Editorial

IN THE RUNNING

The aviation news from the U.S. during the past month has been, to say the least, of more than passing interest to the Canadian Aircraft Industry. First there was the report by a committee set up by the U.S. Secretary of the Air Force, recommending that the USAF buy 232 CL-44's as part of a move to modernize MATS. More recently, the U.S. Army told the annual meeting of the Aviation Writers Association that its current procurement objective for the Caribou was 300 aircraft. At a time when the Industry seems to be floundering in the doldrums, these two reports are cheering indeed. However, we would caution that both are far from being a fait accompli. The Caribou order certainly has an excellent chance of becoming a reality. On the other hand, the CL-44 recommendation is just that. Implementation can follow only laborious and tortured negotiation. What's more, an order would evidently depend on the Canadian Government reciprocating by buying U.S.-built fighter aircraft to re-equip CF-100 squadrons . . . something which the Cabinet has shown little enthusiasm about doing. An even more formidable obstacle will be the certain opposition of the big U.S. manufacturers of transport aircraft, all of whom are beginning to scramble for work. Douglas in particular is suffering through a period of dog days.

There may be better days coming for the Industry here, but it's still too soon to cheer by a long shot.

TROUBLE IN PARADISE

The subject of competition in air transportation is, more than ever these days, of keen interest in Canada. Recent changes in Government policy are bringing a growing measure of competition in certain areas of air transportation in this country: to the betterment of commercial aviation, say the proponents of more competition; to its detriment, say the opponents of a system of parallel competing services.

The mighty air transport industry in the U.S. is often held up as an example of what wide-spread competition can do to encourage growth. However, all is not well in paradise. "The Value Line Investment Survey", a weekly analysis of industries for investors, published by Arnold Bernhard & Co. Inc., investment advisers of New York, recently discussed the unhappy situation in which the U.S. air transport industry now finds itself. Because of the recent trend in Canada, we believe the following extract from the Survey report to be of more than usual interest. Said the Survey:

Unique Position: "Within the American economic system, air carriers occupy a unique place. On one hand, they are regulated as public utilities under the Civil Aeronautics Act. On the other hand, the very act which created a governmental guardian of the 'public interest' specified 'competition to the extent necessary to assure the sound development of an air transportation system.'

"Since 1955, the CAB has used the mandate of that vague phraseology — more suited to the fledgling industry of the 1930's than to today's giant business of providing transportation for some 50 million annually — to deny many air carriers what has become one of the cornerstones of public utility regulation in this country: the benefit of exclusive franchises or rights of way.

"In 1955, about 60% of the 400 largest domestic air travel markets were served by a single carrier. Today, after a host of new route awards, only 13% of those markets are still served by a single line, and a good portion (including most of the profitable routes) are served by three or more airlines. Since fares are strictly regulated by the CAB, passengers have to be lured by the appeal of ever better and ever faster equipment."

It Adds Up: "Modern planes, however, are expensive. A Boeing 707 jet costs on the order of $5 million. Initial expenses (such as pilot and maintenance crew training) add a significant amount to that. Financing charges for a modern fleet are staggering. TWA, for instance, is currently negotiating for institutional loans of $190 million — little more than half of what it needs. At a conservative 5.25% interest rate, TWA would incur annual fixed charges of about $10 million. Also, depreciation charges for the line's present fleet of 19 Boeing 707's add about $8 million annually to that item in TWA's expense account.

"In short, in encouraging an equipment race, the CAB's policies have created more competition than soundness in the air transport industry, bringing some carriers, such as Capital and Northeast, close to bankruptcy and severly impairing the earning power of even the strongest lines. Note, for instance, the poor first quarter profits now being reported despite a general rise in traffic figures."