

1. Will sale of AOA to Pan American reduce subsidy requirements?

Yes. Analysis discloses that had the sale been consummated prior to 1948, subsidy requirements for that year for the combined operation would have been \$6,500,000 less than the sum of subsidy requirements for AOA and for Pan American as separate operations. With increasing investment and costs, reductions in subsidy requirements for future years will be even greater.

2. Why will subsidy requirements be reduced?

Pan American and AOA duplicate each other exactly between New York-Boston-Gander-Shannon-London-Frankfurt. This accounts for over 80% of AOA's trans-Atlantic business. Duplicate ground expenses at these points can be avoided. Likewise duplicate overhead expenses can be eliminated. Furthermore, Pan American's trans-Atlantic routes have numerous lightly travelled segments; addition to it of a considerable share of AOA's traffic will mean improved system load factors for Pan American so lessening its subsidy dependence. Finally, since trans-Atlantic traffic is highly seasonal, the combination will permit fewer flights, with higher load factors, in the off-season.

3. Is Pan American the high cost operator and AOA the low cost operator?

No. Each carrier's relative costs vary from time to time depending upon equipment and other conditions. In 1947 Pan American was the low cost operator across the Atlantic. In 1948 AOA was the low cost operator. In 1949 TWA was the low cost operator. Pan American's 1949 costs were relatively high because it was faced throughout most of the year with extraordinary costs of introducing a new type of equipment. AOA faced similar cost problems at the very end of the year. AOA would be sharply affected by that problem in 1950 if the route sale were disapproved.

4. Does not Pan American already have the strongest Atlantic route?

No. The most recent CAB analysis of the relative strength of the routes of the three carriers across the Atlantic showed that, based upon the same levels of efficiency for all three carriers, TWA's route was the strongest of the three in terms of the amount of subsidy that would be needed per available ton mile in order to break even. This analysis showed that the break-even need of the Pan American route is 75% greater than TWA's.

5. Will sale of AOA to Pan American give it access to the lion's share of the traffic as compared with TWA?

Definitely not. The latest CAB survey of trans-Atlantic traffic carried across the ocean to and from the

U.S. by the U.S. flag carriers shows that 52% of it was to or from points served by TWA in Europe and beyond. 59.9% of it was to and from points that would be served by Pan American if it acquires AOA. (These two percentage figures add to more than 100% because TWA and Pan American serve certain points in common.) This discloses a balance which is as nearly equal as it is practically possible to attain between different carriers.

6. How much of the total traffic does TWA carry today?

The latest available figures are for the twelve months ending in September, 1949. Of the total for the three U.S. flag carriers on the Atlantic routes, excluding Pan American's local traffic to Bermuda and that portion of its traffic south of Europe to South Africa, which are quite separate traffic areas, TWA's share of the total passenger miles was 39.6%. Its share of total revenues, exclusive of U.S. mail pay, was 40.6%. And its share of total passenger revenues was 41.4%.

7. If AOA is sold to Pan American, what will be the relative sizes of the TWA trans-Atlantic operation and of the Pan American trans-Atlantic operation?

If Pan American secured all of the AOA traffic, the answer to question 6 indicates that TWA would have 40% and Pan American 60% of the business. But all three

carriers presently operate to Shannon, a relatively good traffic point, so that elimination of AOA will mean that TWA will get part of AOA's traffic to that point, and TWA's traffic witness testified that that would happen. Furthermore, TWA's own people admit that the three carriers are presently indirectly competing for traffic to all of Europe, so that the elimination of AOA will mean that TWA will get part of AOA's traffic to other points. These considerations, together with the data referred to in answer to question 5, should lead to a relative ratio of 45% to 50% for TWA and 55% to 50% for Pan American.

8. If AOA is sold, is the route pattern then frozen so that TWA cannot be strengthened in relation to Pan American if that proves necessary, or so that there can never be direct competition between U.S. carriers to London, for example, if that proves desirable?

The route pattern is not frozen. The North Atlantic certificates, including AOA's certificate which would be transferred to Pan American expire in July, 1952. The CAB can and will have reviewed the whole pattern before that time and will be able fully to make any adjustments found desirable from actual experience. In the meantime, TWA can hardly be hurt for it has more traffic than it can handle during Holy Year, and that stimulus to its traffic

is likely to carry over beyond 1950. Furthermore, the new state of Israel, which is in TWA's territory, promises very large traffic growth, now that the Arab war is over.

9. The foreign flag carriers secure only about 30% of the trans-Atlantic traffic, the rest being carried by U.S. carriers; therefore will not Pan American be relatively free of competition if it acquires AOA?

Not at all. The reason for the relatively low percentage of traffic carried by foreign flag carriers over-all is that they do not operate between this country and many points in Europe and Asia. Thus, in TWA's territory, the only effective foreign flag competition for business to and from the U.S. is to be found in Paris. However, there is very effective foreign flag competition between the U.S. and every single point served by AOA (except Iceland). For example, in the case of AOA points in Scotland, Holland, and Scandinavia the foreign flag carriers get from 72% to 84% of the business. Pan American will face very effective competition from three of the finest airlines in the world, BOAC (British), KLM (Dutch), and SAS (Scandinavian). And in the case of London, where BOAC has heretofore secured only about 20% of the traffic, that company is now getting a new fleet of

Boeing aircraft which will greatly increase its competitive effort. Until recently BOAC operated a very low frequency to London, because of shortage of equipment. With its new aircraft it is already out-scheduling AOA to London. Trans-Canada is also entering that market. And there are now six foreign flag carriers providing service between the U.S. and Germany in competition with AOA and Pan American.

10. Is not TWA in a weakened position so that it cannot be relied upon to furnish competition with Pan American to Europe?

TWA is not weak; it is and will be a very strong competitor. It is securing a fleet of the newest and most modern Constellations on very favorable terms of financing. It has grown very rapidly -- much faster than either Pan American or AOA. In 1949 its trans-Atlantic passengers had increased by more than 13,000 over its 1947 level, whereas neither AOA nor Pan American came up to their 1947 levels. And its financial showing has so far improved that under recent mail pay orders the CAB has found that much of the subsidy actually provided to TWA during 1949 was unnecessary.

11. With the sale of AOA to Pan American, U.S. flag carriers will duplicate each other only to the gateway points of Shannon and Lisbon across the Atlantic, and beyond those points will operate by divergent routes to different points; is this consistent with our policy calling for regulated competition?

It certainly is. The duplicating operation of AOA and Pan American is actually inconsistent with that policy. The Department of Justice, in a thorough study of international aviation policy in 1945, recommended that there be two carriers to Europe, saying:

"For example, one company might operate the trans-Atlantic route to northern Europe, while the second operated to southern Europe. . . the existence of two companies flying over alternate routes would seem to offer a greater advantage to the Nation than either a single company flying the two routes or two or more companies flying the same routes." House Doc. No. 142, 79 Cong., p. 36.

12. Will the sale of AOA to Pan American strengthen our national position in international aviation?

It will strengthen that position for four very good reasons:

- (a) By saving subsidy money, it will assure full support of international aviation by our government.
- (b) By providing for a stronger Pan American operation in place of the weaker present operations of

Pan American and AOA, it will offer an opportunity for a profitable future which will encourage stockholders and banks to provide needed support.

(c) By providing for one U.S. company to operate to and within Germany, instead of the present situation where Germany is divided into two separate zones, one for AOA and one for Pan American, we will be able to have a U.S. carrier providing services in that very important international center which now can be provided only by foreign flag carriers.

(d) By providing a strengthened company to operate to Holland and Scandinavia, a greater number of frequencies can be supported under the American flag than AOA, as a separate company, can possibly support. AOA is heavily outscheduled by its foreign flag competitors into all of Scandinavia and Holland.

13. Is it true that AOA has been making money and is in a sound financial condition?

It certainly is not true. Before mail pay and taxes, AOA has lost nearly \$12,000,000 in the three years, 1947-1949. In 1949 alone this loss was nearly \$5,000,000. And all the mail subsidy given to AOA beginning with 1945 has provided it with a net profit totalling only \$960,000 for the entire period. In 1949 alone there was more than \$400,000

of deferred expense which did not go through profit and loss statements, so that this \$960,000 profit is overstated. Furthermore, the CAB is proposing to cut AOA's mail pay retroactively, which will further reduce the profit. And under presently proposed mail pay AOA will have an investment recognized for mail pay purposes of only \$13,000,000, whereas its actual investment is now some \$25,000,000. That same mail pay order will cause AOA to lose, even after mail pay, upwards of \$3,000,000 in 1950. In the face of this picture, AOA will have a debt of \$10,000,000 by the summer of 1950.

14. Has AOA's business been growing?

It has not been growing. For the year ending September, 1949, its total passenger miles were barely more than its total for the year ending September, 1947. And the number of its trans-Atlantic passengers fell in 1948 below 1947, and in 1949 below 1948.

15. Why has AOA not been growing?

Because its business is duplicated by Pan American to the extent of 80% of its trans-Atlantic traffic, and is duplicated to every other point on its system (except Iceland) by foreign flag carriers. All these duplicating

carriers have modern fleets, aggressive organizations, and business getting ability. No other international carrier is duplicated and hemmed in as is AOA. The Iron Curtain prevents it from operating the route which the CAB intended in 1945. Its only hope for growth is to expand into TWA's territory, which would mean still more duplication of services among subsidized U.S. carriers.

16. Will American Airlines get some special advantage from this sale not available to other AOA stockholders?

It will not. All are treated alike. The principal minority interest in AOA is held by American Export Steamship Company. Its share of the sales price will give it a profit of \$939,854 over the cost of its holdings, whereas American Airlines will suffer a loss of \$868,232. In addition, it should be pointed out that American Airlines was forced to borrow money in order to provide AOA with needed capital in 1946, and the interest on that borrowed money has amounted to over \$900,000 through the end of 1949.

17. If the trans-Atlantic certificates expire in 1952, why should not this whole question be postponed for two years and considered again at that time?

Postponement would be disastrous. If AOA ceased operations in 1952 - which no one could prevent - there

would be no way to provide protection to its employees. The morale of its organization in the meantime would be destroyed since they would not know what to expect. The company could make no long range plans. It would have to live on a hand to mouth basis. And if the whole question of what is to happen to the three carriers in 1952 were left open, neither TWA, Pan American, nor AOA would have any security of tenure in the meantime, despite the imminent need for making plans for jet transports and other advances in the aviation field which take years to plan and consummate. If the sale is effected now, both TWA and Pan American will be assured of being continued indefinitely beyond 1952. Finally, postponement simply delays the time for strengthening the carriers through eliminating uneconomic duplication and means an unnecessary waste of taxpayer's subsidy money in the meantime.