

THE ROUTE OF THE



FLYING FLAGSHIPS

Mr. Amon G. Carter
Fort Worth Star-Telegram
Fort Worth, Texas

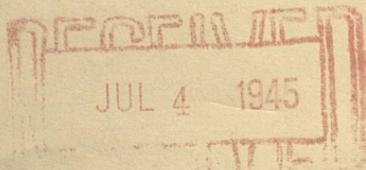
Dear Mr. Carter:

General Smith asked that I send to you a copy of the petition filed today with CAB. He will send you a confidential memorandum in regard to this and other matters shortly.

Maie Zwermer

Secretary to
Chairman of the Board

Incl



THE AMERICAN STANDARD OF SERVICE

BEFORE THE
CIVIL AERONAUTICS BOARD

: In the matter of the compensation :
: for the transportation of mail by :
: aircraft, the facilities used and :
: useful therefor, and the services :
: connected therewith, of :
: AMERICAN AIRLINES, INC. : Docket No. 1698
: :
: over its entire system. :
: :

MOTION TO FIX A FAIR AND REASONABLE RATE
AND TO TERMINATE THE PROCEEDING

Communications from the Board
with respect to this Motion
may be sent to:

Mr. C. W. Jacob, Secretary
American Airlines, Inc.
100 East 42nd Street
New York 17, New York

PRUITT, HALE AND COURSEN
420 Lexington Avenue
New York 17, New York
Attorneys for American Airlines, Inc.

July 2, 1945

BEFORE THE
CIVIL AERONAUTICS BOARD

In the matter of the compensation
for the transportation of mail by
aircraft, the facilities used and
useful therefor, and the services
connected therewith, of

AMERICAN AIRLINES, INC.
over its entire system.

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: Docket No. 1698
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MOTION TO FIX A FAIR AND REASONABLE RATE
AND TO TERMINATE THE PROCEEDING

American Airlines, Inc., (hereinafter referred to as "Respondent") hereby notifies the Civil Aeronautics Board (hereinafter referred to as the "Board") that it will, subject only to the Board's approval, inaugurate on or before August 15, 1945, reductions in passenger fares to yield Respondent 4.5 cents per passenger mile, based upon airport-to-airport mileage, equivalent at 200 pounds per passenger, to 45 cents per ton mile. Respondent also notifies the Board that it will inaugurate, as soon as applicable arrangements will permit, and by August 15, 1945 if possible, reductions in air express tariffs to yield Respondent approximately 45 cents per ton mile, based on airport-to-airport mileage. In connection with the foregoing reduction of passenger fares and air express rates, Respondent proposes and recommends the elimination of all discounts on round trips, Government travel, and the Air Travel Plan.

It is the purpose of this motion to propose to the Board a reduction of mail compensation as of January 1, 1945, from 60 cents to 45 cents per ton mile, based upon airport-to-airport mileage.

An examination of Appendix "A" attached hereto will show that if these rates and fares now announced, had been in effect for the calendar year 1944, and assuming a normal load factor of 70 per cent, the total operating revenues of the Respondent would have been reduced \$12,144,728, during which period the net income of the Respondent, before Federal income

taxes, was \$9,446,163. Similarly, for the first five months of 1945, Respondent's total operating revenue would have been reduced \$3,725,521, when Respondent's net income, before Federal income taxes, was \$3,364,355.

Respondent acknowledges that its present earnings are temporarily above the average which an air carrier might expect from the same capacity or volume of transportation in normal times, and admits that this situation constitutes a justification for some reduction by the Board from the 60 cents per ton mile mail rate presently being paid Respondent. But in view of the abnormalities currently prevailing, particularly when one class of traffic can be carried by Respondent only by the displacement of the other classes, Respondent asserts that the rate of 45 cents per ton mile is not inappropriate for persons, property, and mail alike.

Respondent's present operating revenues and costs are not a proper basis upon which to predicate any mail rate for any extended period in the future. The load factor now enjoyed, and which has obtained during a period of war, is much higher than could be attained in time of peace; first, for the reason that under normal competitive conditions and availability of equipment, the present high load factor could not in all likelihood be achieved. Second, the existence of such a high load factor has resulted in the turning away of many past and potential customers which the Board could not, and would not in the public interest, permit in time of peace. While during the period of great intensity of the war effort, substantial fluctuations of the load factor are not to be anticipated, it is obvious that pay loads cannot be much, if at all, further increased, and any substantial slackening of the transportation requirements of that program will directly decrease the load factor and the revenues of Respondent. Any long-term mail rate for the future must be premised upon an overall load factor which the industry can maintain and which will at the same time afford adequate public service. Again, and most important, the general level of costs is increasing and there is no assurance that the present cost level will continue to prevail; to the contrary, there are many definite indications that costs will appreciably increase.

Because of present uncertainties in air transportation, the effect

of necessary revisions of passenger schedules to accommodate the desires of the Post Office Department, the difficulty if not impossibility of arriving at true cost ascertainment for the carriage of mail, and other factors, Respondent submits that it is impossible without considerable further study either for the Board or for the air carriers to arrive at a fair and accurate determination of the cost of carrying each of the three classes of traffic. Respondent and other air carriers are transporting in quantity on an intermingled basis. While Respondent agrees that the Board has approached with sincerity the problem of determining the cost of transporting the mail, as distinguished from the transportation of passengers and express, it is Respondent's position that the business of transporting mail, passengers and express is on the whole so intermingled that the difficulty of assigning exact costs to each type of service is insurmountable under existing conditions.

It has been and shall continue to be the policy of Respondent to advocate and work for the establishment of lower rates and fares in air transportation, lower fares for the transportation of passengers, lower rates for the transportation of express and freight, and lower rates for the transportation of mail. As the revenues and earnings of Respondent permit, it will continually in the future seek the opportunity of making further reductions in charges for air transportation to the public.

Respondent believes that the expansion of air transportation and the further extension of its benefits to the public, for which the Board has an obligation under existing law, can best presently be accomplished by reducing at the same time charges for mail, passenger, and express transportation, thereby broadening the transportation market, rather than by an excessive and discriminatory reduction in mail rates. It is the experience of sound business institutions that the organization which serves the greatest proportion of its potential customers has the best opportunity for public service and continued business success. The Board has anticipated a great expansion in air transportation following the war; in order to assure this expansion, Respondent believes the cost to the patron must be reduced.

The present business and financial support of Respondent comes from three sources: The passenger who purchases a ticket, the shipper who pays

for the transportation of express or freight, and the Government of the United States which, through the Post Office Department, pays for the transportation of the mail. This being an intermingled business, and one which depends for success upon the continued and increasing patronage of all three classes of customers, there exists an obligation to permit each and all of such customers to participate in any reductions in air transportation charges which become available through decreased operating costs, increased revenues, and the resulting profit from operation. This is particularly true in the instant situation where it may be observed that it is the present high passenger load which has produced the abnormal earnings making it possible for Respondent to reduce its charges for air transportation. Certainly that class of traffic which has contributed most to this situation should be permitted to participate equitably in benefits arising from its patronage.

The responsibility to permit each class to share in available reductions, due to increased economies and efficiency of operations, is a direct responsibility of the Board which has the duty to insure that any one or more of the classes do not receive undue preference and that all share fairly in such economies. Respondent protests as being unfair and unjustifiable any attempt to reduce the revenues and earnings of the Respondent and not permit all three classes of customers to participate in the benefits of such reduction.

For the purpose of carrying out this policy of broadening the air transportation market and to extend to all users of air transportation the benefits of reduced charges in an equitable manner, Respondent proposes to adopt, and urges that the Board adopt by fixing a mail rate of 45 cents per ton mile, a substantially uniform rate for the transportation of all three types of air traffic over its system.

It is therefore urged that such relationship be maintained until the effect of post-war conditions can appropriately be evaluated and a more definite allocation of revenues and expenses to the respective classes of traffic can be devised. The establishment by the Board of a fixed rate of 45 cents per ton mile for the carriage of mail at this time will remove the undesirable uncertainties heretofore urged and permit Respondent to make more definite plans for the procurement and financing of larger aircraft

which the Respondent requires and for which Respondent presently has outstanding commitments.

WHEREFORE, Respondent moves that the Board promptly fix and determine, without further hearings, proceedings or delay, the fair and reasonable rate for the transportation of mail by aircraft, the facilities used and useful therefor, and the services connected therewith, over the routes of Respondent, at 45 cents per ton mile to be effective as of January 1, 1945; that the Board grant Respondent such relief as may be appropriate to expedite the placing in effect by Respondent of the reduced passenger fares and air express rates on or before August 15, 1945, as hereinbefore set forth; that the above-entitled proceeding be thereby terminated; and for such other further and different relief as to the Board may seem proper.

Respectfully submitted,

AMERICAN AIRLINES, INC.

C. R. Smith (Signed)

DISTRICT OF COLUMBIA) ss.:

C. R. SMITH, being duly sworn, deposes and says that he is the chief executive officer of American Airlines, Inc.; that he has read and is familiar with the contents of the foregoing; that he intends and desires that in granting or denying the relief applied for the Board shall place full and complete reliance upon the accuracy of each and every statement therein contained; that he is familiar with the facts therein set forth; that to the best of his information and belief every statement contained in the foregoing Motion is true and no such statement is misleading.

C. R. Smith (Signed)

Subscribed and sworn to
before me this 2nd day of
July, 1945.

Therese M. Tangora (Signed)

Notary Public.

My commission expires January 13, 1946.

AMERICAN AIRLINES, INC.

Statement of Profit and Loss for the Calendar Year 1944 and Pro Forma
Statement of Revenues based upon a 70 per cent Passenger Load Factor
and Passenger, Mail and Express Rates of 45 cents per Ton Mile

	<u>Actual</u>		<u>Pro Forma</u> ^(a)	
	<u>Amount</u>	<u>Cents Per Ton Mile</u>	<u>Amount</u>	<u>Cents Per Ton Mile</u>
Operating Revenues:				
Passenger	\$29,338,231	53.3¢	\$19,269,860	45.0¢
Mail	6,685,282	59.9¢	5,024,873	45.0¢
Express	2,483,246	49.2¢	2,269,838	45.0¢
Airfreight	46,676	35.2¢	46,676	35.2¢
Excess Baggage	587,937	44.9¢	385,397	37.8¢
Other	102,640		102,640	
Total	<u>\$39,244,012</u>		<u>\$27,099,284</u>	
Operating Expenses	<u>29,772,551</u>			
Net Operating Income	\$ 9,471,461			
Net Deductions from Gross Income	<u>25,298</u>			
Net Income before Federal Income Taxes	\$ 9,446,163			
Provision for Federal Income Taxes	<u>4,050,000</u>			
	\$ 5,396,163			
Reserve for Transition to Peacetime Operations & Other Contingencies	<u>1,000,000</u>			
NET PROFIT	<u>\$ 4,396,163</u>			

(a) Pro forma statement of revenues based upon reduction of:

1. Passenger load factor to 70.0%.
2. Passenger, mail and air express revenues to a net yield of 45.0¢ per ton-mile (airport to airport).
3. Excess baggage revenues in proportion to the reduction of passenger revenues.

AMERICAN AIRLINES, INC.

Statement of Profit and Loss for the Five Months Ended May 31, 1945 and
Pro Forma Statement of Revenues based upon a 70 per cent Passenger
Load Factor and Passenger, Mail and Express Rates of 45 cents
per Ton Mile

	<u>Actual</u>		<u>Pro Forma</u> ^(a)	
	<u>Amount</u>	<u>Cents Per Ton Mile</u>	<u>Amount</u>	<u>Cents Per Ton Mile</u>
Operating Revenues:				
Passenger	\$13,932,786	50.9¢	\$ 9,718,439	45.0¢
Mail	1,911,937	32.2¢	2,672,191	45.0¢
Express	1,297,303	52.8¢	1,105,389	45.0¢
Airfreight	263,275	40.4¢	263,310	40.4¢
Excess Baggage	264,199	45.8¢	184,650	40.6¢
Other	61,985		61,985	
Total	<u>\$17,731,485</u>		<u>\$14,005,964</u>	
Operating Expenses	<u>14,248,544</u>			
Net Operating Income	\$ 3,482,941			
Net Deductions from Gross Income	<u>118,586</u>			
Net Income before Federal Income Taxes	\$ 3,364,355			
Provision for Federal Income Taxes	<u>1,460,000</u>			
NET PROFIT	<u>\$ 1,904,355</u>			

(a) Pro forma statement of revenues based upon reduction of:

1. Passenger load factor to 70.0%.
2. Passenger, mail and air express revenues to a net yield of 45.0¢ per ton-mile (airport to airport).
3. Excess baggage revenues in proportion to the reduction of passenger revenues.