Chapter 3

AIR SERVICE TRENDS

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INTRODUCTION

The principal function of the low-density air service provided by commuter airlines has been to provide small- and medium-size communities with access to the Nation's primary air transportation system. This function makes a significant contribution to the primary system, since over 70 percent of the passengers from these "feeder" routes transfer to flights on the longer, denser trunk routes once they arrive at a major hub. The service is even more vital to the communities themselves, particularly in areas where they tend to be isolated by low population density (as in Appalachia), long distances (as in the Southwest), physical barriers (as in Hawaii and the Caribbean), or all three (as in Alaska). Federal policy has consistently stressed the development of an air transport system that meets the diverse service needs, present and future, of all regions of the country. The Airline Deregulation Act of 1978 makes it explicit that such a system will require "the maintenance of a comprehensive and convenient system of continuous scheduled airline service for small communities and for isolated areas, with direct Federal assistance where appropriate. "

A major development that has contributed to the growing need for low-density air service has been the continuing decentralization of population and business. The last decade has seen a historic reversal in demographic trends: rural areas have begun to grow more rapidly than metropolitan areas. At the same time, there is a growing trend toward decentralization in American industry, with more and more businesses locating their new facilities in rural communities, particularly in the Southeast and Southwest. Studies conducted as early as 1957 showed that access to air transportation had a significant influence on the decisions of these "footloose" industries to locate in particular communities.[1] More recent studies by the Economic Development Administration have indicated that proximity to an airport with scheduled airline service is the most important of 16 factors related to urban growth in the nonmetropolitan South, as well as the most reliable indicator in predicting rapid future economic growth in small- and medium-size communities.[2]

The relationship between air service and economic development appears to be causal. Air service attracts new businesses, particularly branch plants of light industries that pay high wages, by providing fast and convenient connections with suppliers, customers, and company headquarters. For many small communities, therefore, the availability of reliable air service is directly related to their chances for economic development.[3] In addition, the evolution of many medium-size cities into regional manufacturing and distribution centers is dependent on the continuation of frequent, reliable service. The degradation of service that has sometimes resulted from the withdrawal of local service carriers from these markets could possibly threaten this evolution (see ch. 2 and below). At issue, then, are three related questions: 1) who will provide this low-density air service; 2) how much service will they provide; and 3) who will pay for developing these markets—the carriers, the communities, or the Federal Government?

The Role of Commuter Airlines

The future of air service to small- and medium-size communities depends increasingly on the ability of the commuter airlines to provide adequate and efficient replacement service in these low-density markets. The rapid growth of the commuters in the *1960's* and 1970's was based in large part on just this kind of capability: the most successful commuters were entre-

[1] T. E. McMillan, Jr., "Why Manufacturers Choose Plant Locations vs. Determinants of Plant Locations, " Land *Economics, vol.* 41, No. 3, August 1965, pp. 239-246.

[2] L. E. Wheat, *Urban Growth in the Nonmetropolitan South* (Lexington, Mass.: D. C. Heath, 1976), pp. 1 and 49-52.

[3] Ibid.

preneurs who replaced certificated carriers on routes for which the commuters' smaller aircraft were more economical. Because the commuters were ineligible for subsidy, their growth came about almost exclusively through private-sector initiatives; and because they could provide more frequent flights with their smaller aircraft, replacement often improved the level of service in a given community.

The commuter airline industry is highly disaggregated, however. There are almost 300 commuter airlines, but the top 10 commuters carry 37 percent of all passengers and the top 50 carry 85 percent; the 5 largest commuters carry twice as many passengers as the 5 next largest. The largest commuters are capable of operating aircraft fleets and providing services comparable or even superior to those provided by the locals before they moved up to jets. Yet the industry also includes many small companies that operate one or two aircraft of less than 10 seats over a small number of routes, serving communities that generate only a few passengers per day. While the largest commuter carriers have relatively sophisticated management and secure financing, the smallest commuters are generally run by one person (who often doubles as chief pilot) and are more likely to be financially shaky. Most observers appear to believe that these "mom and pop" commuters will disappear in the future.

For these and other reasons, the new market opportunities created by the Airline Deregulation Act may be a mixed blessing from the point of view of the small communities themselves. Service may improve in some communities if they fit well in an improved route structure, and the freedom to operate larger aircraft may enable some commuters to improve service throughout their systems. However, the freedom to operate larger aircraft over more profitable routes may tempt the largest commuters to abandon their smaller aircraft and less lucrative routes, and with them their service to small communities. (This temptation can only increase as the local service airlines abandon more and more of their low-density markets as 1985 and the end of the section *406* subsidy program approaches; the present administration has proposed eliminating the *406* subsidy ahead of schedule).

Section 419 of the Airline Deregulation Act was specifically designed by Congress to maintain *essential* air service to small communities during the 10-year transition to a free market. It was not intended to be a market-development program, and this has been the basis for a number of complaints about the Civil Aeronautics Board's (CAB) implementation of the Essential Air Service (EAS) program (see below). Some critics feel that this level of subsidy is inadequate to maintain historical service levels, let alone provide a level of service that will develop the potential demand for air service in these markets. Some commuter airlines have become reluctant to bid for 419 service contracts, and others have filed exit notices or are being held in involuntarily on subsidized markets they would like to drop. In the future, the lack of availability of suitable aircraft, as well as a lack of financing and loan guarantees for their purchase, could also affect the ability of commuters to offer the necessary level of service in these small communities on an economically sustainable basis (see ch. 4).

THE IMPACT OF DEREGULATION ON LOW-DENSITY AIR SERVICE

The existing deficiencies in air service to small communities have resulted from trends inherent in the evolution of the regulated air transport industry, and deregulation seems likely to accelerate these trends (see ch. 2). It is too soon to judge the full impact of airline deregulation, in part because it is a gradual process that will not be completed until 1988 and, more importantly, because of the adverse economic conditions that have affected airline operations generally since 1979. The flight restrictions imposed by the Federal Aviation Administration (FAA) in response to the air controllers' walkout have also constrained commuter growth, particularly for car-

riers operating into the Nation's 22 busiest hub airports. This constraint will persist for 2 or more years if the administration adheres to its present policy with regard to the controllers who went on strike. Most changes in air service patterns, however, have been and will continue to be the result of the commuter airline industry's adaptation to changing market forces in an increasing competitive environment.

Commuter airline passenger traffic has grown at an average rate of over 13 percent since 1970, but in 1979, the first full year of deregulation, it grew by a record rate of almost 27 percent.[4] Commuter carriers entered over 400 new markets during the same year. In 1980, according to Commuter Airline Association of America (CAAA) estimates, **passenger** traffic increased by another 11 percent despite higher fuel costs and a general downturn in the U.S. economy.[5] Continued recession and strike effects have led to predictions of flat or negative growth in 1981 and possible failures for some overextended commuters, but the long-term outlook remains healthy. Preliminary FAA figures project a 7.9-percent growth rate for commuter passenger enplanements through 1993, and other estimates are as high as 10 percent annually.[6] Commuters served 505 airports in the 48 contiguous States in 1980 and provided the only scheduled air service at *292* of these points, including *133* EAS points or 42 percent of the eligible communities.[7] In 1981, they provided the only scheduled service to 187 EAS points (59 percent of eligible communities), and they are expected to be the only airlines serving nearly all the EAS points by 1983.

Within the commuter industry, however, growth has been inconsistent, with carriers serving the same region or market type experiencing very different growth rates. Almost all growth has taken place in markets where commuters have begun new service since deregulation, markets in which they have replaced certificated carriers, or markets in which traffic was previously limited by restrictions on aircraft size.[8] Existing commuter routes, by contrast, sustained traffic declines in *1980* comparable to those experienced by certificated carriers.[9] In general, the 1980-81 slump hit the commuters later than the trunks and locals.[10] In many cases, however, the commuters were less able to sustain these losses; several commuters have failed in 1981, and more failures are likely in the future.

Changes in Air Service Patterns

Overall levels of air service have increased since deregulation, but some small communities and some market categories have not fared well.[11] During the first year of deregulation, airports of all sizes experienced an increase in both aircraft departures and available seats per week (see table 3), but nonhubs—the smallest communities—experienced the smallest increase in both measures of air service. While all hub categories experienced a decrease in both departures and available seats in 1980, nonhubs suffered the greatest losses, and 46 nonhubs (all of them ineligible for EAS) ceased to receive scheduled air service. Thirteen of these points regained service in 1981, but nonhubs as a class have suffered a decrease in departures since 1978. Nonhubs have also experienced a significant decline in available seats since deregulation. To some extent the decline in available seats reflects the smaller aircraft serving these points, and may therefore represent an improvement in system efficiency. This reallocation of resources, on a nationwide scale, was in fact one of the objectives of deregulation; but it should have been accompanied by an increase in departures, not a decrease. Since August 3, 1981, FAA-imposed restrictions have led to further cuts in service from nonhubs to affected large hubs. Some commuters were forced to reduce operations by as much as 20 to 40 per-

[4] "'Growth of Commuter Traffic Figures Vary From 12 to 16%," *Aviation Week and Space Technology,* Mar. 16, 1981, p. 40.

[5] 'Commuter Airline Association of America (CAAA), *1980 Annual Report* (Washington, D. C.: CAAA, November 1980), pp. 7 and 20.

[6] 'Commuters Predict No-Growth Year, " *Aviation Week, Nov.* 9, 1981, pp. 65 and 129.

[7] CAAA, op. cit., pp. 20 and 49.

[8] 'Alan R. Stephen, vice president for operations, CAAA: quoted in *Aviation Week,* op. cit.

[9] CAAA, op. cit., p. 20.

[10] '"Stephen Smith, vice president for government relations, CAAA, private communication, June 22, 1981.

[11] ' 'Material in this and the next two paragraphs is based on two reports prepared by the U.S. General Accounting Office: *The Changing Airline Industry: A Status Report Through 1979* (CED-80-145, Sept. 12, 1980), and *The Changing Airline Industry: A Status Report Through 1980* (CED-81-103, June 1, 1981).

Table 3.—Changes in Aircraft Departures and Available Seats by Market Size, 1977-80 (week of October 1)

		Market type				
		Large hubs	Medium hubs	Small hubs	Nonhubs	Total
Number of communities:	1979[a]	26	33	76	570	705
	1980 [b]	24	36	71	528	659
	1981 [c]	23	37	72	540	672
Departures per week:						
Percentage change:	1977-78 [a]	5.9	6.5	6.4	9.2	6.7
	1978-79 [a]	8.3	6.6	6.7	6.2	7.4
	1979-80 [b]	–5.6	–8.8	–7.2	– 11.7	– 7.6
	1980-81 [c]	5.6	1.7	– 1.1	1.6	3.3
Cumulative change:	1977-79 [a]	14.7	13.5	13.5	16.0	14.6
	1977-79 [b]	14,3	15.1	13.4	14.2	14.3
	1977-80 [b]	7.9	4.9	5.2	0.9	5.6
	1978-81 [c]	11,4	4.1	–0.9	– 2.4	5.6
Available seats per week:						
Percent change:	1977-78 [a]	6.1	3.2	4.6	0.2	5.0
	1978-79 [a]	8.6	4.0	1.5	1.4	6.4
	1979-80 [b]	–6.1	– 10.1	–6.5	– 10.8	– 7.2
	1980-81	NA	NA	NA	NA	NA
Cumulative change:	1977-7P	15.2	7.3	6.2	1.6	11.7
	1977-79 [b]	14,1	6.9	5.0	–0.2	10.6
	1977-80 [b]	7.2	–3.9	– 1.8	– 11.0	2.6
	1978-81	NA	NA	NA	NA	NA

SOURCES: [a]GAO, *The Changing Airline Industry: A Status Report Through 1979* (September 1980).
[b]GAO, *The Changing Airline Industry: A Status Report Through 1980* (June 1981).
[c]CAB, *Report on Airline Service, Fares, Traffic, Load Factors, and Market Shares* (October 1981); reflects service status on August 1 of each year

cent, and others were granted temporary exemptions from their EAS obligations.

When air service is analyzed by city-pair market type, a related and even more striking pattern emerges (see table 4). During the first year of deregulation, service between nonhubs and all larger hubs increased by above-average amounts, indicating the operation of a hub-and-spoke network and an improvement in the smallest communities' access to the national system. Service between nonhubs, however, declined by more than 5 percent. This pattern was repeated in 1980—all market types suffered declines, but the decline was greatest between nonhubs. Service frequency from nonhubs to small hubs and other nonhubs has declined by *20* percent since deregulation, and has increased only to large hubs. In large part this has been due to changes in routing, and although nonhub-to-nonhub service may facilitate intrastate or intraregional travel, most nonhub passengers would prefer more direct access to larger hubs where transfers are possible.

Table 4.—Changes in Frequencies by Market Size, 1977.81 (week of October 1)

	Flights per week		
Market type	Percent change 1977 -79[a]	Percent 1977-80[b]	Percent 1:%:1%
Nonhub to large hub.	*9.0*	–2.3	*0.5*
Nonhub to medium hub. . .	*20.4*	– 1.3	*–7.3*
Nonhub to small hub.	*9.6*	– 11.1	*–21.8*
Nonhub to nonhub.	*–5.3*	– 16.5	*– 19.9*
Small hub to small hub. . . .	1.1	– 10.4	*–0.3*
Small hub to medium hub. .	1.8	–9.6	*–9.5*
Small hub to large hub. . . .	6.4	–1.2	*–4.2*
Medium hub to medium hub	–2.6	– 13.4	*–0.9*
Medium hub to large hub. .	6.3	–3.0	*–6.5*
Large hub to large hub. . . .	6.4	–6.4	*–4.3*
Total*	6.1	–5.6	*–4.9*

● Differences in the percentage change in departures and the market flight frequencies result from two factors The first is that the data bases differ. the departure data Includes foreign flag operations while the market data does not. Secondly, there is a compounding effect which multiplies the number of city pairs resulting from a multistop itinerary A, B, C, and D, There are three aircraft departures-A, B, and C. There are, however, six city pairs: A-B, A-C, A-D, B.C. B.D, C-D

SOURCES [a]GAO, *The* Changing *Airline Industry A Status Report Through 1979* (October 1980); these data reflect hub categories as of October 1, 1979, but do not include communities that lost all scheduled service in the previous 2 years.
[b]GAO, The *Changing Airline Industry A Status Report Through 1980* (June 1980), these data reflect hub categories as of October 1, 1980, but do not include the 46 nonhub communities that lost all scheduled service in the previous year,
[c]CAB *Report on Airline Service, Fares, Traffic, Load Factors, and Market Shares* (October 1981); these data compare service levels and hub categories as of Aug. 1, to eliminate effects of PATCO walkout.

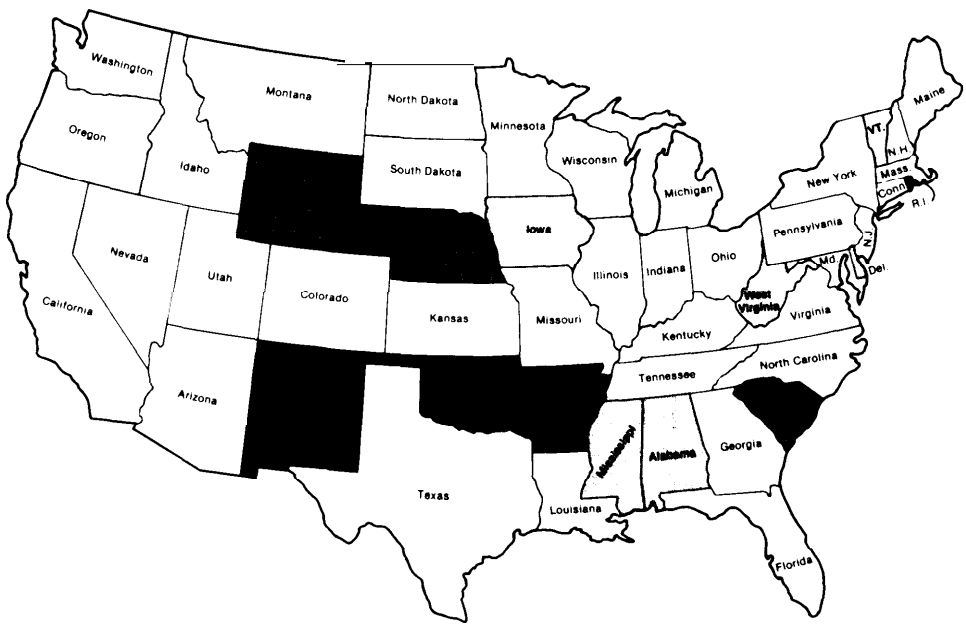
A similar unevenness is also found when service is considered on a State-by-State basis. While the Nation as a whole enjoyed an increase in air service between October 1977 and October 1979, seven States experienced a decrease in either departures or available seats, and six suffered a decrease in both measures of scheduled air service (see fig. *5).* During the 1979-80 slump, on the other hand, only one State—Maryland—experienced an increase in both departures and available seats, while declines elsewhere greatly reduced the earlier gains and in several cases turned gains into losses. Overall between 1977 and 1980, only 19 States enjoyed increases in both departures and available seats. Thirteen States experienced decreases in either departures or available seats, and 16 States plus the District of Columbia suffered declines in both measures of scheduled air service (see fig. *6).* Delaware, Mississippi, Alabama, and Wyoming have been particularly hard hit.

When service is analyzed strictly in terms of the smaller number of communities that qualify for EAS under the Airline Deregulation Act (i.e., those that were certificated on Oct. *24, 1978,* the date of passage), the declines are somewhat smaller but the overall pattern among the States remains the same. At the 132 points where commuters have replaced certificated carriers, traffic actually increased by 2 percent from 1978 to 1980; at nonhubs generally, traffic declined by 8 percent. This suggests that EAS is working, but it also raises questions about the fate of small communities after 1988.

State and Regional Air Service Studies

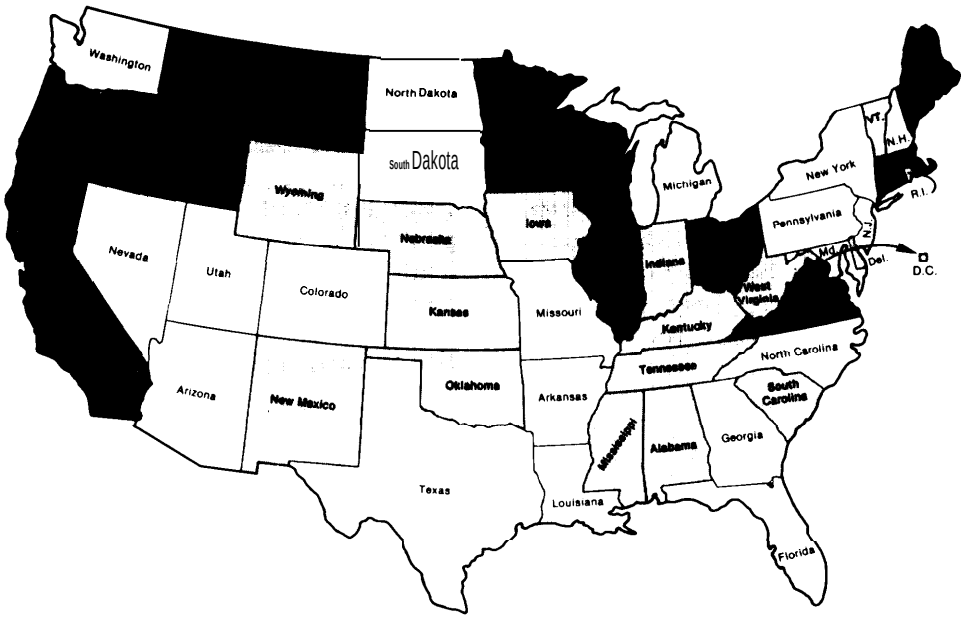
Neither CAB nor FAA routinely monitors service to small communities by State or region, nor do most States keep records of this type. Three major studies of this kind have, however, been conducted since deregulation. The results of these studies raise serious questions about the adequacy of the EAS program, as designed by Congress and implemented by CAB, and about the future of air service to small communities, particularly those that are ineligible for EAS.

Figure 5.—Air Service Changes, October 1977 v. October 1979



SOURCE: Off Ice of Technology Assessment

Figure 6.—Air Service Changes, October 1977 v. October 1980



U decrease in both departures and available seats

_ decrease in elther departures or available seats

SOURCE: Office of Technology Assessment

A study published by the North Carolina Department of Transportation in February 1980 found that many of the State's small communities were reaching a size that could support scheduled air service, but that the absence of a well-developed commuter airline network leaves the State potentially vulnerable to a "void" in small community air service, particularly at noncertificated points. [12]

A more recent study by the New York State Department of Transportation found that the State's small- and medium-size communities had already experienced a 20-percent decline in air traffic in the 10 years before deregulation, largely due to the inability of commuters to fill the voids left by the steady withdrawal of USAir from short-haul markets. In New York's medium-hub communities, deregulation has increased service in long-haul markets but caused a 12-percent decline in service on short-haul routes. Since deregulation the State's nonhubs have suffered extensive service reductions and substantial traffic underdeveloprnent. The study concludes that the EAS levels for its small communities, as determined by CAB, are inadequate to accommodate even the depressed historical demand for air service (which in 1978 was only 54 percent of potential or latent demand), let alone promote traffic development in these markets. The study recommends an expanded State role in monitoring and promoting air service to small communities. [13]

Another analysis will soon be published by the Appalachian Regional Commission, whose region includes West Virginia and parts of 12 other States. The study found that, between October 1978 and October 1980, the region's communities had experienced a substantial deterioration in the quality and quantity of air service, relative to both the Nation as a whole and the

[12] Division of Aviation, North Carolina Department of Transportation, Small *Community Air Service Route and Marketing Study*, February 1980.

[13] Aviation and Rail Planning Unit, New York State Department of Transportation (NYDOT), *Adequacy of Air Service Study*, May 1981.

national average for other small- and medium-size communities:

- of 44 communities receiving scheduled air service, 20 experienced reductions in service levels and 11 of these communities (7 of them EAS points) lost one or more certificated carriers;
- certificated service is being withdrawn faster than commuter service is initiated, resulting in a net decline in service levels;
- traffic decreases at medium and small hubs were 50-percent greater than the national average;
- 20 of the 24 nonhubs experienced traffic declines, 9 of them greater than 25 percent, and 11 nonhubs lost all certificated service (2 more have termination notices pending); and
- despite improvements in service to large hubs, the Appalachian route network is becoming substantially less capable of facilitating intraregional air travel.

Like the New York study, the Appalachian air service study concludes that the future of air service to small communities will depend on the development of successful commuter carriers, and that State and community initiatives may be needed to assist carriers at specific points. These initiatives include both promotional activities and direct financial assistance where section 419 subsidies prove inadequate. [14]

[14] Appalachian Regional Commission, *The Effects of Airline Deregulation Upon Air Service in Appalachia,* working paper, June *1981.*

EAS, COMMUTERS, AND MARKET DEVELOPMENT

It may be too soon to determine how the 10-year transition to full deregulation will affect air service to small communities, particularly in view of the short-term effects of the economic downturn and strike-related flight restrictions. In general, it will depend on the future development of commuter airlines and, in particular, on the ability and willingness of commuters to provide convenient and competitive service in these short-haul, low-density markets. Beyond this, it will depend on a number of other factors that are not entirely within the control of the commuter airlines:

- the ability of State, local, and private groups to attract and promote air service in order to develop self-supporting future markets in small communities;
- the availability and adequacy of financing and loan guarantees for the purchase of additional equipment by commuter airlines; and
- the availability of new-generation aircraft specifically designed for low-cost air service to the small communities.

The EAS Program

Congress, in section 419 of the Airline Deregulation Act, stressed the maintenance of air service to the Nation's small communities. The EAS program implements this provision, but many observers feel that CAB's determinations tend to guarantee only a minimal level of service. In some cases, critics feel, this may have contributed to a net reduction in service and thereby damaged the chances for developing economically viable markets in the future. Congressional comments, on the other hand, stress the unacceptably high cost of a nationwide market-development program and the fiscal inability of the Federal Government to provide more than a minimum guarantee. CAB's EAS determinations are in general geared to maintain service at about 1978 traffic levels.

CAB standards imply that two round trips and 40 passenger enplanements per day constitute "adequate" air service. However, the New York air service study and other sources argue that these levels are inadequate to meet existing

needs and demands and "are not sufficient to stimulate healthy rates of traffic development and sustain increasing levels of service. "[15] Experience at some small communities indicates that six daily round trips to a large hub (or eight to a medium hub) constitute a "threshold" level of service that is needed to develop potential demand and allow self-supporting, economically efficient operations. [16] According to the "threshold" theory, increased frequency may cause short-term losses but is necessary for long-term market development. Conversely, failure to provide a threshold level of service could permanently depress traffic levels in affected communities. This in turn could increase the long-term cost of the 419 subsidies and prolong the need for Federal involvement beyond the 10 years envisioned by Congress in 1978.[17] Ironically, however, this argument is based primarily on the substantial increases in passenger traffic that occurred at some cities where *unsubsidized commuters* replaced locals, before deregulation. Supporters of the EAS program would argue that aggressive marketing will have similar results where latent demand is sufficient, but that such market-development programs do not require and should not receive Federal subsidies.

It has also been suggested that the EAS program's service guarantees are adequate only for the smallest of the eligible cities: by applying its 2-departure, 40-passenger ceiling on a nationwide basis, it is argued, CAB may cause more rather than fewer transitional problems in slightly larger communities. This problem is particularly acute in some small and medium hubs that are also losing service due to adjustments in the trunk or local service route systems. Similarly, because a community qualifies for section 419 only when it loses its last scheduled carrier, severe traffic depression and economic dislocation might occur before the subsidy begins and persist for years even after replacement service is obtained. Finally, it has been suggested that 90 days' notice is often insufficient for a community to find a replacement carrier, let alone for the carrier to acquire the needed equipment, advertise schedules, and actually initiate operations.

In short, although the EAS program guarantees that no eligible small community will lose all air service during the transition to deregulation, the program could allow temporary dislocations and permanent reductions in traffic that might result in a loss of service after 1988.[18] In addition, EAS provides no protection for the many nonhubs that, because they received no certificated service before 1978, are ineligible for protection under section 419. It should be pointed out, however, that regulation did not protect the *level* of service to a community before 1978. CAB permission was required to eliminate the last flight, but the number, time, and destination of flights were decided by airline management on the basis of market demand. In addition, CAB had no authority to protect service to noncertificated points.

Reactions to the EAS Program

CAB data on air service under the EAS program seem to confirm some of the above concerns. Tables 3 and 4 (above) indicate that, collectively, nonhubs and medium hubs have experienced disproportionate service dislocations since deregulation. CAB points out in recent reports that EAS is working in eligible nonhubs: comparing December *1980* to December *1978*, departures declined 8.1 percent for all nonhubs, but only 0.7 percent for the 299 nonhubs covered by the program; and in the 132 cities where commuters have replaced certificated carriers since 1978, departures actually increased by 2 percent. [19] In most cases, commuter replacements required no subsidy; at the few points where 419 subsidies were paid, the cost is only about *35* to *40* percent of the *406* subsidy that had been required by local service carriers.

[15] NYDOT, op. cit., main report, epilogue, p. 2.

[16] Ibid., pp. 7, 19-20.

[17] Joanne Young, "Small Community Air Service: Guaranteed Essential Air Service Under Section 419 of the Federal Aviation Act, " memorandum to Frank Willis, Deputy Assistant Secretary for Policy and International Affairs, U.S. Department of Transportation, June *9, 1981; see* also her article, "Community-Oriented Essential Air Service: What's Best for Commuters?" *Commuter Air,* November 1981, pp. 12-18.

[18] Ibid.

[19] Civil Aeronautics Board, *Report on Air Service at Medium-Size Communities, vol.* 1, July 1981, p. 4; Civil Aeronautics Board, *Developments in the Deregulated Airline industry,* June 1981, p. 33.

However, the 229 nonhubs not covered by EAS experienced a 26.6-percent decline in departures, and this figure does not reflect the **46** ineligible nonhubs that lost all scheduled airline service during 1980 alone. The latter were typically small communities that had previously received service only from a commuter airline and would not have been protected from reduction or loss of service under regulation.

Furthermore, eligible communities from at least 34 different States have already appealed their EAS determination. Such petitions are not unusual, and in many cases they reflect dissatisfaction with the hub to which flights connect, rather than the number of flights. In one instance, however, CAB's rejection of such a petition is being challenged in a court suit involving the EAS determination for Bakersfield, Calif. The State of California has intervened in this case, and 18 other States have filed amicus briefs in support of the suit through their attorneys general; the suit has also been joined by the National Conference of State Legislatures, the Airport Operators Council International, and the Territory of American Samoa .'"

A number of small and medium hubs (particularly in the West and Midwest) have also experienced significant declines in departures, although they were partially offset in the national totals by smaller declines or slight gains at other communities. Louisville, Ky., for instance, experienced a 13.1-percent decrease in flight frequencies between October **1979** and October *1980,* including the loss of service to 11 major destinations. Similar experiences have led many medium-size cities to feel that they are "bearing the brunt of dislocations caused by the [new] route and rate freedoms" under deregulation .21 As a result, at least 10 medium-size cities have formed a coalition called Communities for an Effective Air Transportation System to promote changes in FAA and CAB policy, including provisions for market protection, **12** or even 18 months notice before market exit, replacement fuel allocation guarantees, and a redefinition of EAS in terms of demonstrated historic passenger demand. 22

CAB attributes these transitional dislocations to the withdrawal or rerouting of flights by trunks and locals, and to a short supply of smaller jet aircraft. 23 Congressional supporters of airline deregulation also point out that regulation had resulted in overcapacity in many markets, and that these "dislocations" may often reflect airline decisions to move empty seats from one market to other markets where they can be filled. This reallocation of resources, based on market forces, promotes the efficient use of the resources; and service reductions in smaller markets allow service increases in larger ones—i.e., "dislocations" in one part of the national air transportation system may bring "improvements" elsewhere.

Some commuter carriers, for their part, would often prefer not to provide replacement service under section 419, citing the excessive "hassle" and risks involved as well as the inadequate subsidy payments. One operator has characterized CAB's current *419* program as "overzealous protection of the Treasury at the expense of small community service, " and says that this situation, which gives commuter carriers "no chance of developing real airline business, " will soon lead to a "gradual degeneration of the entire small community system."[24] Market development—providing threshold service with adequate aircraft—can require a more substantial investment than the 419 subsidy provides. Few small commuters have the financial resources to cover these operating losses even in the short term, and the industry as a whole is already financially overextended. Deregulation has removed the regulatory barriers for commuters, but not the financial barriers, and these barriers are particularly severe with fuel prices and interest rates at present levels. However, FAA equipment loan guarantees have been provisionally set at $100 million for fiscal year **1982,** with all

[20] *County of Kern and City of Bakersfield v. CAB* docket Nos. 79-7308 and 80-7099, USCA 9th Circuit.

[21] Joan M. Feldman, "Medium Size Cities Protest Service Cuts Since Airline Deregulation, " *Air Transport World* June 1Q81, pp. 30-32.

[22] Feldman, op. cit.: Civil Aeronautics Board, *Report on Air Service at Medium-Size Communities* vol 1, pp. 10-11.

[23] Civil Aeronautics Board, *Report on Air Service at Medium-Size Communities* vol. 1, pp. 18-19, 21, and 25.

[24] Ken Cardella, president of Cochise Airlines, interview, July 31, 1981.

of the available funds set aside for commuter operators purchasing aircraft of 60 seats or less.

Another major problem—cited by numerous sources as being as important as subsidies or financing in terms of serving the smallest of the communities—relates to the need to develop a new generation of commuter aircraft that incorporates the full range of cost-cutting technologies. Many used aircraft are available, but in many cases they lack the fuel efficiency or performance characteristics needed for short-haul air service. Commuter airlines eagerly await the development of an advanced-technology commuter aircraft, but current conditions put their availability in doubt. This topic is discussed in the next chapter.