

American Airlines, Inc.  
100 East 42nd Street  
New York 17, N. Y.

April 27, 1949

To the Directors of:

American Airlines, Inc.  
American Overseas Airlines, Inc.

The North Atlantic Mail Rate decision was announced by the Civil Aeronautics Board on April 20. It proposes rates for the years 1946, 1947 and 1948. Those rates provide additional income as follows:

Additional Income:		
for the year of 1946	\$ 286,000.	
for the year of 1947	<u>2,217,000.</u>	
	2,503,000.	
Deduct: Amount to be returned from compensation already paid for the year of 1948	<u>163,000.</u>	\$2,340,000.

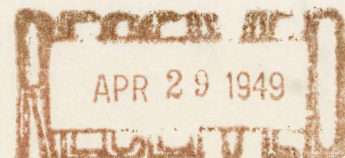
The rates for 1946 and 1947 are generally in keeping with those anticipated, although there were some unusual adjustments.

We had anticipated additional income for 1948, for the reason that rates in effect do not provide adequate return on capital invested. Instead, the rate is reduced and, in net effect, we are asked to return \$163,000. already paid to us.

No rate has been fixed for 1949. If this decision remains the policy we will continue on temporary rate for some time. The Board talks at some length about service and competition for the future, with the evident aim of preparing the record to put all of the responsibility on the carrier. We will have some more "second guessing" on the part of the Board for future rates.

Highlights of the Decision are:

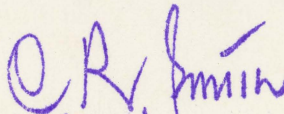
1. Heretofore the rates for Pan American and American Overseas on the North Atlantic have been identical. Under this decision Pan American will be paid 83.1¢ per airplane mile, American Overseas 53.5¢ per airplane mile, for the performance of reasonably identical service.



2. Revenue for Pan American, excluding mail, was \$2.43 per mile in 1948, compared with \$2.513 for American Overseas. Cost of operation for Pan American was \$3.122 per mile, against \$2.83 for American Overseas. The net result of this more efficient operation by American Overseas is that we have our mail rate reduced, Pan American has its increased.
3. The Board estimates a capital investment for American Overseas of \$13,238,000. for 1948. Our records and the records of the auditors indicate a capital investment of \$22,614,000. For rate making purposes the Board has made a multitude of disallowances including disallowance of all the deposits and investments in connection with the purchase of the Boeing airplane; that on the theory that they will take that into consideration when the airplane is in operation.
4. The Board says that strikes are a cost of capital and not of operation. It disallows, for mail pay purposes, \$738,000 lost in the pilots strike of 1947. In addition, it says that we are not entitled to a return on our capital during that period, and eliminates an additional \$102,000., total \$840,000.
5. During the years 1946 and 1947 American Overseas operated the airport at Iceland, receiving for that work \$322,000. in fixed fees. In net effect this income is deducted from the mail revenue to be paid to the company, that income having reduced our "need", and in final result we receive nothing for the work accomplished at Iceland.

With this additional income of \$2,340,000. the net increase in surplus will be about \$900,000. First, income taxes will be paid on it; second, the unamortized portion of Extension and Development Expense, still on the books at about \$800,000., must be charged off, for that was disposed of in the general terms of the decision.

Nowhere in this decision can I find any evidence of intention on the part of the Civil Aeronautics Board either to reward efficiency or to penalize inefficiency.

  
C. R. Smith