Deregulation has already crimped

Shippers who are angered over the dramatic rate increases and service cuts that have resulted from deregulation of air freight have been overlooking the more ominous effects of deregulation that augur even higher rates and further service cuts. Deregulation has scrambled routes and services in a manner that reduces the flow of containerized freight, undercutting efficient "intermodal" transportation.

Civil Aeronautics Board Chairman Alfred Kahn, the high priest of deregulation, had convinced Congress in the fall of 1977 amid plenty of "free enterprise" ballyhoo that deregulation would allow anyone with a plane, some freight contracts, and a little working capital to enter the airfreight business and bring down rates by increasing competition. In fact, 22 new cargo carriers have entered or will enter the air freight business.

But the shippers are learning what the U.S. Post Office did in the 1920s: a bunch of independent flyers with small planes and small wallets do not provide the reliable long term service required by the economic life of the country.

Since November 1977, the larger carriers—a group comprising mostly the passenger carriers—have dropped what they consider unprofitable routes. One major carrier, TWA, dumped its cargo-only operations altogether—for reasons totally unrelated to profits or free enterprise. (See CORPORATE PROFILE).

When the cargo lines scrambled to take over these routes, and created a number of new ones, shippers found that the smaller carriers had few, if any, planes that could handle containers—the safest and usually the cheapest mode for large shippers, especially if the container will also be handled by rail or water for part of its trip. Most smaller cargo carriers can't handle any container of any size.

There is not much chance that the smaller airlines will suddenly buy any significant number of jumbo jets—such as Boeing 747s—that can carry containers. A passenger jumbo costs about $30 million new, perhaps $10 million used, and requires adequate maintenance. Cargo carriers cost up to $40 million new, and there are few used ones on the market.

The June 25 *Journal of Commerce* concluded unhappily, "Progress in airborne containerization is being slowed rather than speeded up by airline deregulation. ..." This blow to air and intermodal transportation efficiency will have a much greater impact on future economic growth of the nation than even the dramatic rate hikes and service cuts in air freight since deregulation.

That is not to disparage the very real complaints of the shippers, especially those in the electronics and medical supplies industries.

Since deregulation, air cargo rates have climbed 19%—faster than any mode of regulated transportation. Every carrier slapped on a 10% across-the-board hike in March-April 1978, came back again in '79 with a 6-15% rise, and now threatens another round. But that alone doesn't give the true picture: Minimum charges zoomed 46%, rates for "undesirable" cargo like household pets and live animals jumped 82%, and supplementary charges like COD and assembly and distribution went up as much as 100%.

Even so, many shippers are less disturbed by the rate hikes than by the cutting of liability for loss and damage. Just before deregulation the CAB promulgated, as the result of several years' investigation, an increase in carrier liability from fifty cents a pound to $9.06 per pound. With deregulation the carriers were relieved of this burden, a fact that figured heavily in convincing the hesitant cargo carriers to go with Kahn's "experiment."

Richard B. Mallard, transportation manager for the E.R. Squibb & Sons pharmaceutical house complained to the CAB that service cutbacks were jeopardizing shipment of lifesaving drugs to smaller communities. According to Mallard, "many parts of the country are hundreds of miles from a large airport. . . . Combine this with the fact that many types of diagnostic sera have a very short shelf life and you create a situation where you either deny needed health care to patients or cause it to be delivered at a heavy premium."

Most smaller runs are abandoned when undercapitalized carriers dart from one route to another picking up crumbs but fail to build up a market. Larger carriers can of course sustain losses on air freight if they can make it up in passenger revenue either on the same or other routes.

According to *Distribution Worldwide* in its April 1979 issue, "It is probable that the ultimate result of deregulation—with its removal of protection for the markets of marginal carriers—will be to reduce the number of active competitors through mergers, consolidations, bankruptcies, etc."

And the technological growth of the industry, just now poised on the brink of containerization and full computerization, will collapse.

—*Leif Johnson*