

AMERICAN AIRLINES, INC.
New York

September 30, 1948

To: The Directors

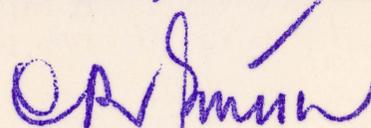
As a matter of basic information:

Many of the air carriers have taken the position that the Civil Aeronautics Act should be administered in such fashion as to provide a reasonable return on investment, provided only that the carrier shall meet the tests established by the Act, such as honest, economical and efficient management. Some have gone so far as to say or infer that the Civil Aeronautics Act "guarantees" them a reasonable return on investment, and many of them have expected to secure retroactive payments which would insure that accomplishment.

We have endeavored to operate the business of American on the basis that we should have fair and reasonable rates for the transportation of mail, and that such rates should include reasonable provision for the "need" of the carrier. We have always believed that we would be leading ourselves, our directors and our stockholders astray if we should conclude we could expect the Civil Aeronautics Board to "guarantee" us a return on our investment. We have not believed the Act intended that and we have not believed it possible of fulfillment on practical basis, even if the Act did so intend. We have been proceeding on the basis that if American Airlines was to be successful such success would have to come largely from our own economic efforts, with reasonable aid from the Civil Aeronautics Board. A business so intertwined with the government as to permit the assumption that the government guaranteed its survival would be no business at all, simply an agency operating for the benefit of the government.

The United States Court of Appeals, District of Columbia, recently ruled on a law case affecting TWA and the Board. Without going into multitudinous detail, the Court ruled "We cannot find in this statute (Civil Aeronautics Act) any language which indicates that Congress intended to guarantee to every carrier a profit".

I see nothing in this which should excite our concern; it follows the same principle we have been endeavoring to follow. It is, in my opinion, fair warning to those who believe "an airline cannot go broke" and is assuring to those who are willing to have the result measured by their own economic skill, with reasonable aid from CAB.


C. R. Smith