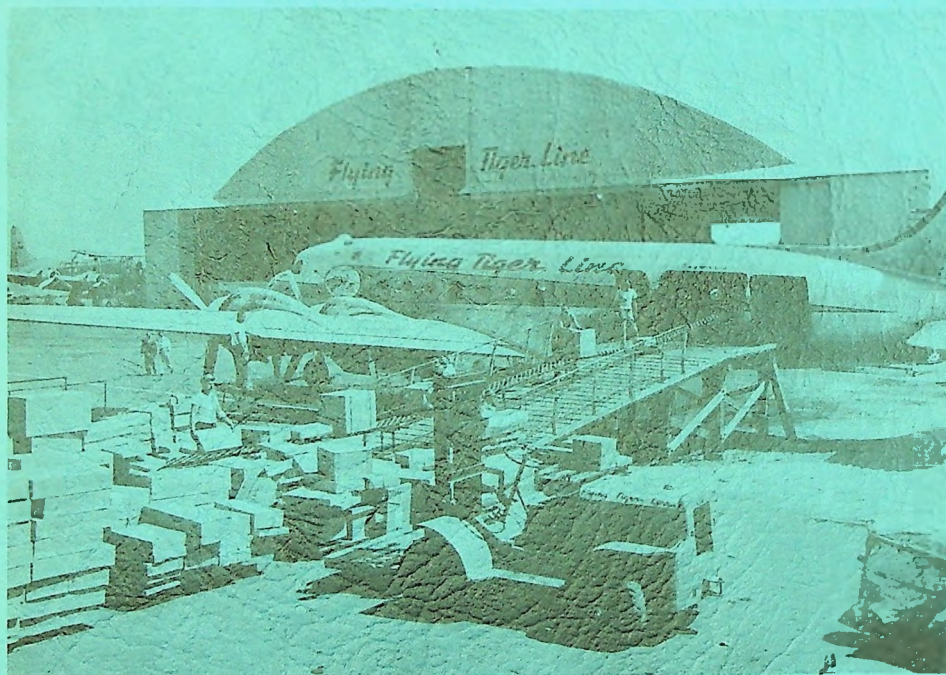


The Flying Tiger Line Inc.

ANNUAL REPORT

For The Year Ended June 30, 1948



LOCKHEED AIR TERMINAL
BURBANK, CALIFORNIA

September 10, 1948

CIVIL AERONAUTICS BOARD DECISION IN AIRFREIGHT FORWARDER CASE

The Civil Aeronautics Board today issued its decision in the Airfreight Forwarder Case. By its decision all freight forwarders except those controlled by railroads are entitled to engage in airfreight forwarding for a developmental period of five years.

However, under this decision, the Railway Express Agency is restricted to its present business of Air Express. It must negotiate new contracts with the certificated carriers and cannot for the present do business with non-certificated cargo carriers such as The Flying Tiger Line Inc. The decision points out that the case for certification of the Flying Tiger Line and other non-certificated cargo carriers is to be argued before the Board in this coming week. Upon certification of these applicants in the airfreight case the Railway Express Agency will automatically be able to do business with them.

The grant of permission to the freight forwarders to engage in business is another recognition by the Civil Aeronautics Board of the program for development in the air cargo industry advocated by your Company. This decision tremendously enhances the possibility of your Company's achieving the volume of traffic regarded as necessary for a profitable operation.

ROBERT W. PRESCOTT

President's Letter

INTRODUCTION

The close of the fiscal year 1947-1948 shows many of the major problems of your Company still unresolved. Since June of last year we have completed the conversion of our operations to the DC-4, four-engine equipment. This was one of our original goals but was deferred for many months by the inaccessibility of the equipment. We now give daily DC-4 service between Los Angeles, San Francisco and New York. A map of our scheduled routes appears elsewhere in the Report.

This change in our operation has decreased our unit costs considerably and we feel now that if reasonable expectations are realized, both in our certification proceedings outlined below and in the volume of business we know to be obtainable, the future prospects for your Company are good.

We believe it important to summarize for you as compactly as possible some of the factors affecting this future. There follows a description of the following salient features:

- (1) Common Carrier Status
- (2) The Rate War
- (3) The Airfreight Forwarder Case and Application of Railway Express Agency, Inc.
and
- (4) Certification of All-Cargo Carriers.

STATUS AS COMMON CARRIER OF "PROPERTY ONLY"

From the outset we have maintained that movement of goods and the movement of passengers by air have no more common denominator than do the same movements on the highways. The highway trucking companies have created for themselves a vast industry entirely divorced from their passenger bus cousins—likewise we are convinced that those airlines whose only interest is in the movement of goods can do a more efficient, economical job than those who attempt the dual role of both passenger and freight operators.

The Civil Aeronautics Board recognized our ideas, as we informed you in the 1947 Annual Report, by issuance of Exemption Order Regulation No. 292.5 which stated that there was indicated a public need for services of the type we offer. Your Company, along with certain other established all-cargo companies, was given the right to operate as common carriers of freight only by air in interstate commerce. The same order imposed certain obligations, including the requirement to file and publish tariffs, to make specified, regular operational reports to the Board and to comply with certain other provisions of the Civil Aeronautics Act of 1938.

Your Company has received a Letter of Registration from the Civil Aeronautics Board pursuant to Regulation 292.5. Under its Letter, your Company is engaged in the transcontinental common carriage of airfreight between cities designated by the Civil Aeronautics Board.

RATE WAR IN THE AIRFREIGHT INDUSTRY

Your Company filed its first tariff to be effective August 10, 1947. It was based on a careful analysis of our costs and considered adequate to produce a reasonable profit on a volume of business that we knew by our past experiences would be readily available. These rates were slightly higher than the charges we had been making as contract carriers.

Twenty-five days after we filed this tariff, three of the larger passenger-mail airlines who had bitterly opposed our authorization took it upon themselves to force us out of the field by economic pressure by filing specific tariffs that undercut the heart of the cargo carriers' business. It is significant that, although they purport to serve the public and boast that they have the responsibility to serve the "little" towns of the country as well as the large ones, their cut-throat tariffs were filed *only between the points served by the all-cargo carriers and only upon those commodities which had been developed by them and which made up the heaviest part of their traffic.*

The passenger-mail carriers have the right, under the Civil Aeronautics Act of 1938, to ask for and receive subsidies any time they find themselves in financial straits. The cargo carriers, working without subsidies, protested these rate-war tactics in numerous complaints to the Civil Aeronautics Board, charging that the subsidized passenger carriers could and would use their mail subsidies to put the cargo carriers out of business. These same carriers have received twenty-five to fifty per cent mail pay increases this year and are at present receiving mail rates of more than 60 cents per ton-mile, although their filed airfreight tariff was 12½ cents per ton-mile! Their 60 cent mail rate was raised from 45 cents on June 23, 1948, at the very time the rate-war case was being heard by the Board.

Although the Board failed to suspend these first tariffs, the passenger-mail lines tried even more vicious rate-cutting which brought suspension by the Board of their later tariffs and an investigation of all air cargo tariffs. During the six months of investigation and hearings, the passenger-mail lines had various answers for their actions—the largest one claiming it *did not know* its costs for carrying freight although it has been in the airline business for twenty years, drawing mail subsidies most of the time. Another of the major rate-cutters readily admitted that its costs were greater than the tariff it had filed.

Throughout the hearings it became more and more apparent that the passenger-mail lines' philosophy was that the air over this country belonged only to them, that no intruders were ever to encroach on their sublimely-appointed property. The Tigers are stubborn—when we were in China and Burma with General Chennault in 1941-'42, we were able to convince some Japanese with similar arrogant thoughts that they were wrong, and we again challenge the "right to the skies," once more against seeming overwhelming odds.

On April 21 of this year the Board issued a decision in the Airfreight Rate Case giving us legal protection against these rate-war tactics. Minimum rates were set, coinciding with those which the cargo carriers had contended in the hearings to be adequate to cover costs in the airfreight business. The order set July 1, 1948 as the effective date of the new rates with the following comments:

"The foregoing discussion indicates that during a period of relatively few months, there have been many reductions in the rates for air freight, and that these reductions were very substantial in amount. Not only were such reductions contrary to the general trends of prices, but also they took place during a period when airline costs were admittedly increasing and when the rates for other types of traffic were being raised. . . . The rates of the certificated carriers are lower than those of the non-certificated carriers for shipments of weight categories constituting a large proportion of the total freight traffic. This condition, together with a general level of rates below costs, would eventually lead to the financial inability of the non-certificated carriers to remain in operation."

PP.4 and 5, CAB Decision on the Air Freight Rate
Investigation Case, Docket 1705, April 21, 1948.

Despite this indictment by the Board, the passenger-mail lines still insist in their current paid advertising that the rate-war was a phantom illusion in the cargo carriers' minds and quote an opinion from the Board made in October, 1947—some six months prior to the above statement!

Thus it took nine of the twelve months of this past fiscal year for your Company to break the strangle-hold of the passenger-mail lines. With their low rates, they raided our traffic and we were unable to build to the volume necessary to meet our overhead. We had rising gasoline and labor costs. Gasoline is twenty-five per cent of our total company expense, including all overhead and taxes, and the price of gasoline has risen OVER 100% in the last year. Yet in the face of the suicidal rates filed by the passenger lines we were unable to raise our rates.

IN THE VERY FIRST MONTH OF OPERATION UNDER THE PROTECTION OF THE MINIMUM RATE ORDER WE CUT OUR LOSSES FROM \$41,000 IN JUNE TO \$12,000 IN JULY. IN THE FOLLOWING MONTHS WE EXPECT TO GET OUR VOLUME BACK BECAUSE WE HAVE RATE PARITY AND WE CONFIDENTLY EXPECT A SUCCESSFUL YEAR. OF INTEREST TO YOU AS STOCKHOLDERS IS THE FACT THAT THE JULY RESULTS EFFECTIVELY CURBED OUR CASH LOSSES AND THE AUGUST RESULTS ARE EQUALLY ENCOURAGING.

NO DECISION YET IN AIRFREIGHT FORWARDER CASE

SEVENTY-NINE FORWARDERS are applicants in the "Airfreight Forwarder Case" which has been in process for more than two years. A good many of these forwarders have been in the transportation business for a score of years and have daily contact with hundreds of thousands of shippers. The all-cargo lines have been unanimous in support of the applications of these forwarders solely because we know that they can bring a huge new volume of traffic to the air cargo industry. The passenger-mail carriers have vigorously opposed the certification of these applicants.

Our concept of airfreight is still so new that now, and for a good time to come, we must consider ourselves in the promotional period of this three-year-old industry. Literally thousands of shippers know little or nothing of the economic advantages that are offered in time-saving airfreight, and we as carriers cannot possibly reach and educate all of them. For this reason we would like to utilize the sales forces and nation-wide coverage of the seventy-nine applicant companies. We want to see them given the green light in this business. But the forwarders would not be interested in the minute tonnage available in the baggage compartments of passenger planes, nor, apparently, is the passenger operator interested in the huge tonnage that could be offered which would force him to fly cargo planes. We suspect, also, that the passenger-mail operator realizes, as we do, *that the certificated forwarders would insure the success of the all-cargo industry.*

The application of the Railway Express Agency for authorization to do business with the all-cargo carriers is pending in this same action. For the fifteen years prior to the end of World War II, Railway Express Agency, under the trade name of Air Express, was the primary developing agent for the movement of any goods by air. Theirs was the job of advertising, soliciting, tariff filing, billing and collection handling, pick-up and delivery, and even bringing the goods to the airport to meet the passenger carriers' schedules. The passenger lines shrugged away from any responsibility toward mining the potential gold of an airfreight industry, and at the same time turned a deaf ear to the pleas of Railway Express Agency that the rates were too high, the available space too small, and the combination passenger and package-behind-the-seat arrangement grossly inadequate.

In the hearings Railway Express Agency told the Civil Aeronautics Board of hundreds of thousands of tons of new business that can be put into the air by a working arrangement with the cargo carriers at rates comparable to those we are now charging. They testified that they were being hampered in their traffic development by lack of space on the passenger lines after passengers and mail had been handled—and, consequently, of having to divert thousands of tons back to rail for lack of airlift. Under the present arrangement they have with the passenger lines, the airlines set the tariffs, at a 60 cents per ton-mile level, to be charged to the public.

It is our proposal to reduce this to a figure comparable to the fifteen cents per ton-mile level we charge for airfreight, so that a greater portion of the public can take advantage of the fine air-ground-rail coordinated service that could be offered. *The passenger lines oppose the Railway Express Agency application also, contending that theirs is the exclusive right to do business with this service organization.*

The report of the Board's Examiner was a strong recommendation for both the forwarders and Railway Express Agency to be allowed to do business with the cargo carriers. To quote from the Report:

(Page 55)

"The public interest in and need for the services of the airfreight forwarders is established by the public witnesses who appeared in this case—witnesses representing outstanding business organizations and associations of commerce. The need for the freight forwarders is confirmed by the testimony of the all-cargo direct carriers. The amount of cargo now moving by air and the untouched potential is sufficient to justify their existence. *The certificated carriers alone express a contrary view.*" (Italics added)

and (Page 85)

"On the basis of the foregoing findings and conclusions and all the facts of record it is recommended:

- (1) That the Board adopt a regulation permitting freight forwarders to engage in air transportation upon compliance with those provisions of the Civil Aeronautics Act set forth in the attached proposed regulation.
- (2) That the exemption order under which Railway Express Agency, Inc., now operates be continued in effect and expanded to permit REA to utilize the services of the non-certificated air cargo carriers also and that the Railway Express Agency, Inc., and the direct carriers undertake a revision of the contracts now in effect so as to provide for the payment by Railway Express Agency, Inc., to the air carriers a fixed amount per ton-mile of air express carried and so as to permit Railway Express Agency, Inc., to fix and determine the rates for air express which will be stated in the tariffs of Railway Express Agency."

Air Freight Forwarder Case, Docket No. 681
Report of J. Earl Cox, Examiner

Public Counsel, appointed by the Civil Aeronautics Board objectively to represent the public interest, participate fully in all hearings and make recommendations to the Board, also recommended that the applicants be certified.

The Oral Argument on this case was held June 2, 1948, and yet there has been no decision some three months later, when each day signifies the loss of much-needed tonnage.

STATUS OF CASE FOR CERTIFICATE OF CONVENIENCE AND NECESSITY

In regard to our own certification, the passenger-mail lines, as you might surmise, have contested us bitterly every step of the way down the long road. We filed for this certificate on August 6, 1946. That means our case is now 25 months old.

The applications of fourteen companies for cargo certificates were grouped into one case, known as the Airfreight Certificate Case. Exhibits were filed in mid-October, 1946; hearings before the Examiner were held beginning November 18, 1946, and ending January 24, 1947.

The Examiner's Report on the case was published on March 12, 1948, and recommended five of the fourteen applicants for certification. Of these five, only three were recommended for trans-continental routes. Your Company was one of these three. Since that time, one of these three companies has ceased operating and has taken the protection of Chapter 10 of the Bankruptcy Act. It is not known whether this company will be able to re-activate its operation.

The Examiner in his Report said:

(Page 315)

"Between these three applicants for the specific routes there is little apart from past operations on which to base selections. Each of the carriers has presented plans pending to support the assumption that the service will be conducted on a sound basis. Each has also submitted data showing that it has adequate financial backing. There appears no doubt that Slick Airways, California Eastern Airways and The Flying Tiger Line are fit, willing and able to perform the proposed operation."

and (Page 318)

"In accordance with the foregoing findings and conclusions and upon the basis of all the facts of record it is recommended that the Board find that the public convenience and necessity requires:

- (1) That The Flying Tiger Line Inc. be authorized to engage in air transportation of property between any point in the following groups of points . . ."

Report of the Examiner, Air Freight
Certificate Case, Docket No. 810,
March 12, 1948

The points referred to above included California, Washington, Oregon, the Middle East and New England.

Public Counsel also recommended that your Company be certificated.

Having been defeated in the fair public hearing, the passenger-mail lines have launched upon an hysterical public and political program such as has seldom been seen in a case of this kind. They have bought full two-page advertisements in such magazines as *Editor and Publisher*, *Broadcasting*, and *Publishers' Auxiliary*; they have printed hundreds of thousands of copies of a pamphlet entitled "Facts and Fiction Regarding the Nation's Airlines." In these ads and pamphlets they have espoused their one-sided, misleading arguments as to why we should not be certificated.

One of the items heading their list of grievances is the displaying of their huge losses for the last year, saying that competition from us will jeopardize their whole industry. Two facts they fail to include: (1) Their revenue from freight was only two and one-third per cent of their total revenue last year and was practically non-existent in the years before we entered business, and (2) the period of their heavy losses was the same period during which they were admittedly selling airfreight below cost in what we maintain was an attempt to put us out of business.

Another of their leading arguments is that we want to serve only the large producing centers, thus "skimming the cream" of the market, while they have the "obligation" to serve the "little" towns of the nation. They entirely ignore the fact that your Company's application alone asks for the duty to serve more communities and towns than the largest passenger-mail line is serving today.

They disregard the fact that while they have the "obligation" to serve all of these communities with airfreight service, they have for twenty years neglected to do so. As mentioned above, their first airfreight tariffs were filed in 1945-'46. Small wonder they titled the piece "Fact and *Fiction*"!

The most repugnant of the public appeal arguments they make in this paid advertising is the one in which they pin the familiar "Ruptured Duck" upon themselves denoting that they were "veterans," while at the same time they refer to your Company as a "front" for the banking interests of the nation. They base this argument on the fact that they employ thousands of veterans in their organizations. We are not bottoming our Certificate case on the fact that we are veterans, but, as a matter of interest to you, there is an intrinsic difference between typing a company as "veteran" merely because it employs veterans, as compared with a company which is truly a veterans' venture.

Your Company was founded by eleven young men who had fought in China under General Chennault in the "Flying Tigers", most of whom had flown the treacherous "Hump" taking military supplies into China, and who were active participants throughout the years of World War II. It was their money, their ideas and their considerable effort and enthusiasm that set this company going and kept it operating during its first year. *At the present time every officer in the Company is a veteran of actual combat experience in this past war.*

We fought because our Government warned us that our valuable and esteemed American way of life was in danger. We fought to preserve that freedom which all of us in this country are supposed to have in order to live decently and operate free, legitimate enterprise under legal protection against moneyed power groups.

In addition to this insidious attack by the passenger-mail lines, they have employed, through their Air Transport Association, an ex-Congressman from Georgia whose entire time is devoted to lobbying on Capitol Hill and in high Government offices to advance the interest of his employers. His efforts of late have been directed toward our annihilation.

In these discussions, one fact should be constantly called to your attention. All of the passenger-mail lines have *without exception* been sired by Government subsidy, and most of them today are still subsidized after several years of attempts to stand on their own feet. Those few who are classified as not on subsidy today receive, for carrying United States mail, an amount *four times greater* than any published tariff for airfreight, whether theirs or ours. We call that subsidy, but will not labor the point here. The amazing part of this case is that not one of the cargo carrier applicants has received nor does he ask in his certificate application for *one penny of Government subsidy*. All of us are asking only for the right to continue to compete with the subsidized lines *for business that we ourselves have developed.*

Oral Argument before the Civil Aeronautics Board is scheduled for September 13 in the Airfreight Certification case. This is the final step in processing an application. The exact time of decision by the Board following this Oral Argument is not predictable. However, we think it reasonable to expect a decision within three or four months, at least.

CHANGES IN OFFICERS

During the past year Mr. Ralph G. Lockwood resigned as Vice President to rejoin the Army Air Force and Mr. Fred A. Miller resigned as Vice President and member of the Board of Directors to enter business for himself. Mr. George T. Cussen, who joined the Company at the beginning of 1948 as Assistant to the President, was promoted to Executive Vice President. William E. Bartling, who has been with the Company since 1945, was promoted to Vice President.

CONCLUSION

We have acknowledged the splendid efforts of those stockholders who have done what they could by writing letters of exposition and recommendation to their Congressmen and members of the Civil Aeronautics Board, copies of which were forwarded to us, but it is impossible adequately to thank all of you who have espoused our cause so ably during the past year. It is our firm belief that the tide is turning and the future looks brighter than it has since the inception of this business.

On behalf of the Management of your Company I wish to express sincere appreciation of the continuing effort and perseverance of the many employees who have helped us over the "Hump."

For the Board of Directors

ROBERT W. PRESCOTT

President

Burbank, California

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

601 WEST FIFTH STREET
LOS ANGELES 13

To the Board of Directors,
The Flying Tiger Line Inc.:

We have examined the consolidated balance sheet of THE FLYING TIGER LINE INC. (a Delaware corporation) and its subsidiary, FLYING TIGER TRANSPORT INC. as of June 30, 1948, and the statement of consolidated revenues and expenses for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated revenues and expenses present fairly the position of The Flying Tiger Line Inc. and its subsidiary at June 30, 1948, and the results of their operations for the year then ended, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
August 24, 1948.

THE FLYING T
AND SUBSIDI

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash		\$ 201,834.23
Receivables—		
Customers (including notes of \$27,000).....	\$238,126.10	
Refunds on insurance premiums.....	46,863.50	
Loss claims against insurance companies.....	32,173.77	
Due on sale of aircraft.....	29,606.15	
Gasoline tax refunds.....	26,050.34	
Other (including \$7,017.56 from officers and employees).....	28,710.76	
	<u>\$401,530.62</u>	
Less — Reserve for bad debts.....	19,000.00	382,530.62
Inventories, at cost not in excess of market—		
Materials and supplies.....	\$ 85,184.60	
Outside maintenance jobs in process.....	2,217.06	87,401.66
		<u>87,401.66</u>
Total current assets.....		\$ 671,766.51

PREPAID EXPENSES:

Unexpired insurance premiums.....	\$ 79,319.01	
Taxes	8,019.07	
Other	7,243.34	94,581.42

PROPERTY AND EQUIPMENT:

Classification	Cost	Reserve for Depreciation	Net
Aircraft and other flight equipment.....	\$582,976.01	\$181,354.42	\$401,621.59
Hangar, shop and ramp equipment.....	117,395.01	70,440.62	46,954.39
Other equipment.....	76,611.93	27,790.45	48,821.48
Buildings and improvements on leased land.....	171,162.01	165,376.63	5,785.38
	<u>\$948,144.96</u>	<u>\$444,962.12</u>	<u>\$503,182.84</u>
Modification costs of leased aircraft, in process of amortization.....			45,818.20
Aircraft engines at cost less depreciation.....			59,128.80
Surplus aircraft and engines at residual value.....			14,750.00
			<u>622,879.84</u>
			<u>\$1,389,227.77</u>

NOTES:

- (1) The company operates a fleet of 3 DC-3 and 5 DC-4 aircraft under leases with the United States Government under leases which expire in 1951 or at will.
- (2) A total of 180,800 shares of the issued capital stock of the company are held in escrow or transferred without the written consent of the company. These shares will be held in escrow until the disbursement of the earnings of the company, they may be released, and the owners of such shares have agreed to (a) waive their right to demand the return of the full amount of the purchase price, and (b) to return to the company sharehold-ers who have paid cash or its equivalent less than thirty cents per share per annum cumulated. In February, 1946, the board of directors of the company authorized but unissued capital stock to meet stock purchase warrants issued by the company prior to July 1, 1951, to executive, administrative and other employees of the company by its board of directors and upon terms determined by it. Except for the shares of capital stock granted to a retired vice-president of the company, all such warrants have been made as to the exact number of warrants or options granted to each employee or employees to whom such warrants or options, if any, will be granted at a price less than \$5 per share.

LIABILITIES

CURRENT LIABILITIES:

Notes payable—

Bank.....	\$ 44,322.43	
Trade.....	12,000.00	\$ 56,322.43

Accounts payable.....		147,897.42
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Accrued liabilities—

Payroll, vacations and sick leave.....	\$ 51,390.47	
Property, payroll and other taxes.....	23,147.85	
Insurance, rent, etc.....	27,921.35	102,459.67

Amount withheld from employees for income and payroll taxes.....		11,896.63
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Total current liabilities.....		\$ 318,576.15
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CONTINGENT LIABILITIES:

Miscellaneous pending litigation, etc., amounting to \$33,000 which, in the opinion of the management, will not result in any material liability

BALANCE DUE ON PURCHASE OF MODIFICATION COSTS OF LEASED AIRCRAFT (may be paid through issuance of capital stock).....		34,000.00
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CAPITAL STOCK EQUITY:

Capital stock of \$1.00 par value (Note 2)—

Authorized — 1,000,000 shares		
Issued and outstanding — 726,000 shares.....	\$ 726,000.00	

Capital surplus (excess of proceeds from sale of 500,000 shares of capital stock over par value thereof) — no change during current year.....	1,637,639.31	
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\$2,363,639.31

Deduct — Deficit—

Balance June 30, 1947.....	\$977,724.46	
Add — Net loss per accompanying statement.....	349,263.23	1,326,987.69

\$1,389,227.77

aircraft, three of the latter being rented from the United member, 1949, but which may be terminated by either party

of the parent company is held in escrow and cannot be sold Commissioner of Corporations of the State of California. tion of the Commissioner, upon a satisfactory showing of uring the period that these shares are held in escrow the r right to participate in any distribution of assets of the cash or its equivalent for their shares have received the (b) waive all right to receive any dividends until all other or their shares shall have received dividends in amount not vely from date of issue.

ent company adopted a resolution reserving 50,000 shares hase warrants or options which may be issued by the com- other employees of the company in the discretion of the ot for the warrant or option for the purchase of 2,000 shares ompany during the current year, no determination has yet iff any, which may be so granted, nor as to the officers and : granted. No warrant or option will be issued exercisable

THE FLYING TIGER LINE INC.
AND SUBSIDIARY COMPANY

STATEMENT OF CONSOLIDATED REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 1948

OPERATING REVENUES:

From domestic operations (freight, rentals and service sales).....		\$1,511,767.00
From trans-Pacific operations (under contract with United States Government — see Note 1).....		1,770,047.91
Total		\$3,281,814.91

OPERATING EXPENSES:

Flying operations.....		\$1,411,832.31
Ground operations.....		280,717.08
Maintenance		1,094,610.97
Traffic, sales, advertising and publicity.....		176,569.29
General and administrative.....		419,601.64
Depreciation		275,199.52
		\$3,658,530.81
Less — Portion of above charged to reserve for contract termination costs created in the preceding year.....		50,000.00
		3,608,530.81
Net loss from operations.....		\$ 326,715.90

OTHER CHARGES (net):

Loss on sale of aircraft, engines and other equipment.....		\$ 8,764.66
Write-down of surplus engines to residual value.....		8,456.25
Interest on notes payable.....		2,330.18
Miscellaneous (net).....		2,996.24
		22,547.33
Net loss for the year.....		\$ 349,263.23

NOTES:

- (1) The company conducted trans-Pacific flight operations, using Government owned aircraft, under a fixed-price contract with the United States Government from July 1 to November 30, 1947. Final settlement of this contract has been made with the Government.
- (2) See Note 1 to the balance sheet.

OFFICERS

President - - - - - ROBERT W. PRESCOTT
Executive Vice-President - - GEORGE T. CUSSEN
Vice-President - - - - - ROBERT P. HEDMAN
Vice-President - - - - - WILLIAM E. BARTLING
Secretary-Treasurer - - - - FRED BENNINGER
Assistant Secretaries - - - NORMAN L. MEYERS and
RICHARD H. KEATINGE

DIRECTORS

SAMUEL B. MOSHER, *Chairman of the Board*

ALLEN T. CHASE	ROBERT W. PRESCOTT
JAMES E. DAVIDSON	F. STUART ROUSSEL
HARLAN B. ELDRED	T. J. SULLIVAN

EXECUTIVE OFFICES

Lockheed Air Terminal
Burbank, California

Telephone: STanley 7-3411 Teletype:
CHarleston 6-7444 Burbank 7588

Cable Address — "FLYTIGER"

Transfer Agent

Chase National Bank of New York
18 Pine Street, New York 5

Registrar

Bankers Trust Company
16 Wall Street, New York 5

THE FLYING TIGER LINE, INC.
AND SUBSIDIARY COMPANY

SALES OFFICES

NEW YORK CITY, N. Y.

Suite 802, 247 Park Avenue
Telephone—Plaza 3-2891
Teletype—Hasbrouck Heights 442

DETROIT, MICHIGAN

Suite 424, Book Building
Telephone—Cadillac 9704
Teletype—Wayne 108

CLEVELAND, OHIO

1103 Standard Building
Telephone—Superior 2956
Teletype—Cleveland 393

CHICAGO, ILLINOIS

Suite 556, 35 E. Wacker Drive
Telephone—Andover 7071
Teletype—Chicago 1339

SAN FRANCISCO, CALIFORNIA

Room 403, 406 Sutter St.
Telephone—Garfield 1-6239
Teletype—South San Francisco 545

OPERATIONS OFFICES

TETERBORO, NEW JERSEY

Teterboro Airport
Telephone—Bryant 9-1788

DETROIT, MICHIGAN

Detroit Wayne Major Airport
Telephone—Superior 9700

CLEVELAND, OHIO

Municipal Airport
Telephone—Orchard 5777

CHICAGO, ILLINOIS

Municipal Airport, 6054 S. Cicero
Telephone—Portsmouth 2406

SAN FRANCISCO, CALIFORNIA

Municipal Airport, So. San Francisco
Telephone—Juno 8-3122

BRANCH OFFICES

ST. LOUIS, MISSOURI

c/o Brayton Flying Service
Lambert Field
Telephone—Terryhill 5-5685
Teletype—PTNVL 424

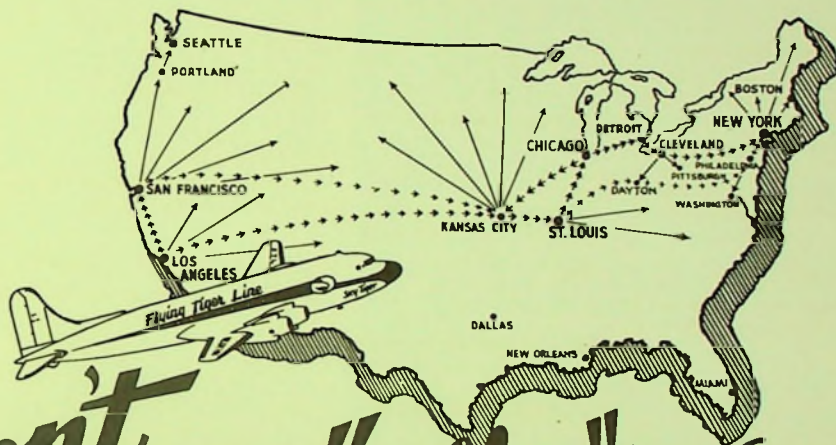
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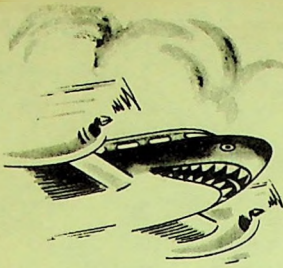
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There appears on the following pages a reprint of pages A4515 to A4518 of the CONGRESSIONAL RECORD for June 22, 1948 (Volume 94, No. 115). While it is rather lengthy, we would appreciate your taking the time to read it carefully since we believe that the exchange of correspondence contained therein outlines the air cargo carriers' problem extremely well.

Sincerely,

ROBERT W. PRESCOTT,
PRESIDENT

GOVERNMENT SUBSIDIES FOR AIR LINES

EXTENSION OF REMARKS OF HON. JOHN F. KENNEDY of Massachusetts IN THE HOUSE OF REPRESENTATIVES

Saturday June 19, 1948.

MR. KENNEDY. Mr. Speaker, I received a six page letter the other day from a former Member of this House who now represents the Air Transport Association of the big certificated air lines, attempting to refute the remarks I made on the floor of the House on April 28, on the subject of discrimination against the veterans' air-cargo companies.

I ask permission, Mr. Speaker, to insert into the RECORD, the entire text of Mr. Ramspeck's letter to me, and my reply. While I will not burden this House with a verbal recitation of the details, I wish Mr. Ramspeck's letter to be inserted verbatim, not only for fairness in comparison with my own, but also in deference to his years of distinguished service in this House. This air-transport business has become so important to the taxpayer and the public generally, that Congress should consider clearly the argument of both sides of this controversy.

The heart of the difference between the former Representative from Georgia, who now represents the certificated air lines, and myself, who in this case can be said to represent the interest of the veterans, is really over two matters:

First. Are the public payments to the air lines for carriage of the United States mails excessive, or are they not?

Second. Is there a place in the commerce and security of this country for the newly formed veterans' air-cargo companies, or is there not?

I am very critical, Mr. Speaker, of the fact that the Civil Aeronautics Board has determined that the mail rates of the Big Five be at about 60 cents a ton-mile, and I note with interest that this rate, which the taxpayers are asked to pay, is about five times the CAB rate-- 13 to 16 cents a ton-mile -- which Mr. Ramspeck considers fair for the carriage of cargo. His letter to me does not explain this tremendous difference, and I will gladly insert into the RECORD any information which he gives in the future in reply to my request for an explanation of this difference. It is painfully apparent to me, however, that the taxpayer is being required to pay the air lines not on the basis of services rendered in the carriage of the public mail, but on the basis of the deficits run up by those air lines. This system, in effect, means that those who do the worst, get the most from the Public Treasury.

In contrast to the present subsidy practice, which Mr. Ramspeck evidently approves, I note with interest that the independent air lines that are applying for permission to carry cargo are not asking for any subsidies from the taxpayers.

It is, and has been, my contention, Mr. Speaker, that the public would be relieved of the burden of air line subsidies which run into millions of dollars per year according to the report of the distinguished Representative from Kansas (Mr. Rees), if these air lines were to develop the new cargo business. But they have, in good part, ignored the new cargo business, an assertion supported by the fact that the newly formed veterans' air-cargo company -- even though operating on a shaky basis, without capital, and without certificates from the CAB -- have carried more freight than all the certificated air lines put together which are backed with \$70,000,000 in mail pay per year from the Government.

It is my contention that these newly formed veterans' companies deserve a chance to develop the new air-cargo business which they, more than any other group, have pioneered. That is why on April 28 I said that it was shameful that the CAB had not given a single certificate to any of the veterans' air-freight companies who have been waiting on the CAB's doorstep for over 2 years.

For M-day, the military have stated their needs to be several thousand freight planes. The entire fleet of the certificated air lines, as quoted by Mr. Ramspeck, even admitting for the moment that passenger planes are easily converted to be all-cargo planes, is only around 20 percent of the military requirements. It is, therefore, obvious to me, Mr. Speaker, that every new freight plane that can be brought into our commerce is a necessary addition to the military reserve. Since, according to the Commerce Department, the veterans' companies already possess around 125 cargo planes, and would likely bring into use a great many more if they would receive certificates from the CAB, I naturally conclude that this group would be a significant addition to the security, as well as to the commerce, of this country.

Under unanimous consent, I insert in the RECORD the complete text of the letter to me from Mr. Ramspeck of the Air Transport Association, and the complete text of my own point-by-point rebuttal:

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington, D. C. May 19, 1948

Hon. John F. Kennedy,
House of Representatives,
Washington, D. C.

My dear Mr. Kennedy: I am writing you with regard to your recent speech in the Congressional Record on the subject of air freight.

We believe that the sources of some of the data contained in that speech have misled you into incorrect conclusions and we assume that you will, of course, afford an opportunity for both sides of the case to be heard.

There are strong indications that such statements as were contained in your speech, and have appeared in very similar form elsewhere, are part of an effort which has been going on for some time by the air freight carriers to influence the decision of the Civil Aeronautics Board -- a semi-judicial body -- before which the air freight case is pending.

Here are the facts:

1. You refer to the "kicking around" that is being received by the so-called independent air freight carriers. The record shows plainly that quite the reverse of this supposition is true. The Civil Aeronautics Act of 1938 demands a certificate of convenience and necessity for any carrier desiring to operate under the act on a common-carrier basis. The independent air carriers, not having granted such certificates, since June 10, 1947, have been operating under an exemption from the Civil Aeronautics Act granted to them by the Civil Aeronautics Board. The exemption affords the independent carriers every advantage enjoyed by the certificated carriers under the terms of the Civil Aeronautics Act. They are allowed to publish schedules, to advertise for and solicit business, in fact to do anything in the air transport business -- and all this without the responsibility required of the certificated carriers. The independents have had and have more advantages than any carriers in the history of air transportation. They are not required to service any particular points but can pick the high volume stops at random. The independents have been coddled and pampered as a result of this exemption from the law. They are not required to conform either to the safety or operational requirements rigidly enforced upon the certificated carriers.

It must be remembered that these independent air carriers could not have entered any other form of transportation without certificates of convenience and necessity. For instance, they could not have purchased trucks and gone into the interstate, trucking business without full certification and regulation.

They operated as contract carriers for some time before they even applied for certificates as common carriers. By their own testimony they did finally apply because they realized that their operations had become common-carrier operations and they would sooner or later have to obtain certificates.

2. You constantly refer to these independent air carriers as veterans' air lines. The records of application to the Civil Aeronautics Board by these carriers show that only a minute portion of the capital invested in the principal independent carriers' organizations (that is, the five lines which have been considered for certification and who do the vast majority of irregular carrier business) could possibly be referred to as veterans' money. It is true that the independent carriers are attempting to masquerade in GI costumes purely for the purpose of garnering public opinion and sentiment in their favor, but we challenge any of these five independent carriers to show that a major portion of the capital has been provided from the life savings accounts of returning GI's. We believe it will be found that most of the money is being provided by large New York banking concerns, colossal family fortunes, or has been drummed up in stock-selling operations on a purely investment basis. Besides, the certificated air lines employ some 30,000 veterans (approximately 30 percent of the total employment). The importance of the success of the industry to these 30,000 wage earners is probably greater than the few stockholders in the independent game.
3. You refer to the fact that the Civil Aeronautics Board has been slow to act with reference to certification of the independent air carriers. If the CAB has been deliberate, it has been acting in line with the recommendations proffered it by the President's Air Policy Committee and the Congressional Aviation Policy Board, which strongly asked that the air freight-cir cargo subject be dealt with carefully and deliberately and with a full recognition of economics, safety, and operations.
4. You refer to the national-defense aspect of the independent air cargo fleet. We thoroughly agree that the national-defense aspect of civil air carriers is a most vital one, and one which affects the public directly. But to infer that the independent air carriers have more to offer in this regard than the certificated air lines is far from the truth. The

planes flown by the certificated carriers are the same planes which successfully shuttled back and forth over both the Atlantic and Pacific in the hands of the Military as well as certificated lines under contract during the war. Your argument that few of the certificated air lines are capable of ocean transportation is thereby completely disproved. The scheduled air-line fleet now numbers in excess of 1,000 planes. These air-planes are available on a few hours' notice in any national emergency, and the fleet was so utilized in 1941. However, the certificated lines have so expanded and improved their fleet since 1941 that they can offer to the military today 632 percent more emergency lift capacity for just such use as was available in 1941. This is, I believe, the only element of national defense, with the exception of the atomic-bomb project, which has actually grown since the end of the war. On the other hand, the planes of the independent carrier group number something between 40 and 50 against the 1,000 of the certificated fleet. The only difference between the two types of airplanes is that all except 60 of the certificated air liners are equipped with seats. The 60 all-cargo planes of the certificated fleet more than match the capacity and availability of the independent operators, and it is only necessary to remove the seats from the 900 passenger-cargo-carrying planes in order to effect their usage for cargo lift. This is only a matter of hours under emergency circumstances.

One of the announcements made recently by the independent carriers is that they are planning to lease airplanes from the military in order to expend their operations. It is difficult to see how these carriers who have not bought a single airplane from a manufacturer since the war was over can expect the public to believe that their operations contribute mightily to national defense when they intend to lease military planes already in existence for the purpose of such aid. This certainly is not adding either planes or capacity to the total military emergency lift.

5. With regard to your discussion of competition, it is necessary to understand the declaration of policy enunciated by Congress in enacting the Civil Aeronautics Act of 1938. This act made mandatory in the exercise and performance by the Civil Aeronautics Board of its powers and duties, the following:
 - (a) The encouragement and development of an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the postal service, and of the national defense;
 - (b) the regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relations between, and coordinate transportation by, air carriers;

- (c) competition to the extent necessary to assure the sound development of an air transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;
- (d) the regulation of air commerce in such manner as to best promote its development and safety; and
- (e) the encouragement and development of civil aeronautics.

It will be noted that in these statutory provisions the CAB is required to promote the sound development of an air transportation system properly adapted to the needs of the commerce of the United States, of the postal service and of the national defense. It will be noted that the air transportation system of the country is to be regulated in a manner which will foster sound economic conditions in such industries and that in so doing, the CAB is to permit competition only to the extent necessary to assure the sound development of the air transportation system.

It should be clear that this provision is not a direction from the Congress to the Civil Aeronautics Board to consider competition an end unto itself and it is not a direction to authorize additional competition for reasons which are not consistent with the basic precepts stated. It clearly is an instruction to add competition only when additional competition is necessary to assure the sound development of the air transportation system, and then only to the extent required. The entire philosophy of regulations embodied in the Civil Aeronautics Act is a control of both the nature and the amount of competition. Excessive competition under the philosophy of the act is as much an evil as monopoly, and the act, I believe, provides against both.

6. In view of the effect that a superimposition of an entirely new cargo-line structure on top of the present certificated air-lines' structure is having and will have on the regulated air transport industry, it is well to review the current status of the nation's air transport industry:

The certificated air lines collectively lost approximately \$6,000,000 in 1946. They lost a total of more than \$21,000,000 in 1947. A total loss of the two postwar years of \$27,331,164. All except 5 of the 35 certificated air lines had net operating losses in 1947. It is simple to see what the added competition asked for by the independent air carriers would mean to the already gloomy financial status of the air transport system. You can judge for yourself whether or not there is any basis for the charge of monopoly when you consider that 91 percent of the total air traffic of the United States moves over routes with two-carrier competition, 59 percent moves over routes having three-carrier competition, and 13 percent moves over routes having four-carrier competition. The serious result of such competition

already in effect is further shown in the reduction in load factors from 90 percent in 1945 to approximately 69 percent in 1947. The condition of the certificated air lines is further indicated by the fact that total investments in the air lines represented by common stock or equity money decreased from 90 percent in 1945 to 41 percent in 1948. During the same period money represented by preferred stock increased from 7 percent to 17 percent, and money obtained through long-term obligations increased from 3 percent to the startling figure of 42 percent.

By far the greatest volume of cargo developed by all types of carriers involves movement over transcontinental routes. Between the east coast and the west coast four transcontinental carriers certificated for passenger, mail, and property operating loss suffered by the domestic air lines in the United States in 1947, approximately \$16,000,000 of such amount was lost by the transcontinental certificated carriers. Yet it is over these routes and in spite of policy provisions of the Civil Aeronautics Act that duplicating air lines and route structures for the transportation of property is proposed.

7. We would like to set straight the facts regarding the highly touted so-called rate war referred to in your speech.

Prior to the independent carrier exemption order in the summer of 1947, the independent air carriers were not required to file any rates whatever. At that time the certificated air line rate level was approximately 26½ cents per ton-mile. The air lines publicly announced and filed with the Civil Aeronautics Board on August 1, 1947, a joint tariff providing for 20 cents per ton-mile. The independent air carriers, with full knowledge of the 20-cent figure, then filed rates at 13, 14, and 15 cents per ton-mile, and some of their rates were as low as 11 cents per ton-mile. The certificated air lines found that the independent carriers were only operating between big cities and were attracting only specific commodities. The certificated air lines left their rate structure at 20 cents, but filed rates equal to the independent carrier rates of 13 and 13½ cents per ton-mile on those specific commodities. The independent air carriers then shouted "rate war."

The opinion of the Civil Aeronautics Board on the motions of the Air Freight Forwarder Association decided October 2, 1947, spells out the facts of this case very clearly. It states that the reduction of specific commodity rates by the certificated air lines "admittedly *** is competition, even though it may not be competition at every point. This is the very privilege that the uncertificated carriers asked and were granted. The exemption (from the Civil Aeronautics Act) accorded them certainly was not that of a one-sided right, namely, the right to compete against the certificated carriers and the privilege to be protected against competition against them."

In the international picture, sufficient competition is just as evident. On the north Atlantic routes there are three United States certificated carriers in competition with each other as well as with British Overseas Airways, Air France, Sabena, KLM, and others.

8. The opinion of the Civil Aeronautics Board quoted above also strongly refutes your argument that subsidy by the United States Treasury has supported the certificated air lines in their "war" with the independent carriers. The opinion of the Board reads: "No action that the Board has taken or is now taking places subsidy of the United States Treasury behind this effort of the certificated carriers to meet the competition of the non-certificated carriers. This venture, so far as this Board has expressed any concern, whether for gain or loss, depends on their our funds."

Recognition by the CAB that the 20 cents per ton-mile certificated airline rate is a purely compensatory rate is highly inferred in the decision on the air freight rate case where 16 cents per ton-mile was set as a compensatory rate. In order for the argument that the certificated air lines are using Government money to fight the independent carriers to hold water, it would have to be shown that the rates charged by the certificated carriers are lower than compensatory rates could be.

With best wishes, I am

Sincerely yours,

ROBERT RAMSPECK, Executive Vice President.

June 1948

Hon. Robert Ramspeck,
Executive Vice President, Air Transport Association of America,
Washington, D. C.

My Dear Congressman Ramspeck:

I have read your letter of May 19 with great interest, not only because of the importance of its contents, but also because of the respect I have for the long years of distinguished service which you contributed in the House of Representatives.

Unless you have objections, I plan to insert into the CONGRESSIONAL RECORD the entire text of your letter to me, as well as my reply, because I think the subject of air transportation has become of such importance to the taxpayer and the public generally, that a clear statement of both sides is called for.

At the beginning I should like to make it clear that I have never been involved with any aviation interests, and have only the public interest at heart. I have

always looked out for the interest of my fellow veterans of World War II, and it is on behalf of those veterans who have been trying to form new air cargo companies since the end of the war in what I conceive to be the public interest that I come into debate against your distinguished self, who, having resigned from Congress, now represents the certificated airlines which are the members of your Air Transportation Association.

Perhaps the simplest method for me to answer your letter is to go over, point by point, the eight objections which you raise to my speech of April 28, on the floor of the House, entitled: "Discrimination Against Veterans' Air Cargo Lines."

1. KICKING AROUND OF AIR VETS - TRUE OR NOT?

You object to my complaints against the kicking around which the air vets have been getting, and you allege that "the independents have had, and have, more advantages than any carriers in the history of air transportation. --- The independents have been coddled and pampered as a result of this exemption from the law." I should judge that if the present situation of the veterans is as comfortable as you describe, they would not be trying to change their present status by applying to the CAB for certificates of convenience and necessity. Of course, as you know, the lack of certificates from the CAB, makes it almost impossible for these air freight groups to raise from private banks and other sources money needed for development and expansion, and consequently they have been, since the end of the war, in a very uncomfortable and restricted financial position. As you also know, the lack of a certificate of convenience and necessity restricts the air carriers operating abroad under economic regulation 292.1 to "irregular" or "occasional or infrequent" operations.

In this uncertain status, a veteran company operating abroad cannot provide adequate service to the trade and is, itself in a precarious position. As Raymond A. Norden, a 32-year-old Air Force veteran, now president of Seaboard and Western Airlines, said about his own company: "In a word, if it succeeds with the trade to a point with some degree of regularity as obviously called for, it may violate the (CAB) regulation and thus effectively succeed itself out of business."

I judge that if receiving certificates of convenience and necessity from the CAB would bring only additional responsibility and no additional advantages to the veterans' air freight groups, you and the certificated airlines who are members of your organization, would not be making such strenuous efforts to keep the veterans from getting those certificates.

2. INDEPENDENT AIR CARRIERS - ARE THEY VETERANS OR NOT?

You allege that the five air freight companies currently under consideration by the CAB for domestic certificates are attempting to masquerade in GI costumes. Not only are the vast majority of the employees of these companies, veterans, but in addition my information is that the men who are running these airlines have spent quite a bit of time in GI costumes during the past few years.

SLICK AIRWAYS - The president and principal organizer of this company, Earl Slick, is in his late twenties and served with the Army Air Forces from 1942 to 1945. I believe your comment about colossal family fortunes has very little to do with the fact that while he did apparently inherit money from his late distinguished father, he is a veteran and is doing a splendid job in financing and running his company.

WILLIS AIR SERVICE - It is my understanding from reading the CAB examiners' report in the air-freight cases that this air line was formed after V-J day, largely with and by young men who had been involved in naval aviation, and I note that the president and executive vice president, Mr. Willis and Mr. Rose, both saw considerable service with the Navy.

UNITED STATES AIRLINES - The president and secretary-treasurer both appear to be veterans of the Air Corps in World War I.

THE FLYING TIGERS LINE - The president, and principal founder, Mr. Robert Prescott, appears to have held a commission in the Navy until he transferred to the Flying Tigers to do combat work in China. The other top officials and organizers seem mostly to be bona fide veterans.

CALIFORNIA EASTERN AIRLINES - This company started 2 years ago, hauled more freight than anyone of the certificated air lines, but has just gone into bankruptcy through inability to wait any longer for the CAB to grant its certificate of convenience and necessity, and through its inability to raise sufficient capital from private banks in the meantime while lacking a certificate. I understand that the president at the moment, who was called in for the financial re-organization of the company, is not a veteran, but that a substantial number of the original organizers served with the Army Air Forces or ATC in World War II.

Of course, there are, as you know, a lot of other air freight companies run here and abroad by veterans of World War II, but since you did not mention them in your letter, I will not take the time to do so now, and hence confine my rebuttal to the facts about only the five domestic air-freight companies which you mentioned. The point is that the initiative in getting these airfreight operations going has largely emanated from a number of relatively young men who wanted to apply in peace one of the talents they learned in war - moving large quantities of freight by air.

It was in World War II that air cargo was really developed on a big scale, and these young men who are now veterans, underwent what amounts to a new experience in air transportation. Unfortunately, a lot of the top officials in the already-established air lines did not have that experience, or if they did have it, it did not sink in very far, and many of them appear to be managing their companies on the basis of their prewar experience when air transportation was largely a matter of passengers and mail and a few boxes of cargo in the nose of the airplane.

The fact that these veterans' companies, even without certificates, already haul more freight than do the established lines which are members of your Association, is to me pretty good indication (a) that they want to go into air freight on a big scale and have been trying hard to pioneer this new business, and (b) that your members, which possess far more capital and other resources, have been making only half-hearted efforts in that direction.

Now you point out that the certificated air lines employ some 30,000 veterans. I have no means of checking those figures, and I would certainly like to know your sources of information. But you will surely recognize, and I am sure that this principle has occurred to you more than once in your long years as a Member of the House, that some young veterans would prefer to establish their own businesses rather than simply take a salaried job in an already-established enterprise.

How would the important personages in the certificated air lines, now members of your association, have felt if a quarter of a century ago they had been denied the opportunity to establish their own companies, and had before them only the alternative of taking a salary job in some already established business? As Americans, we have always believed that the door to going into business should not be slammed in the face of the next generation. And we are not going to forget that principle now.

3. CAB SLOW TO ACT - TRUE OR NOT?

The applications of most of the veterans' air freight companies were made early in 1946, over 2 years ago. I do not know how you can justify the delays of the CAB from 1946 to the present by quoting the reports of the President's Air Policy Commission (which after all did not come out until January 1948) and the Congressional Aviation Policy Board (which did not report until March 1948). While it is true that these two temporary boards were somewhat cautious about air cargo, I did not see that either of them recommended that the present air transport industry be frozen against newcomers - which is obviously the effect of stalling off the applications of newcomers. I think it is regrettable that any Government agency should have taken so long in handling a case as the CAB has taken with the various companies, and as I have pointed out, after some 2 years of applying on the part of several dozen veterans' air freight companies, to date not a single one of the air vets have received a certificate from the CAB.

While the CAB cases are no doubt complicated, and while the air cargo cases in particular doubtlessly involve a subject matter unfamiliar to many persons connected with the CAB, it seems to me exceedingly unfortunate that these cases should be taking the CAB twice as long to handle as the average truck cases decided by the Interstate Commerce Commission.

4. NATIONAL DEFENSE - ARE THE VETERANS' AIR FREIGHT COMPANIES HELPFUL OR NOT?

As I said in my speech of April 28 on the floor of the House, the military will need, ready and operating, on M-day, several thousand C-54 freight planes, or a smaller number in new type large-payload air freighters. The certificated carrier fleet, even granting your statement that passenger planes can be easily converted to cargo work, would not exceed 20 percent of the total military requirements. Therefore, I cannot see how it is to the interest of national defense to drive out of business the veterans' air freight groups who have, according to the Commerce Department, around 125 all-freight planes which could become part of the national defense fleet.

Now you say that the veterans have not yet bought any new cargo planes. I assume that until the vets can raise money on the basis of being able to show the bankers a certificate from the CAB, they will be unable to buy new planes. But their past record, their current interest in, and their future plans for air cargo on a big scale, lead me to believe that quite a lot of new planes would be put into commercial service if these veterans could get the status that they deserve from the Government.

Now about your paragraph No. 4, I want to ask you three questions of fact, and I ask them in all sincerity because I am frank to admit that I do not have all the information on the subject of air transport that I would like to have, and I want to be thoroughly fair in presenting the facts to the House.

- a. How many all-cargo planes of 4-motor C54 type or bigger (in payload) do the certificated air lines now have in use?
- b. How many postwar type cargo air craft have been purchased by the certificated air lines since the end of the war?
- c. Of the thousand planes which you say the certificated air lines could offer to the military in war, you admit that over 900 are primarily designed for carrying passengers. You state that these passenger planes could be turned into all-cargo planes for the military in only a matter of hours. It is my understanding that to convert a luxury passenger plane into a freight plane suitable for the specifications of the military is a very considerable undertaking indeed, in fact so lengthy as to cast great doubt on the auxilliary military value of 90 percent of the entire air fleet of the members of your association. Naturally, this is a very grave question and one not to be answered lightly, and I would appreciate receiving some authentic information, supported by actual experience and if possible by the military authorities, on just how long and how difficult it would be to convert the passenger planes owned by the members of your association into all-freight planes, and whether or not the resulting converted planes would meet the military specifications for overseas freight work in a future war. The information I receive from you I will place in the RECORD, so the Congress will know all the facts.

5. CIVIL AERONAUTICS ACT OF 1938 - DOES IT RULE OUT THE AIR VETS OR NOT?

I am fully cognizant that the Civil Aeronautics Act, as do most of the regulatory acts of the Government, attempts to outline a middle road business between monopoly on the one hand, and excessive competition on the other. I am simply saying that in my opinion, the CAB, in its administration of this act, and you and the members of your association in your public interpretations of this act in connection with this matter, have so far tended to overbalance the act a bit too much away from free competition.

6. LOSSES OF THE CERTIFICATED AIR LINES - DO THEY RULE OUT ADMITTING THE AIR VETS TO THE INDUSTRY OR NOT?

I am fully aware that the certificated air lines lost some \$20,000,000 in 1947, and I understand that it is a very grave situation indeed. It has been my feeling that these losses might have been in the past, and might in the future be relieved, if the certificated air lines really went into air cargo on a big scale and brought in some new business. My impression is that the potentials are big enough to nourish both the certificated airlines and some newcomers, too. I would certainly like to obtain your comment on this possibility. I would also like to know if you, or the members of your association, have made any thorough study of the real potentialities in domestic and international air cargo.

7. RATE WAR - WAS IT A RATE WAR OR NOT?

In my speech on the floor of the House on April 28, I commented that it was indeed strange that while the certificated airlines on the one hand were asking for greatly increased mail pay from the Government, they were on the other hand

cutting their air cargo rates, a move which the veterans charged was intended to put them out of business through a rate war. You say that there wasn't any rate war and quote a brief passage from a CAB opinion of October 1947.

You doubtlessly are familiar with the more recent document of the CAB in the Air Freight Rate Investigation, dated April 21, 1948, in which, on pages 20 and 27 the CAB finds: "Present competition *** has resulted and will result in unduly low, depressed, and noncompensatory rates and charges for the transportation of freight by air, and that these practices have, and will result in unsound economic conditions in the air freight industry within the United States."

I guess the above is the legal way of saying that there really was a rate war.

Besides, the CAB records disclose that your 20-cent tariffs were filed after, not before the 13-cent tariffs of at least one of the veteran freight airlines. And furthermore, how does a carrier keep from attracting specific commodities? In view of the rate policies of the ATA carriers in every other field passenger, express, mail, and most overseas freight, isn't it clear that the low-rate policy in domestic air freight is beyond doubt, isn't it clear that the only non-ATA competition which your air lines have found in the domestic field?

8. SUBSIDIES

It is my contention that the big certificated air lines have been getting through the CAB, from the taxpayers, an excessive amount of mail pay. On the one hand the CAB determines that a fair rate for carrying cargo by air is between 13 cents and 16 cents a ton-mile, and on the other hand, at the petition of the big air lines, it decides that around 60 cents or 70 cents a ton-mile is a fair rate for carriage of the mails. About the mails, it certainly is my impression that the delivery, ground handling, and pick-up are performed by the United States Government, and, furthermore, the mails which are delivered to the air lines certainly represent business which the air lines do not have to solicit. Both of which facts make me wonder why the mail rates are so much higher than the cargo rates. I would certainly like to see your explanation in detail as to why carrying mail by air costs almost five times as much as carrying cargo by air.

If you have no objections, I intend to put the full text of your letter, as well as mine, into the CONGRESSIONAL RECORD, so that the public may see both sides of this debate. I will gladly insert into the RECORD such additional material as I receive from you, and I will willingly retract any of my assertions if you can demonstrate to me by any relevant facts that the rates paid the air lines for carrying the mail are not excessive, that the freight potential is too small to justify allowing the veterans and other newcomers into the air-transport industry, that the veterans' air-freight companies are not important to defense, or that any of my other statements are in error.

I, and those interested in this debate, will be very glad to see your answers to the specific questions I have posed, particularly in paragraphs numbered four and six.

The air-transport industry is extremely important to the public, and since it is so intimately associated with the operations of the Government, the public should have a chance to see all sides of the issue

With kindest regards, I am,

Sincerely yours,

JOHN F. KENNEDY, Member of Congress.

