUNSEL AND STAFF DIRECTOR

Mr. Arthur F. Sampson, Administrator
General Services Administration
Room 6137
18th & F Streets
Washington, D. C.

Dear Mr. Sampson:

This is in response to your letter of March 15 concerning your proposal for a world-wide air shuttle system to transport the Government's overseas travelers.

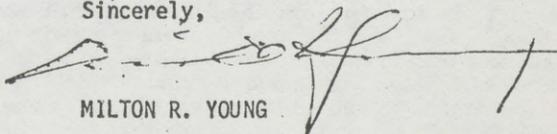
Mr. Sampson, I am growing a bit weary of trying to point out to you that your proposal to operate a world-wide air shuttle for Government overseas travelers is both unwanted, unrealistic, uneconomical, and detrimental to our present U. S. international air transport network.

Your letter of March 15 contained a glaring error of which you must certainly be aware. Your letter states that the charter service you propose to use is available to and is utilized by the general public as well as business concerns, educational institutions, fraternal organizations, etc. To give you an example, commercial charter rates in the Pacific run approximately \$5.50 a mile. Military charter rates, not available to non-military classifications, are \$3.37 a mile, plus the current 5.15% surcharge for fuel. You obviously do not have complete facts, as your statement is in error.

The balance of your letter is merely a repetition of your arguments previously made to support your proposal to embark upon a program that would be disastrous to the scheduled international United States airlines. Your persistence in continuing to propose this ill-conceived program in the face of expressed objections of Members of Congress will result in my having to initiate action by the Senate Appropriations Committee to prohibit the General Services Administration from embarking upon this program.

With warm personal regards,

Sincerely,



MILTON R. YOUNG

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

Dear Senator Young:

Thank you for your letter of February 28, 1974, in further reference to the proposal for a worldwide air shuttle system to transport the Government's overseas travelers.

The General Services Administration is responsible for providing transportation and traffic management services to civilian executive agencies. In this regard, we believe it is incumbent upon us to continue our efforts to obtain on a Government-wide basis, reduced air fares similar to those now offered to the Department of Defense and to the general public by the scheduled and supplemental air carriers.

The Government is the largest single purchaser of air travel services and, as in other areas of procurement where we are able to obtain volume discounts or special prices, should be eligible for reduced or special rates on the basis of the total Government requirement. We believe the concept of including civilian international air travel requirements under the existing Department of Defense air charter system will achieve desired Government-wide economies for official air travel. We do not believe this proposal creates competition for the scheduled airlines, as these same airlines will provide the major portion of the required service. The applicable fares for this service are approved by the Civil Aeronautics Board as being fair and reasonable, and we are merely exercising a passenger procurement option in selecting a more economical class of service.

The charter service which we propose to use is available to and is utilized by the general public as well as business concerns, educational institutions, fraternal organizations, etc. Charter service accounts for approximately 27 percent of the total North Atlantic market. Civilian executive agencies, as well as Members of Congress, and the Executive Office of the President also utilize charter flights furnished by U.S. flag carriers as an efficient and economical means to move large numbers of people.

The extent to which ground services and fuel are furnished by the Department of Defense is taken into consideration in establishing the minimum level of rates for charter services. Savings accruing to the Department of Defense through use of the charter concept must be reviewed in light of that agency's national preparedness responsibility which requires the availability and readiness of certain support personnel and services.

It is the declared policy of the Government that American flag air carriers are to be used to the fullest extent practicable for international travel, and the use of foreign flag air carriers is a relatively infrequent occurrence. Recent General Accounting Office studies of the use of foreign air carriers support this. We believe that if the Government is to subsidize the scheduled carriers, it should be in the form of direct subsidies rather than through payment of fares which are higher than warranted by the volume of Government business.

Competition among the international airlines has created a serious and costly problem of excess airline capacity. In the North Atlantic market this resulted in 7 million empty seats for 1973. Industry spokesmen have recognized the seriousness of this problem and in recent statements have voiced the opinion that the energy crisis and pressures of present fuel shortages will bring some sense and stability to this situation. They have also acknowledged that, until the fuel crisis forced the decision upon them, industry had not fully realized that flights can and should be reduced in order to use resources in a more prudent way while at the same time providing an adequate level of service to the traveling public.

If the industry is to reverse the losses they have been sustaining on these routes, it is imperative that they continue to seek and support policies to insure optimum utilization of resources. Seat load factors are steadily increasing as capacity and frequency policies are being implemented. As these controls are further implemented, the availability of seats decreases while the seat load factor steadily increases. Indications are that these reversals will continue and that fewer flights and seats will be available to the international traveler.

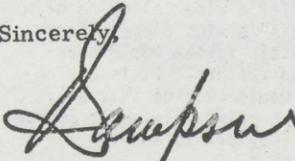
We anticipate that there will be an increase in the flights required to maintain the proposed Washington to Frankfurt and return service. However, until we initiate and then evaluate the system we will be unable to accurately compare the total requirements against the present DoD requirements. We do not feel that any additional charter flights will by themselves result in waste of aviation fuel.

We have presented testimony to the Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations on this subject (see House Report No. 93-599). They have studied the incongruous situation of the cost difference between Department of Defense and civilian agency overseas travel. In following our progress they strongly recommended that the way to obtain the desired cost reductions was through implementing charter service wherever feasible. In view of this recommendation and in the interest of economical and efficient traffic management, we believe the concept of a Government-wide air charter system should be pursued.

We have been requested to appear before the Subcommittee on Treasury, Postal Service, and General Government on March 20, 1974, to discuss the proposed expansion of this service. We will be prepared at that time to answer any questions which Committee members may wish to present.

If we can provide any further information, please let us know.

Sincerely,



Arthur F. Sampson
Administrator

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

February 28, 1974

JAMES R. CALLOWAY
CHIEF COUNSEL AND STAFF DIRECTOR

Mr. Arthur F. Sampson
Administrator
General Services Administration
Washington, D. C. 20405

Dear Mr. Sampson:

Thank you for your letter of February 13 concerning my expression of very grave concern over your proposal to establish an international air shuttle service.

In your letter you state it is not your intent to compete with the scheduled airlines. However, that is exactly what your air shuttle system will do. Therefore, on this one point alone, I believe your proposal should not be pursued further.

With respect to the passenger load factors, I cannot agree with your reasoning. If, as you say, passenger load factors are averaging only 50 percent now, the way to increase these load factors is not to establish a competitive air shuttle service. The way to increase these load factors is to use the available United States scheduled air carrier capacity to the greatest possible extent.

I am sure it can be argued that the air transportation rates available through the military charter system represent a savings over normal commercial rates, but this is illusory because services are required on the part of the military to support the Department of Defense flights. These include manpower expenses to handle passenger traffic, expenditures for fuel furnished at a fraction of actual cost and other expenditures of military funds that go to make up the difference between military and commercial rates. Thus the alleged savings are not in fact realized and the only result is to damage commercial transportation.

As you know, United States scheduled international air transport service is run to maximize the civilian and non-civilian business. Flights must be run with frequencies that have passenger appeal to both markets. Consolidating flights does not mean that load factors will dramatically increase and stay at peak levels. Also it is logical to assume that once such a program is implemented it would quickly call for additional charter lift above and beyond what the Department of Defense is presently employing. There are many of us in Congress who have long been concerned about the military or the government generally getting into business operations which more properly should be continued by private enterprise whether it be the airlines or other industries.

There are 20 or more foreign airlines offering a wide selection of transatlantic flights. Our air carriers must also offer a wide selection of services to compete for this traffic. With all of this foreign competition facing our air carriers, the addition of your air shuttle system would have disastrous consequences and would lower existing load factors. It is our domestic air carriers, not the foreign carriers, which would thus be adversely affected. As you know, one of the United States flag carriers flying to Europe has recently proposed a return to subsidy due to the fuel crisis and the resultant fuel costs.

With the current energy crisis, we must all be concerned with utilizing to the maximum extent possible the available scheduled air transport capacity. This is certainly no time to duplicate it. I am told that the twice-weekly service you propose will waste over 4,300,000 gallons of aviation fuel yearly. To the extent the Military Air Charter is chartering aircraft now, these aircraft must be fully booked. Thus, your proposal would represent additional flights and the consumption of more fuel. I can see no justification for this.

As ranking member of the Senate Appropriations Committee, I am fully aware of the Military Air Charter through the Department of Defense. This has been accepted by the Congress as in the national interest. There should be no attempt to confuse Department of Defense air transport requirements with that of the civilian government agencies. To do so could threaten Military Air Charter.

It is difficult for me to understand, must less explain, why civilian government employees should be able to travel at a lower cost than that available to the general public. Many individuals and businesses today are facing the same problems that you face; namely, to reduce costs, but they have no means to obtain reduced rates such as this.

Mr. Sampson, I remain unalterably opposed to your air shuttle proposal. I hope it doesn't come to a point where either legislation or action by the Appropriations Committee is required.

With warm personal regards,

Sincerely,

MILTON R. YOUNG

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

Dear Senator Young:

Thank you for your letter of January 25, 1974, concerning the proposal for a worldwide air shuttle system to transport the Government's overseas travelers.

Please be assured that it is not our intent in establishing the air shuttle system to enter either directly or indirectly into the air transportation business in competition with the scheduled airlines. We fully support a sound transportation system based upon private enterprise, and the proposed shuttle service will utilize scheduled or supplemental U. S. air carriers holding current Civil Aeronautics Board certificates to provide the aircraft and other supporting services. Our purpose is to obtain on a Government-wide basis reduced air fares similar to those now offered to the military and to the general public by the scheduled and supplemental air carriers.

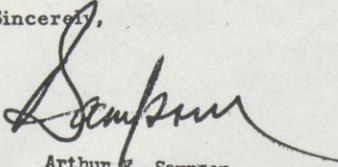
We have discussed our position with regard to reduced rates for civil agencies with individual U. S. flag international air carriers and offered several proposals which would have been beneficial to both the carriers and to the Government. However, we were unable to obtain the concurrence of the scheduled airlines in any of these proposals. Therefore, our only alternative for reducing these costs was to explore the development of charter flights serving international points, a concept which has been employed successfully by many Government agencies to move both cargo and passengers economically and efficiently.

The Department of Defense has already established and is operating charter air transportation services for DoD personnel. We want to make it clear that we merely wish to "piggy-back" or participate in the existing DoD air charter system for international travel. DoD is in complete agreement, and we have developed plans for an initial test of the combined service on a Dulles-McGuire-London-Frankfurt route. We have no intention of establishing an additional or separate service.

We recognize the seriousness of the current energy crisis and believe the curtailment and consolidation of certain flights will make a positive contribution to our national conservation efforts through greater utilization of available seats, especially at a time when passenger load factors are averaging only 50 percent. In this regard, we believe that combining defense and civilian international air traffic requirements in full plane load charter flights will also serve this purpose by insuring optimum use of available equipment.

We appreciate your interest in this program and hope that this letter will clarify our position with regard to the matter. If you have any questions or if we can be of any other assistance, please let us know.

Sincerely,



Arthur F. Sampson
Administrator

January 25, 1974

Dear Mr. Sampson:

I have heard that the General Services Administration is planning to establish an international air shuttle system to transport government employees and their dependents at discount fare prices. I hope this information is wrong. I just can't believe that Congress would approve of GSA getting into this kind of business.

As you well know, Senate Committees and many Senate Members have been quite concerned about the well being of the certificated air carriers. In fact, legislation has been introduced in this Session, as well as in the past Session of Congress, which would require the certificated air carriers to be used to the fullest possible extent by the Federal Government in the international movement of passengers and cargo.

Many of our scheduled air carriers are in financial difficulty due to the serious fuel shortage and its resultant impact on the scheduled air system. In light of this, it certainly is not in the best interests of the United States Government to establish a government-operated competing air transport system. Before such Federal airline service is established in competition with our common carrier system, this matter should be fully studied by Congress, particularly in light of the President's policy of preventing government competition with private industry. I sincerely hope that any further action along this line will be suspended until Congress has had an opportunity to review the matter completely.

Mr. Sampson, I would appreciate having your views on this at your earliest opportunity.

With warm personal regards,

Sincerely,

MILTON R. YOUNG

NINETY-THIRD CONGRESS

Congress of the United States
House of Representatives

FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-371-B
WASHINGTON, D.C. 20515

April 11, 1974

PERSONAL

Honorable Joseph M. Montoya
Suite 5229
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Joe:

Thank you for sending the complete transcript for your March 20, 1974, hearings on the governmental air shuttle system.

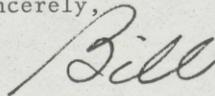
In view of the substantial interest expressed concerning the actual potential savings involved in the proposed chartered air shuttle system and the airlines claim that the shuttle system would require essentially all ongoing traffic to move on foreign flag carriers, I have had my Subcommittee staff prepare a detailed illustrative cost comparison covering the governmental traffic to the European area only. A copy is attached which clearly shows that for the European area alone, we are talking of potential savings of roughly \$5 million yearly. The cost comparison also shows that most of the on-going traffic would still move on U.S. flag carriers.

Additionally, I asked the staff to read the March 20th transcript and point out inconsistencies between the transcript and other data which we have accumulated. It is not intended that the comments attached be a complete rebuttal of the witnesses testimony before your Subcommittee. Instead, I would hope only to point out certain significant elements for your Subcommittee's consideration.

After your Senate Subcommittee Members have had a chance to consider this matter carefully, I would hope that they would join with us on the House side to insist that the Administration promptly move forward with this proposed program.

With warm personal regards,

Sincerely,



WILLIAM S. MOORHEAD
Chairman

ILLUSTRATIVE COST COMPARISON
SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
--EUROPEAN AREA ONLY--

To:	Routing-Washington, D.C./	Frequency	Departure	Arrival	Flight No.	1972 Cat. Z Econ. Class	Transportation Costs-Per Passenger ^{1/2} Cat. Z Shuttle	1972 Cat. Z Civil	Transportation Costs	Additional Indirect Costs Per Diem/ Productive Time/	Revenue Loss/ Savings	Net Savings
LONDON												
Scheduled	Daily	2100 IAD	0900 LHR	PA 106		\$157	\$295	6,817	919	\$1,341,374		
Shuttle	Su Tu Th	1700 IAD	0730 LGW	Shuttle		\$ 79		7,736		611,114		
Cost Reduction										11,604	-0-	718,686
LYON												
Scheduled	Daily	1917 DCA	2049 JFK	MA 70)		197 1/2	268	21	45	16,782		
Shuttle	Su Tu Th	2145 JFK	0900 SHR	EV 816)		13				7,933		
Cost Reduction										99	-0-	7,974
PARIS												
Scheduled	Daily	1930 IAD	0810 FRF	TV 890		202 1/2	311	1,024	1,044	531,532		
Shuttle	Su Tu Th	1700 IAD	0730 LGW	Shuttle					2,068	256,432		
Cost Reduction										-9,823	-0-	55,856 *
												229,987

* Computation error - amount should be \$28,188 as the 1,024 category Z passengers are currently using foreign flag carriers between London and Paris.

ILLUSTRATIVE COST COMPARISON
SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
--EUROPEAN AREA ONLY--

To:	Routing-Washington, D.C. 1/		Flight No.	Transportation Costs-Per Passenger ^{2/}		1972		Transportation Costs	Additional Indirect Costs		Net Savings	
	Frequency	Departure		Arrival	Cat. 2 ^{1/2} Econ-Class Shuttle	Cat. 2 ^{1/2} Civil	Per Diem ^{3/}		Productive Time ^{4/}	Revenue Loss ^{5/}		
BRUSSELS Scheduled	Daily	0700 BAL 1000 JFK	0750 JFK 2335 BRU	AL 558) PA 100)	\$165	\$311	2,910	373	\$ 596,153			
	Shuttle	Su Tu Th	1700 IAD LW 0935 LHR	0730 LGW Shuttle Gr-d.Trf. SN 602		\$ 79 52	3,283		434,013			
Cost Reduction								162,140	-15,595	-114,905	104,793	187,847
AMSTERDAM Scheduled	Daily	2100 IAD 1025 LHR	0900 LHR 1125 AMS	PA 106) PA 56)	164	311	1,289	227	268,873			
	Shuttle	Su Tu Th	1700 IAD LW 1025 LHR	0730 LGW Shuttle Gr-d.Trf. PA 56		79 49	1,436		185,531			
Cost Reduction								83,342	2,154	-0-	1,034	80,154
COPENHAGEN Scheduled	Daily	2100 IAD 1005 LHR	0900 LHR 1230 CPH	PA 106) PA 34)	234	333	251	95	90,369			
	Shuttle	Su Tu Th	1700 IAD LHR 1045 LHR	0730 LGW Shuttle Gr-d.Trf. PA 34		79 119	346		68,923			
Cost Reduction								21,446	519	-0-	249	20,618

ILLUSTRATIVE COST COMPARISON
 SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
 --EUROPEAN AREA ONLY--

To:	Routing-Washington, D.C. 1/		Flight No.	1972		Transportation Costs-Per Passenger ² / Cat. Z Econ. Class Shuttle	Traffic ³ / Cat. Z CIVIL	Transportation Costs	Additional Indirect Costs		Net Savings
	Frequency	Departure		Arrival	Per Diem ¹				Productive Time ²	Revenue Lost ³	
OSLO Scheduled	Daily-Extn Su We Fr Mo Th Sa	1655 DCA 1940 JFK 1940 JFK	1750 JFK 0015 OSL 1125 OSL	NA 451 PA 76 PA 76	446	\$234	81	\$ 131,337			
Shuttle	Su Tu Th Tu Th Sa	1700 IAD 1045 LHR 1420 CPH	0730 LOW - REST STOP - 1230 CPH 1520 OSL	Shuttle Ord. Trf. PA 54 SK 602	527	\$ 79 119 46		129,958		18,840	15,367
Cost Reduction								1,372	18,445		-51,273
STOCKHOLM Scheduled	Tu Fr Tu Fr	1655 DCA 1940 JFK 1940 JFK	1750 JFK 1015 ARR 1130 ARR	NA 451 PA 76 PA 76	-	357	159	56,763			
Shuttle	Su Tu Th Tu Th Sa	1700 IAD 1045 LHR 1420 CPH	0730 LOW - REST STOP - 1230 CPH 1530 ARR	Shuttle Ord. Trf. PA 54 SK 588	159	79 119 46		42,930		5,684	4,656
Cost Reduction								13,833	5,965		-2,052

ILLUSTRATIVE COST COMPARISON
SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
--EUROPEAN AREA ONLY--

TO:	Routing-Washington, D.C. 1/		Flight No.	Transportation Costs-Per Passenger-2/		1972 Traffic-3/ Cvt. 4	Transportation Costs	Additional Indirect Costs Per Diem/ Productive Time/ -Revenue Loss/	Net Savings			
	Frequency	Departure		Arrival	Cat. 2					Econ. Class Shuttle		
GENEVA Scheduled	Daily	1655 DCA	1750 JFK 1930 JFK	0925 GVA TW 852)	\$172	\$333	66	513	\$ 182,181			
	Shuttle	Su Tu Th	1700 IAD 1130 FRA	Shuttle Ord.Trf. BEST STOP	\$ 87		579		79,323			
Cost Reduction		0930 FRA	1030 GVA	LH 240					102,858	21,567	17,370	43,656
FRAGILE Scheduled	Su Th	2100 IAD 1020 LHR	0900 LHR 1335 FRG	PA 106) PA 102)	-	350	-	55	19,250			
	Shuttle	Su Th	1700 IAD LGH	0730 LGW LHR	Shuttle Ord.Trf.		79	55	10,846			
Cost Reduction		1020 LHR	1335 FRG	PA 102		117			8,404	82	40	6,282
WASSAU Scheduled	We	2100 IAD 1020 LHR	0900 LHR 1410 MAV	PA 106) PA 102)	-	376	-	202	75,952			
	Shuttle	Su Tu Th	1700 IAD 0850 FRA	1130 FRA - REST STOP - 1020 MAV	Shuttle Ord.Trf. PA 46		87	202	35,148			
Cost Reduction									40,804	8,484	121	32,199

ILLUSTRATIVE COST COMPARISON
SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
--EUROPEAN AREA ONLY--

To:	Routing-Washington, D.C./		Flight No.	1972		Transportation Costs-Per Passenger/ Cat. 2 Econ. Class Shuttle	Traffic/ Cat. 2 Civil	Transportation Costs	Additional Indirect Costs Per Diem/ Productive Time/ Revenue Loss	Net Savings
	Frequency	Departure		Arrival	Category					
MEXICO Scheduled	Su	2100 IAD	0900 LHR	PA 106)	-	-	337	\$ 154,211		
	Tu	1020 LHR	1555 SVO	PA 102)		\$485				
						2.60				
Shuttle	Su	1700 IAD	0730 LGW	Shuttle	\$ 79		337	111,412		
	Tu	1020 LHR	1555 SVO	PA 102	2.60	249				
Cost Reduction								42,799	505	42,294
VIENNA Scheduled	Daily	1430 IAD	1545 JFK	BN 104)	-	363	211	76,593		
		1800 JFK	0855 VIE	PA 92)						
Shuttle	Su Tu Th	1700 IAD	1130 FRA	Shuttle	87		211	30,595		
		1240 FRA	1355 VIE	LH 252	58					
Cost Reduction								45,998	-686	31,956
BUDAPEST Scheduled	Tu Sa	2100 IAD	0900 LHR	PA 106)	-	399	72	28,728		
		1020 LHR	1410 BUD	PA 102)						
Shuttle	Tu	1700 IAD	0730 LGW	Shuttle	79		72	16,070		
		1020 LHR	1410 BUD	PA 102	1.20	143				
Cost Reduction								12,658	108	12,198

ILLUSTRATIVE COST COMPARISON
SCHEDULED AIR SERVICE VERSUS CHARTERED AIR SHUTTLE SERVICE
--EUROPEAN AREA ONLY--

To:	Routing-Washington, D. C. 1/		Flight No.	1972		Transportation Costs-Per Passenger/ Cat. 2 Econ. Class Shuttle	Traffic/ Cat. 2 Civil	Transportation Costs	Additional Indirect Costs Per Diem- Productive Time/ Revenue Loss	Net Savings
	Frequency	Departure		Arrival	1972					
BELGRADE Scheduled	Mo We	1430 IAD 1800 JFK	1545 JFK 0945 BEG	EN 104 FA 44	-	\$399	495	\$ 197,505		
Shuttle	Th Sa	1700 IAD 1020 LHR	0730 LOW 1425 BEG	Shuttle Gr-d.Trf. FA 102	\$ 79 2.60 157		495	118,107		
Cost Reduction								79,398	17,325	43,605
EUHAREST Scheduled	Fr	2100 IAD 1020 LHR	0900 LHR 1710 OTP	FA 106 FA 102	-	446	73	32,458		
Shuttle	Sa Th	1700 IAD LOW 1020 LHR	0900 LOW LHR 1710 OTP	Shuttle Gr-d.Trf. FA 102	79 1.20 207		73	20,966		
Cost Reduction								\$ 11,592	109	11,430
Total - Scheduled Service								\$5,771,665		
Total - Shuttle Service								3,083,269		
Total Cost Reduction - One way								\$2,691,396	\$11,619	\$2,518,428
Total Cost Reduction - Roundtrip								\$5,388,792	\$239,759	\$5,037,496

FOOTNOTES:

- 1/ Source: Official Airline Guide-January 1974 Edition Pan Am and TWA Advance Summer Schedules. Shuttle Service Schedule from GSA.
- 2/ Cat. Z from CAB Tariff No. 207-Effective Jan. 15, 1974. Economy Class Service: Official Airline Guide-January 1974 Edition--YL x 5 months + Y x 4 months + YH x 3 months + 7% (4-1/74 increase) ÷ 12.
- 3/ Hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, May 23, 1973, Appendix J., p. 57.
- 4/ Source: Department of State--Per Diem Supplements No. 115 and 116--Effective April 14, 1974. Overstated to the extent that certain dependents do not receive full per diem.
- 5/ Substantially overstated--State Department officials estimate that two-thirds of the Government's "Permanent Change of Station" travelers are dependents who naturally do not receive salary payments. Salary rate used--\$70 per day--is neither accepted nor rejected as truly representative but is used to be compatible with the rate used in Pan Am's presentation.
- 6/ Theoretical view advanced by Pan American officials which is neither accepted nor rejected but included solely to make this presentation compatible with Pan Am's presentation. Amounts shown equal 60 percent of additional expenditures on foreign carriers.
- 7/ No direct Category Z service. Routing via London then foreign flag to destination.

Prepared by:

Foreign Operations and Government Information Subcommittee
 Committee on Government Operations
 U. S. House of Representatives

April 9, 1974

PER DIEM COMPUTATIONS

<u>Destination</u>	<u>Scheduled</u>	<u>Shuttle</u>	<u>Destination</u>	<u>Scheduled</u>	<u>Shuttle</u>
London	1/4 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Luxembourg	1/2 @ 25 1/2 @ 6	1/4 @ 25 1 @ 6
Dublin	1/4 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Geneva	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6 1 @ 42
Paris	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Prague	1/4 @ 25 3/4 @ 6	1/4 @ 25 1 @ 6
Brussels	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Warsaw	1/4 @ 25 3/4 @ 6	1/4 @ 25 3/4 @ 6 1 @ 42
Amsterdam	1/4 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Moscow	1/4 @ 25 1/2 @ 6 1 @ 39 1/4 @ 6	1/4 @ 25 3/4 @ 6 1 @ 39 1/4 @ 6
Copenhagen	1/4 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6	Vienna	1/2 @ 25 1/2 @ 6	1/4 @ 25 1 @ 6
Oslo	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6 1 @ 39 1/4 @ 6	Budapest	1/4 @ 25 3/4 @ 6	1/4 @ 25 1 @ 6
Stockholm	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6 1 @ 39 1/4 @ 6	Belgrade	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6 1 @ 39 1/4 @ 6
Helsinki	1/2 @ 25 1/2 @ 6 1 @ 39	1/4 @ 25 3/4 @ 6 1 @ 39 1/4 @ 6	Bucharest	1/4 @ 25 3/4 @ 6	1/4 @ 25 1 @ 6
Frankfurt	1/2 @ 25 1/2 @ 6	1/4 @ 25 3/4 @ 6			

EXAMPLES OF STATEMENTS MADE BY WITNESSES BEFORE
 SENATOR MONTOYA'S SUBCOMMITTEE WHICH MAY LEAVE
 ERRONEOUS IMPRESSIONS

Transcript

p. 56 CAB Chairman Robert D. Timm's prepared statement --
 page 1, first paragraph, last sentence. (See also transcript
 p. 57, lines 20-23):

"...although I understand this proposal has been under consideration for some time, the interested government agencies have never solicited the Board's views of its effects upon the industry the Board is designated to regulate."

FACTS

Mr. Al Stout, CAB's Deputy Director of the Bureau of Economics, participated throughout the House hearings on the "Economy and Efficiency of International Air Travel by Government Officials." Especially during the May 23, 1973 hearings, the matter of merging DOD's category Z traffic with the civil agencies overseas traffic and transporting this total traffic to key overseas points on chartered aircraft under DOD's system was thoroughly discussed. (See pp. 32-36, May 1973 House hearings)

Prior to the May 1973 hearings, House Subcommittee Chairman Moorhead had written to CAB Chairman Browne concerning the overseas transportation of the Government's official travelers. In reply, the new CAB Chairman, Robert D. Timm, responded only to the proposed expansion of the category Z rates and chose to ignore the possible establishment of chartered services. (Letters of February 13, 1973 and March 13, 1973 attached as items "A" and "B".)

Subsequently, on May 3, 1973, House Subcommittee Chairman Moorhead again wrote to CAB Chairman Robert D. Timm specifically asking "...whether there are any governing factors which might preclude governmental use of chartered aircraft to transport official governmental travelers." (Attachment "C") CAB Chairman Timm responded on May 18, 1973 that, "In response to your inquiry as to whether there are any factors which might preclude governmental use of chartered aircraft to transport official governmental travelers, under current Board regulations a government agency is eligible to charter an aircraft." (Attachment "D")

After the May 1973 House hearings, GSA Administrator Arthur F. Sampson wrote, on August 14, 1973, to the Heads of the Government's Departments and Agencies -- including CAB, DOT, and OMB -- clearly describing the proposed chartered air shuttle system. (Attachment "E") CAB responded on September 10, 1973. (Attachment "F")

p. 56 CAB Chairman Robert D. Timm's prepared statement --
 page 4, last sentence:

"The loss of revenues because of the shift from scheduled to charter services may force the carriers to either raise or cancel the "Category Z" fares. Such traffic would then have to move at higher fares." (Emphasis supplied.)

FACT

As shown in a document titled "Illustrative Cost Comparison, Scheduled Air Service Versus Chartered Air Shuttle Service -- European Area Only," transportation costs under the proposed air shuttle service are substantially less than the existing CAB approved Category Z fares.

p. 65

In response to Senator Bellmon's questioning concerning the "two rate" system, CAB Chairman Timm in responding (lines 8-15) left the impression that "national defense" was the underlying cause of the two rate system:

"It seems compatible to us because a part of our charge also in the law is a very clear statement by the Congress of our responsibility in the matter of national defense. It says that very firm language at least twice, in the flow of language, the Postal Service, the national defense. So we would find, I believe, that in our past deliberations it is sorted out in our minds that this fits into that phrase in our charge."

CONVERSELY

Mr. Al Stout of CAB, in testifying before the House Subcommittee stated (p. 23, May 23, 1973, House hearings):

"Mr. McCloskey * * * Now, the fact that national defense is a specific objective of the FAA Act does not cause you to give special rates to the Department of Defense for commercial air travel, does it?"

Mr. Stout. No. No, sir."

p. 68

OMB Associate Director Walter Scott stated (lines 19-23):

"The details of the proposed GSA plan have not yet been communicated to us or other agencies within the Executive Branch for comment. We understand the current plan differs from the proposal on which GSA requested comments in their August 14, letter to Federal agencies."

FACT

The current GSA/DOD plan is essentially no different than that contained in GSA's August 14, 1973 letter to the Heads of the Departments and Agencies. (See especially first paragraph, p.2, of Attachment "E". See also p. 2 of OMB's letter of August 9, 1973, attached as item "G".)

p. 72

DOT Office of Policy Review Director Sam Eastman stated (lines 21-25):

"In summary, . . . the Department of Transportation does not favor implementation of the plan as it has been outlined."

CONVERSELY

Secretary of Transportation Claude S. Brinegar stated in his letter to GSA of September 11, 1973 (Attachment "H"):

"I feel that the proposal has merit and should be developed. I also recommend that, after an appropriate period of actual experience, an evaluation of the operation be conducted. We would be pleased to participate in that evaluation, from the point of view of its impact on scheduled and supplemental service."

Similarly, each of the major using agencies involved has by subsequent correspondence clearly shown their agreement with the proposed system and had also clearly shown their intent to fully use the proposed system in the interest of economy and efficiency of the government service. (See Attachments "I" through "P".)

- p. 81 Prepared statement of Herman J. Cohen representing the American Foreign Service Association -- page 2, first sentence, first full paragraph:

" . . . the majority of Foreign Service personnel would willingly suffer added inconvenience if it could be demonstrated that the air shuttle system would result in true and substantial savings to the government . . ."

FACT

The previously mentioned "Illustrative Cost Comparison" clearly shows real and substantial cost savings.

NOTE

Review of testimony submitted by the scheduled and supplemental air carriers was limited to a very cursory reading in view of its naturally bias nature. However, the following few comments should be noted.

- p. 85 ATA Senior Vice President Norman J. Philion's prepared statement, page 3, last sentence:

"That Act [the Federal Aviation Act] makes clear the intent of Congress to encourage, foster, promote and maintain in the overall national and public interest the sound development of a privately-owned and operated U.S.-flag scheduled air transportation system . . ."

FACT

Nowhere in the Federal Aviation Act do we find the intent of Congress expressed as it has been interpreted by the ATA witness. Sections 102, 103, and 305 of the Act indicate the purpose of the Act as being, among other things,

"to encourage and foster the development of civil aeronautics and air commerce in the United States and abroad." It would thus appear that the intent of Congress was to provide for the promotion and development of the entire U.S. air carrier industry -- not just the scheduled segment of the industry.

p. 85 ATA Senior Vice President Norman J. Phillion's prepared statement, page 7, discusses "Discrimination" and concludes:

"This clear prohibition against preferential treatment and discriminatory practices applies equally to transportation provided for the general public as well as government traffic moving on licensed commercial air carriers."

FACT

The "unjust discrimination" referred to by ATA's witness in reality works two ways -- no person using air carrier services should be discriminated against nor should any segment of the U.S. air carrier industry supplying air carrier services be discriminated against.

As stated in the third paragraph of the "Preface" to the House hearings of May 23, 1973, Government and non-Government passengers, in fact, receive different services from the scheduled air carriers, therefore, it follows that the rates should be different -- each based on the cost of the services which the customer receives plus a fair return for profit.

Regarding the other side of the discrimination coin, current methods used in procuring air transportation services for the civil agencies official travelers do, in fact, result in substantial discrimination by the government against the chartered segment of the U.S. air carrier industry. Additionally, these currently used procurement methods effectively result in the civil agencies ignoring the declared policy of Congress as set forth in 41 U.S.C. 252(b).

February 13, 1973

Dear Mr. Chairman:

Our hearings of July 25 and 27, 1972, on the subject of "International Air Travel by Government Officials" demonstrated that there is a potential for savings of millions of dollars yearly in the overseas air travel of Government officials. In concluding the hearings, it was understood that GSA, supported by OMB, CAB, State, and DoD, would update official travel statistics and enter into negotiations with the scheduled international air carriers for an expansion of the "Category Z" tariff schedules to include all official Government travelers. It was further understood, should such negotiations not indicate promise of immediate success, that immediate negotiations would then be entered into with the supplemental carriers for the establishment of chartered services to transport official Government travelers between the United States and overseas areas.

Six months have elapsed since our hearings on this subject. Also, I understand that GSA has accumulated the traffic data needed and has begun negotiations with the scheduled carriers. Accordingly, it would seem appropriate for the Subcommittee to receive a progress report on the current status of resolving this problem. Hearings are, therefore, scheduled for 10:00 a.m. on March 1, 1973, in Room 2247, Rayburn House Office Building. Of special interest are:

--A summary of actions taken since the July 1972 hearings to resolve this problem.

--Prospects for successful negotiations with the scheduled air carriers concerning prompt revision of the Category Z tariff schedules to provide that the "provisions of the tariff apply only to persons and baggage upon presentation of a United States Government Transportation Request specifying on the 'bill to' line of such request, a disbursing and/or certifying office of the United States Government."

--Potential traffic volume, including DoD Category Z traffic, by geographic areas, should it become necessary to establish a U. S. Government charter arrangement to transport official overseas travelers.

--Specific timetables for broadening the Category Z tariff schedules to include all official Government travelers or initiating chartered air services to transport official overseas travelers.

--Potential problems on this subject matter which may require legislative action.

Under the Committee rules, it will be necessary for you to make available at the time of the hearing 50 copies of your witnesses' prepared statements. Fifteen advance copies should be provided to Mr. William G. Phillips, Subcommittee Staff Director, as soon as possible but in no event later than 24 hours prior to the start of the hearing.

With best regards,

Sincerely,

WILLIAM S. MOORHEAD
Chairman

CIVIL AERONAUTICS BOARD
WASHINGTON, D.C. 20428

IN REPLY REFER TO:

March 13, 1973

Honorable William S. Moorhead
Chairman, Subcommittee on Foreign
Operations and Government Information
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

We have your February 28 letter stating that the hearings originally set for March 1, with respect to the progress being made to obtain a broadening of Category Z rates so as to include all official governmental international travel, have been rescheduled for March 29.

We will be glad to provide your Subcommittee with whatever information is available to us in this respect. However, the Subcommittee should be aware that the Board has not been involved in this issue since the hearings of last July on this subject. Moreover, there are no proposals by carriers or Government agencies pending before the Board at the present time which would expand the scope of the Category E rates.

The Board is aware that the General Services Administration has had some discussions with the scheduled carriers regarding a proposal of this nature, but it has not been a party to these discussions. We note in this regard that participation by the Board in such discussions would generally be inappropriate since the Board would have to pass upon the lawfulness of any such proposals in the event that they were advanced.

The Board has completed its review of the MAC rates since the July hearings, and new minimum rates have been established. Category Z rates have been increased from 3.448 cents per mile to 3.686 cents per mile as a consequence of that proceeding. Beyond that, however, and in view of the factors discussed above, there would not appear to be anything we can add now to the testimony we presented in July.

If we can be of further assistance, please let us know.

Sincerely,

Robert A. Timmer
Chairman

NINETY-THIRD CONGRESS

Congress of the United States
House of RepresentativesFOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-371-B
WASHINGTON, D. C. 20515

May 3, 1973

Honorable Robert D. Timm
Chairman
Civil Aeronautics Board
Washington, D. C. 20428

Dear Mr. Chairman:

Our hearings of July 25 and 27, 1972, on the subject of "International Air Travel by Government Officials" demonstrated that there is a potential for savings of millions of dollars yearly in the overseas air travel of Government officials. In concluding the hearings, it was understood that GSA, supported by OMB, CAB, State, and DoD, would make a sustained effort to obtain more equitable rates for official governmental travelers of the civil agencies. Clearly, the Government has no proper basis for paying substantially different amounts for precisely the same service.

Sufficient time has elapsed since our July 1972 hearings on this subject for GSA to have accumulated the data needed and to have negotiated with the air carriers for fair and equitable rates for services provided to the non-Defense agencies of our government. Hearings on the current status of resolving this costly problem are, therefore, scheduled for 10:00 a. m. on May 22, 1973, in Room 2203, Rayburn House Office Building. The Subcommittee especially desires testimony regarding:

--Actions taken by GSA since the July 1972 hearings to fully resolve this matter

--GSA's views concerning the prospects of the scheduled air carriers initiating a revision of their Category Z tariff schedules to provide that the 'provisions of the tariff apply only to persons and baggage upon presentation of a United States Government Transportation Request specifying on the 'bill to' line of such request, a disbursing and/or certifying office of the United States Government."

--A legal opinion from GSA's General Counsel concerning existing statutory authority for revolving fund financing of contracts for chartered aircraft to transport official government travelers.

--GSA's and DoD's estimates of traffic volume--including DoD Category Z traffic--to Europe, Africa, and the Mediterranean area; Latin America; and the Far East; and whether the potential traffic volume appears adequate to support four round trip air shuttles

weekly to selected cities in Europe and the Mediterranean area; two round trip air shuttles weekly to selected cities in Latin America; and, three round trip air shuttles weekly to selected cities in the Far East. Also, whether a portion of this government business could be considered for small business set-aside and whether DoD would assist and support GSA's contracting for and operation of government chartered air shuttles.

--OMB's and State's (on behalf of all foreign affairs agencies) views concerning a change in method of transporting official governmental travelers to provide for use of chartered air shuttles.

--CAB's opinions and comments concerning the broadening of Category Z tariff schedules to include all governmental travelers and also whether there are any governing factors which might preclude governmental use of chartered aircraft to transport official governmental travelers.

--Specific timetables for resolving this matter through broadening of Category Z tariff schedules to include all official governmental travelers or initiating chartered air services to transport official governmental travelers--or, possibly and preferably, a combination of both approaches.

Under the Committee rules, it will be necessary for you to make available at the time of the hearing 50 copies of your witnesses' prepared statements. Fifteen advance copies should be provided to Mr. William G. Phillips, Subcommittee Staff Director, as soon as possible but in no event later than May 18, 1973.

With best regards,

Sincerely,

WILLIAM S. MOORHEAD
Chairman

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C. 20428

May 18, 1973

Honorable William S. Moorhead
Chairman, Subcommittee on Foreign
Operations and Government Information
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

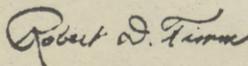
We have your May 3 letter stating that hearings will be held on May 22 on the current status of resolving the problem of broadening Category Z rates so as to include all official governmental international travel, which was the subject of July 1972 hearings.

In response to your inquiry as to whether there are any factors which might preclude governmental use of chartered aircraft to transport official governmental travelers, under current Board regulations a government agency is eligible to charter an aircraft.

In respect to the other matters contained in your letter, I stated in the Board's March 13 letter that we would be glad to provide your Subcommittee with whatever information is available to us in this respect. However, as I pointed out, the Subcommittee should be aware that the Board has not been involved in this issue since the hearings of last July. In view of this, and the other factors that were discussed in the earlier letter, there would not appear to be anything that we could add to our testimony of last July.

If we can be of further assistance, please let us know.

Sincerely,



Chairman

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405

AUG 14 1973

Dear (addressees attached)

We very much appreciated your agency's prompt response to my request dated November 7, 1972, for statistical data required to study international air passenger costs and requirements of the civilian agencies. The information developed from this survey has been most helpful in our evaluation of these costs and analyzing the potential for effecting economies.

Since July 1972, following hearings by the Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations, the General Services Administration (GSA), supported by other civil agencies, has been engaged in concerted efforts to reduce the cost of civil agency official international air travel. This has involved a series of definitive meetings with the scheduled and non-scheduled U.S.-Flag International Airlines. These discussions have centered around four conceptual options for lowering the cost of transporting Federal employees overseas. The options are: (1) extension of Category Z (military) tariffs to all official international air travel; (2) varying Category Z type fares to avoid peak traffic days; (3) contracting for blocked space on regularly scheduled flights, and (4) contracting for full planeload charter flights.

To date, GSA's proposals to the airlines have been unproductive with regard to the broad application of reduced air fares on the basis of individual travel or blocked space contracts. The civil agencies, therefore, must initially look to the feasibility of an air charter system with U.S.-Flag International Airlines as a means of achieving lower fares for official international travel.

On July 3, 1973, representatives of General Services Administration, Department of Defense, and Department of State reached an agreement regarding a proposed plan and a tentative route structure for an initial air charter system designed to reduce the cost of civil agency and Department of Defense official international air travel.

The proposed plan would combine civil agency international air travel requirements with those of the Department of Defense on a tentative route structure from Dulles International Airport, Washington, D. C., to McGuire AFB, New Jersey; London, England; Frankfurt, Germany; and Rome, Italy. The schedule will provide a round trip three times per week. Other final destinations are anticipated by connection with regularly scheduled air service at these points.

Implementation of the system would be accomplished by expansion of current Department of Defense (DOD) air charter contracts with U.S.-Flag International Airlines. The DOD air charter contracts are at a seat-mile cost slightly below 2 cents per mile. The civil agencies currently pay more than 7 cents

per seat-mile at tourist air fare rates on the scheduled airlines. The commercial aircraft chartered by DOD on the planned route are configured to carry 165 passengers, and are modern jet aircraft currently in commercial service with the scheduled U.S.-Flag International Airlines and the Supplemental (charter) Airlines. The cabin service is superior to tourist class and the leg room comparable to that in first class sections.

Based on the current level of commercial air fares, our statistical analysis indicates that an average round trip transportation cost savings of \$350 per charter passenger could accrue to the civil agencies on the proposed route. This computation includes an averaging of additional air transportation costs for civil agency travelers terminating on the charter short of their final destination, but does not include additional per diem which could be incurred in some cases. On this particular route, additional savings for the Department of Defense would also be anticipated through transportation of personnel now traveling at higher Category Z rates.

In view of the foregoing and with reference to the previous statistical and cost data furnished by your agency, we will appreciate your views on the proposed air charter system with regard to its adequacy in terms of your agency's travel requirements.

In addition, based on a per seat cost of approximately \$100 one way to any of the destinations listed on the proposed system, please provide a six-month projection of the number of travelers per month that could be expected to utilize the charter system including the beyond traffic, with particular emphasis on a firm projection for the months of October, November, and December, beginning October 1, 1973.

A subsequent determination of the economic and operational feasibility of the air charter system will be made based on the total number of seats to be purchased each month by the civil agencies and the Department of Defense.

We will appreciate your reply by September 7, 1973. If there are any questions, please contact Mr. Budd Faught, Federal Supply Service, 703-557-8797 (IDS 16-78797).

Sincerely,

Arthur F. Sampson
Administrator

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C. 20428

September 10, 1973

Honorable Arthur F. Sampson
Administrator
General Services Administration
Washington, D.C. 20405

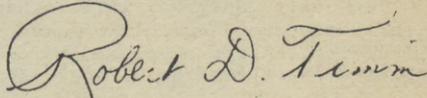
Dear Mr. Sampson:

This is in response to your letter of August 14, 1973, requesting the Board's views on a proposed air charter system for civil agency personnel travel and a six-month projection of Civil Aeronautics Board travelers that could use such a system.

At this time, the Board has no comment on the merits of the proposal because these matters may come before the Board at a later date in the normal exercise of its regulatory functions.

A six-month travel projection shows that the Board may have approximately two travelers a month on average who could utilize the proposed service, including two travelers a month each for October, November and December 1973.

Sincerely,


Chairman

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 9 1973

Dear Mr. Chairman:

Thank you for your letter of July 17, 1973 concerning the economy and efficiency of international air travel by Government officials.

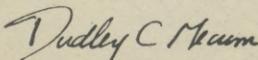
We have appreciated the opportunity of working with your Subcommittee in its study of special tariff rates for international air travel by military and civilian employees of agencies and commend your interest in this matter. The Subcommittee's efforts have been most helpful in developing a greater commonality of understanding of the complex facts surrounding the availability of special tariffs for certain international travel and in pointing up the limited options that may be open to the Government. With respect to your request concerning the actions of the Bureau of the Budget and the Office of Management and Budget, we are not aware of any information that has not already been supplied to the Subcommittee either by letter or in testimony. However, we have prepared the attached summary of those actions which may be helpful to you.

The Federal Property and Administrative Services Act of 1949 does appear to give GSA clear authority to represent executive agencies in negotiations for transportation services for the use of such agencies. It does not appear, however, that the Property Act gives the Administrator of General Services authority to prescribe a mode of travel that must be used by official travelers. If such authority does exist it would more likely be derived from the authority vested in the President under Chapter 57 of Title 5, United States Code which was delegated to the Administrator by Executive Order 11609 dated July 22, 1971. Chapter 57, as you know sets forth statutory guidelines governing the official travel of Federal employees and of persons employed intermittently or serving without pay.

Normally the concerns of OMB would not embrace the review or approval of plans of an executive agency to commence an air shuttle operation to serve Government travelers. Of course, fiscal, program or policy issues could arise in relation to such plans which could be referred by an affected agency to OMB for consideration. However, in the absence of such issues we would see no reason that DOD, GSA or State should obtain OMB approval prior to the commencement of an air shuttle operation.

If we can be of further assistance in this matter please let me know.

Sincerely,



Dudley C. Mecum
Assistant Director
Management and Organization

Summary of Actions Regarding
Airline Discounts for International Travel
of Military and Civilian Employees

At the request of the Chairman of the Subcommittee on Foreign Operations and Government Information in a letter to Director Shultz dated February 17, 1971, OMB staff met with Subcommittee staff on February 26, 1971. The purpose of the meeting was to discuss the background and current status of airline discounts available to the Department of Defense and the possibility of the extension of such discounts to nondefense agency travel. Following this meeting OMB staff entered into discussions with GSA, DOD and State officials to determine what opportunities existed for other agencies to receive discounts similar to those applicable to DOD travel.

A study was conducted by DOD to determine the probable effects of integrating DOD international travel with the similar travel requirements of the nondefense agencies. In making that study it was assumed that nondefense agencies could not get discounts from the airlines concerned unless the agencies were prepared to shift travelers to charter flights if scheduled carriers would not offer reduced fares.

The results of the study were reviewed at a meeting of agency representatives on July 16, 1971. A potential saving of \$12 million per year in international transportation costs was estimated if fare levels available to DOD were made available to nondefense agencies. DOD expressed its willingness to manage all international air travel for both DOD and nondefense agencies but felt it essential that the non-defense agencies subject themselves to travel management by DOD which would involve the use of DOD full plane charters as well as reduced rate travel on schedule flights. In addition, DOD stated that in view of the policy implications involved they would not undertake to negotiate with carriers on behalf of the nondefense agencies unless directed to do so by higher authority.

The position of DOD was conveyed to Director Shultz by letter of October 7, 1971 from Assistant Secretary of Defense Shillito which attached a copy of a letter from GSA Administrator Kunzig to Secretary of Defense Laird, dated September 8, 1971 requesting DOD to initiate further consideration of this matter with OMB. In addition, Mr. Kunzig sent a letter to Director Shultz on November 8, 1971 advising that DOD would need specific direction from OMB to continue the effort toward procuring reduced international air transportation costs for nondefense agencies.

GSA was requested informally by OMB to confirm whether or not State Department, as the principal nondefense agency involved, would commit its travelers to the management restrictions imposed by DOD on its own travelers which would call for use of charter service if negotiations with carriers for reduced rates should fail. GSA subsequently reported

that State had concluded that use of charter flights would not be compatible with its requirements, particularly because of the delays and costs involved in getting to and from the departure and arrival points and because of the loss of flexibility in scheduling travel under the DOD system.

By letter dated December 22, 1971 to Administrator Kunzig OMB advised GSA that in view of the State Department conclusion that it could not use the DOD managed charter service there was no basis for DOD to inter into negotiations with carriers for reduced rates for nondefense agency travelers. The letter suggested that the State Department position be reexamined and if affirmed that GSA should assume responsibility for developing whatever basis available for negotiating reduced rates for the international air travel of nondefense agencies.

After confirming that the State Department would not be able to use the DOD charter service GSA proceeded to examine the possibilities for other arrangements that could be effective in bringing about reduced fares for international travel by employees of nondefense agencies. Several options have been explored with international air carriers and GSA has reported informally to OMB on these discussions. Current planning in GSA is directed toward the possibility of an air shuttle operation. A draft proposal along those lines is currently under review in GSA prior to being circulated for agency comment. Indications are that the views of 46 Federal agencies including those of OMB will be solicited, by GSA with respect to the draft proposal.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

SEP 11 1973

Honorable Arthur F. Sampson
Administrator
General Services Administration
Washington, D. C. 20405

Dear Mr. Sampson:

This acknowledges your letter of August 14, 1973, outlining a proposal whereby DOD would manage an expansion of current DOD air charter contracts to accommodate passengers from civilian agencies. You requested projections for possible DOT utilization of this new service over the next six months. These projections are provided in the enclosure to this letter.

You also asked us to comment on the proposal from the perspective of the proposed air charter system's adequacy in terms of our travel requirements. While the proposal outlined in your letter does not contain details of the arrangements or procedures being developed, we feel that the proposal will be able to support effectively a major amount of our travel requirements to Europe. We assume, of course, that the proposal would permit our use of other than DOD's charter service where deemed appropriate.

There are some other considerations from the perspective of U. S. transportation policy and DOT's responsibilities in transportation that are relevant to the proposal:

The President's Policy Statement of June 22, 1970, states that scheduled services are of vital importance to air transportation and offer services to the public which are not provided by charter services. DOT is concerned that the economic viability of air carriers operating under U. S. flag certifications remains sufficient to provide effective and safe means of transportation.

DOT has taken the position that air fares should be the lowest rate consistent with viable operations, and available to everyone without discrimination as to class. The Department has stated to the CAB on a number of occasions that the North Atlantic fare structure needs to be updated and that low promotional fares on a nondiscriminatory basis should be increased.

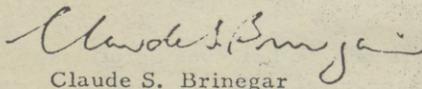
As a matter of policy, DOT is not opposed to charters used on a nondiscriminating basis and to use marginal capacity. Unless the proposed plan utilizes existing marginal capacity or uses U.S. scheduled/supplemental air carriers now normally flying the proposed route the following conditions could occur:

. Adding to the number of airplanes on the same route, thereby affecting load factor potential and distribution for other competing U.S. carriers.

. Adding to the number of airplanes in the same airspace with resultant implications for traffic congestion, energy waste, air and noise pollution.

I feel that the proposal has merit and should be developed. I also recommend that, after an appropriate period of actual experience, an evaluation of the operation be conducted. We would be pleased to participate in that evaluation, from the point of view of its impact on scheduled and supplemental service.

Sincerely,



Claude S. Brinegar

DEPARTMENT OF STATE

Washington, D.C. 20520

October 2, 1973

Honorable William S. Moorhead, Chairman
Subcommittee on Foreign Operations and
Government Information
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Secretary has asked me to reply to your letter of August 16, 1973 concerning the proposed air charter system for transporting official overseas travelers.

As the Department's principal witness stated before your Subcommittee on May 23, 1973, "We are pleased to participate with the government wide efforts that hopefully will lead to reduced air travel costs....." Representatives of this Department have met and consulted frequently since that time with representatives of the General Services Administration and the Department of Defense on this project. Additionally, the Department will provide the travel statistics to the General Services Administration as requested in the Administrator's letter of August 14, 1973 to Secretary Rogers.

It is agreed that the full cooperation of the several agencies concerned will be required to realize the potential benefits from the proposed charter system. From our standpoint, we will cooperate to the fullest extent practicable in utilizing this projected service. There will be instances, of course, where because of timing, routing or possible other considerations, this service might not meet the needs of a particular traveler. In such circumstances, regularly scheduled commercial services would have to be used.

If the Department may be of further assistance, please do not hesitate to call on me.

Sincerely yours,

Marshall Wright
Assistant Secretary for
Congressional Relations

DEPARTMENT OF STATE

Washington, D. C. 20520

October 16, 1973

Honorable William S. Moorhead, Chairman
Subcommittee on Foreign Operations and
Government Information
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

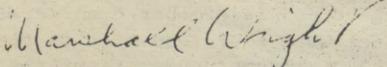
Dear Mr. Chairman:

The Secretary has asked me to reply to your letter of September 27, 1973 concerning the proposed air charter system for transporting official overseas travelers.

You should by now have received my letter of October 2, which was sent before receipt of yours of September 27. As I assured you in that letter, the Department will cooperate to the fullest extent practicable in utilizing the projected air charter service.

Thank you for making available the copies of the printed hearings on this proposal which were transmitted under cover of your recent letter. Please do not hesitate to call on me if the Department may be of any assistance to you with respect to the implementation of this proposal.

Sincerely,



Marshall Wright
Assistant Secretary for
Congressional Relations

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

AUG 30 1973

Honorable William S. Moorhead
Chairman
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

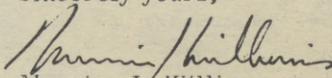
This is in reply to your letter of August 16, 1973, outlining plans for establishing an air charter system for transporting U.S. Government travelers overseas.

There are a few conditions unique to the Agency's operation which we feel should be brought to your attention. Since a large number of A. I. D. 's overseas flights would be to destinations some distance from the planned shuttle stops, consideration will have to be given on a case by case basis to a number of factors which might make it more practical to use regularly scheduled commercial flights. We think you will agree that the frequency of connecting flights, the urgency of a particular mission and the availability of less costly excursion fares are examples of criteria to be considered. There will undoubtedly continue to be instances where our established policy of using trust funds and excess foreign currencies to fund travel will be an additional consideration.

We are certain the main flow of our air travel can be channeled into the proposed system. The Agency will cooperate to the fullest extent to insure the success of the proposed plan.

With best wishes.

Sincerely yours,


Maurice J. Williams
Acting Administrator

ACTION

WASHINGTON, D.C. 20525

OFFICE OF
THE DIRECTOR

August 31, 1973

Honorable William S. Moorehead
Chairman, Foreign Operations and
Government Information Subcommittee
U.S. House of Representatives
Rayburn House Office Building, Room B-371-B
Washington, D.C. 20515

Dear Mr. Chairman:

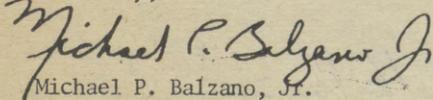
Thank you for your August 16 letter and potential shuttle schedules related to the proposed international air charter system being developed by the General Services Administration.

ACTION has participated in this project with GSA since its inception and has fully endorse the proposed system. We plan on utilization of the system when implemented to the maximum extent concurrent with the staff and Peace Corps Volunteer travel requirements of this agency.

We envision no significant problem in fully utilizing the proposed system beyond the feasibility of dropping large groups of volunteer trainees at peak time periods on the system. We plan on realigning our own contract charter program to conform to maximum use of the proposed charter system, specifically for transporting volunteers from the system's gateway cities to country of training. We have realized savings during fiscal years 1972 and 1973 in excess of \$500,000 via our own contract charters.

We are attaching a copy of our latest reply to the Administrator of the General Services Administration on the subject for your information.

Sincerely,



Michael P. Balzano, Jr.
Director

Attachment

UNITED STATES INFORMATION AGENCY

WASHINGTON 20547

August 29, 1973

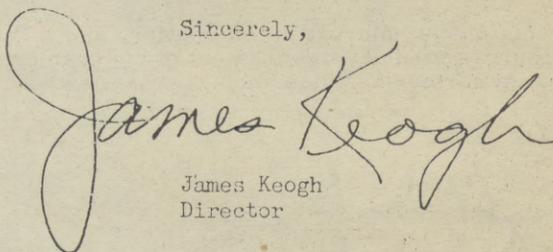
Dear Mr. Chairman:

In response to your letter of August 16, 1973, you can be assured of full cooperation by the United States Information Agency in the plans for establishing an air charter system for transporting official overseas travelers.

However, there are several problem areas for which the General Services Administration does not yet have the answers. In the event they remain unsolved after meetings scheduled within the next week, I will advise you promptly.

With warm personal regards.

Sincerely,

A large, stylized handwritten signature in cursive script that reads "James Keogh". The signature is written in dark ink and is positioned above the typed name and title.

James Keogh
Director

The Honorable
William S. Moorhead
Chairman, Foreign Operations and
Government Information Subcommittee
of the Committee on Government Operations
House of Representatives

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

NOV 13 1973

Honorable William S. Moorhead
Chairman, Subcommittee on Foreign
Operations and Government Information
Committee on Government Operations
House of Representatives
Washington, DC 20515

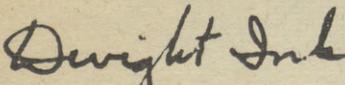
Dear Mr. Moorhead:

Thank you for your letters of October 17 and 30, 1973, concerning the proposed worldwide air shuttle system to transport the Government's overseas travelers.

We have written to the Secretary of Defense concerning Department of Defense acceptance of full responsibility for implementing and operating the chartered air shuttle system. Upon acceptance of this responsibility by DoD, the General Services Administration will issue an appropriate Federal Policy Directive to the heads of agencies concerning the use of the system wherever feasible for their international air travel requirements. The Directive will emphasize the need for stringent administrative controls on the granting of exceptions for the use of other forms of travel.

We appreciate your interest in this matter, and will keep you advised of our progress toward establishment of the charter system. If we can be of any further assistance, please let us know.

Sincerely,



Dwight A. Ink
Acting Administrator

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

23 NOV 1973

Dear Mr. Chairman:

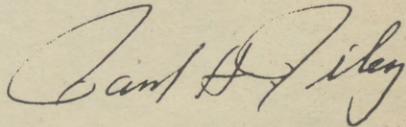
This is in response to your letter dated October 30, 1973, enclosing copies of the Committee on Government Operations report on the "Economy and Efficiency of International Air Travel by Government Officials" plus copies of the related hearings.

We have now received the November 7, 1973, letter from Mr. Arthur F. Sampson, Administrator, General Services Administration requesting that the Department of Defense assume the responsibility for initiating and operating a charter flight system to accommodate civil agency international traffic. We have interpreted that letter to be a delegation to us, pursuant to GSA's authority under sections 201(a) and 205(e) of the Federal Property and Administrative Services Act, of the responsibility to procure international flight services for all federal civil agencies.

By separate correspondence we have requested the Department of the Air Force to work closely with GSA and other Federal Departments or Agencies concerned to establish their firm traffic requirements. Additionally, Air Force has been asked to ascertain the requirements of the Military Services and Defense agencies for airlift of DoD passengers between Washington, D. C. and London or Frankfurt for consolidation with the civil agency requirements. We have also asked the Air Force to proceed with the development of operating procedures for booking reservations of civil agency travelers and the establishment of agreements with the civil agencies concerning payment for services rendered.

Please be assured that we intend to move forward with this program with dispatch and that we will be certain to keep you advised of all developments.

Sincerely,



cc: SAFILT

PAUL H. RILEY
Deputy Assistant Secretary of Defense
(Supply, Maintenance & Services)

DEPARTMENT OF STATE

Washington, D.C. 20520

November 16, 1973

Honorable William S. Moorhead, Chairman
Subcommittee on Foreign Operations and
Government Information
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

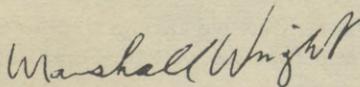
The Secretary has asked me to reply to your letter of October 29, 1973 which transmitted copies of the Committee on Government Operations' report on the "Economy and Efficiency of International Air Travel by Government Officials" together with copies of the related hearings.

The Department shares your view that there will be advantages from the use of the proposed chartered air shuttle system despite the problems and inconveniences that may occur during the early stages of its operation.

We have kept in close contact with GSA and DOD on this matter and will assist in every way possible in the development and operation of the air shuttle system.

If I can be of any further assistance on this matter, please do not hesitate to let me know.

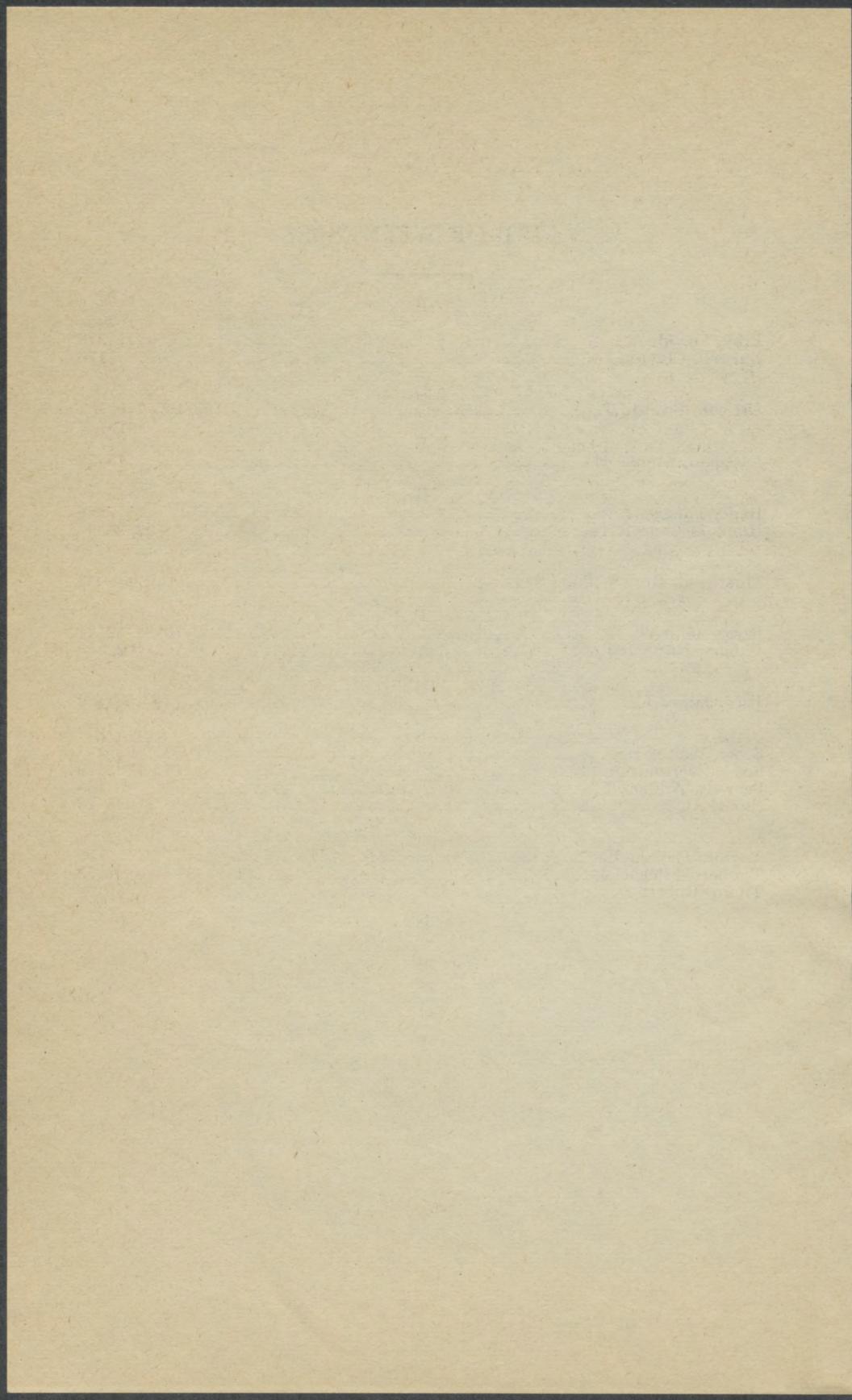
Sincerely,



Marshall Wright
Assistant Secretary
for Congressional Relations

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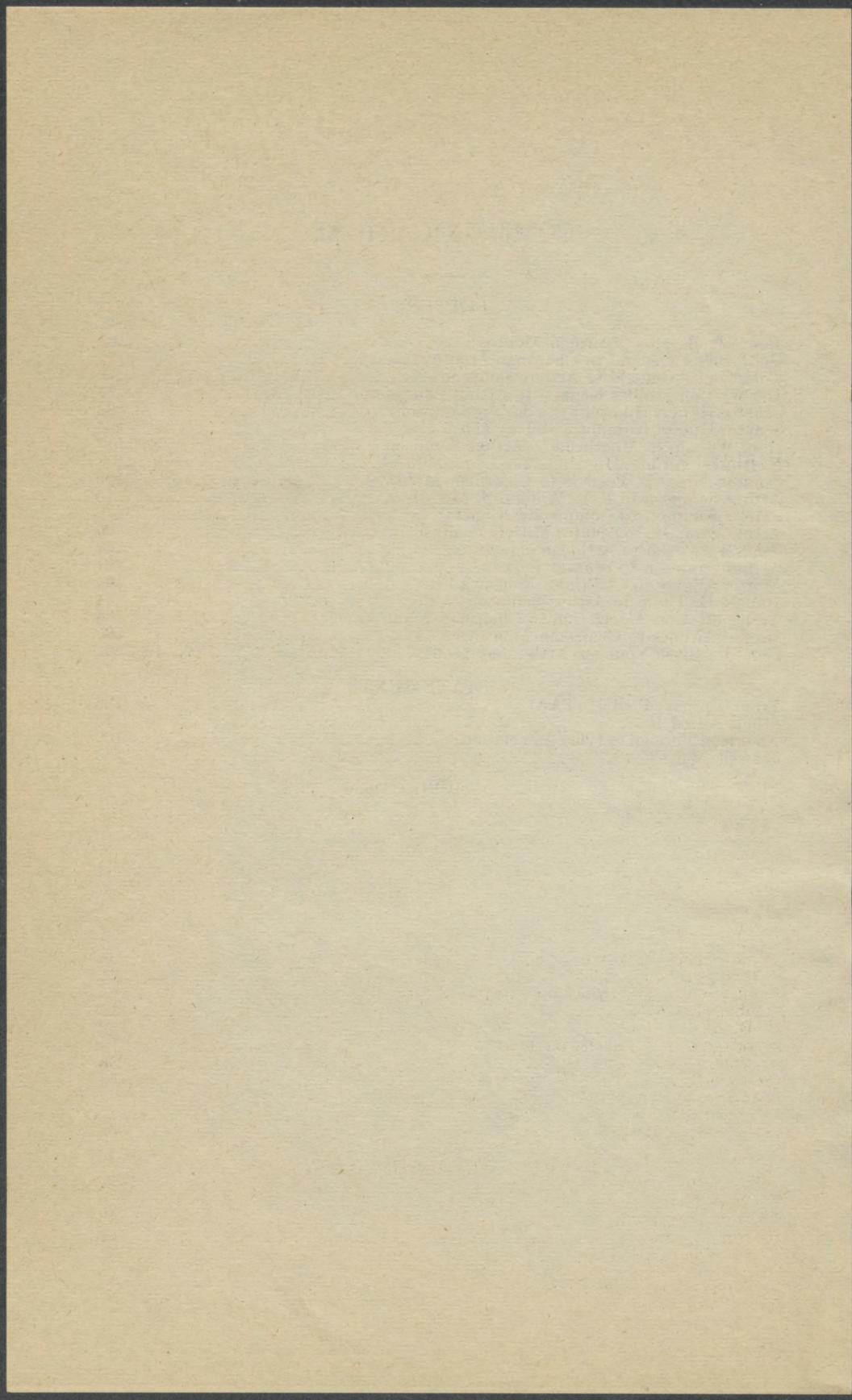
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