

PRESENTATIONS

FAA AND THE CAPACITY ISSUE - SUMMARY
OF REMARKS

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Administration

With the Airport and Airway Improvement Act of 1982 expiring at the end of Fiscal Year 1987, the Federal Aviation Administration (FAA) is considering a variety of legislative recommendations to continue the federal airport and airway system for at least another five years past 1987. Three basic premises underlie the proposals: the current organization of the FAA will remain substantially intact, funding should be continued to complete the current program to modernize and improve the national airspace system, and users who benefit from the system should pay for it.

The FAA believes that it is effectively performing its aviation safety and air traffic functions as mandated by Congress, and thus supports continuing its present organizational structure. That means the Airport and Airways Trust Fund should be continued, but the appropriate level of taxes to be imposed on users of the system is still being analyzed. Also under consideration is the appropriate percentage of funding to be paid from the trust fund versus the general fund.

The current airport grants program has been successful in promoting airport system standardization, gaining almost universal acceptance of FAA's airport design and construction standards, which we believe significantly contribute to safety. The FAA believes adequate funds to bring about airport capacity increases that affect the entire air transportation network must continue to be available through a grant program.

Existing airport capacity must be used effectively, and further development must be encouraged where appropriate to match runway capacity with capacity increases occurring elsewhere in the national airspace system. One solution to the capacity problem under consideration involves developing more reliever airports through expanding the statute definition to cover reliever airports or increasing funding to relievers. In addition, future legislation could contain a provision requiring airport sponsors to balance landside and airside airport capacity as a condition to receiving grants. A major concern of the FAA is protecting the integrity of the national air transportation system from restrictions on airport runway use. FAA looks for ways to encourage aviation interests and local areas concerned with the environment to find a middle ground to accommodate the air transportation system without limiting aircraft operations.

To meet its safety mandates, future FAA budgets should be fully funded to continue the National Airspace System Plan at the earlier agreed-upon \$11.7 billion level and in addition provide \$550 million for the terminal Doppler radar, to support moderate staffing increases provided primarily in the air traffic inspector ranks and air marshal positions, and to adequately fund an airport grant program.

THE DRIVING FORCES OF CHANGE

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This paper will examine the driving forces of change that affect the aviation industry. New ways are needed to solve problems that we face and to view the future.

One approach is to look back to the future -- that is, to go back to 1960 and examine the assumptions and forecasts made at that time. Many of the assumptions seemed solid then, but virtually all of them have to be changed today.

First, the key assumptions or commandments of 1960 will be identified and examined. Then some driving forces for today will be suggested.

Commandment #1. Thou shalt not take the name of the Civil Aeronautics Board (CAB) in vain. Today the CAB is gone. On January 1, 1985, it officially went out of business after 40 years of regulating the United States airlines. But is regulation really gone? It seems that we are moving from a period of economic regulation to one of social or functional regulation. The new form of regulation covers noise, safety, passenger security, travel agents, airports, and international routes. Moreover, the new regulation comes from many agencies and special interest groups. Thus it seems that the very nature of regulation is changing.

Commandment #2. Remember to keep holy the growth rate of real gross national product (GNP). Today real GNP is 25 percent lower than was forecast in 1965 by some aviation forecasters (see the charts provided by Douglas Aircraft Company, "A 1985 Forecast of the Commercial Transport Market" Figure 1). This overly optimistic outlook for real economic growth did not take into consideration, of course, the recessions of 1970, 1974-1975, and 1982. These economic downturns affected cargo, general aviation, and commercial airline markets.

However, the actual revenue passenger-miles that developed were higher than forecast, except for the end of the period. We are too pessimistic about air travel growth except for one year, 1984, when we hit it exactly. The key factor is that we did not understand the relationship between real economic growth and air traffic growth. This haunts us today as well. There are too many other factors such as fares, fuel prices, changing tastes of customers, frequency, and connect times that have invalidated the old relationships.

Commandment #3. Thou shalt keep fuel prices low. Today fuel prices are more than two and a half times higher in real terms. Since 1980 the trend in fuel prices has been down. Even with fuel prices declining from \$1.05 per gallon in 1980 in today's terms to about 80 cents per gallon now, fuel prices remain high on a relative basis. Linked to higher fuel costs are inflation rates and the prime rate. Forecasters in 1965 assumed a flat jet fuel rate and a flat real interest rate. A key factor that we still have difficulty understanding is the relationship between economic growth rates and energy growth rates.

Commandment #4. Thou shalt not allow price competition among airlines. Today there is intense price competition. Witness the "ultimate super savers" announced in January of this year by American Airlines and matched by most other major air carriers. Discounts of up to 70 percent have become commonplace in the industry. Yields, or