

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

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OST-96-1629

TRANSATLANTIC, TRANSPACIFIC :
AND LATIN AMERICAN SERVICE : OST-96-1629
MAIL RATES INVESTIGATION :

ANSWER OF AMERICAN AIRLINES, INC. IN SUPPORT
OF NOTICE OF OBJECTION TO ORDER 97-12-25

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January 23, 1998

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

TRANSATLANTIC, TRANSPACIFIC : OST-96-1629
AND LATIN AMERICAN SERVICE : (Docket 37392)
MAIL RATES INVESTIGATION :

ANSWER OF AMERICAN AIRLINES, INC. IN SUPPORT
OF NOTICE OF OBJECTION TO ORDER 97-12-25

American Airlines, Inc., under 14 CFR 302.305(b), hereby files this answer in support of its notice of objection of January 5, 1998 to Order 97-12-25, served December 24, 1997. The subject order proposes international service mail rates for the period January 1 through June 30, 1998.

American's objection stems from a lack of confidence in the rates as specifically identified in this order for the Atlantic region, and leads to a more general concern about the methodology that is used to construct the rates.

As shown in the text (p. 2) and appendices to Order 97-12-25, the linehaul component of the Atlantic rate is declining 11% versus existing rates. A review of the Form 41 cost data used to construct the rates reveals that Delta Air Lines, Inc., which represents 27% of both the capacity expense and available ton-miles for the Atlantic region, experienced a 10% reduction in capacity expense for the year ended September

30, 1997 versus the previous year. For the same period, the other five Atlantic carriers' combined capacity expense increased 8.4%.

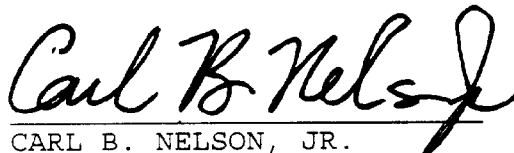
The order states that the reason the Atlantic rate is 11% lower than in the previous order is "due to the actual fuel expense per ATM being 20% less than that projected in Order 97-7-15 based on our current update methodology." In fact, under the methodology used, the primary driver of the change in Atlantic rates is the significant decline in Delta's depreciation expense (a component of capacity expense, "other"). This cost has declined from \$422,973 to \$96,921 for the year ended September 30, 1997.

While American has no insight into depreciation expense changes at Delta, the fact that one carrier's financing or accounting decision can swing rates for all carriers does not seem appropriate. The issue is exacerbated by the fact that the methodology employed uses most recent cost information to trend out a straight-line projection of cost changes in the future. For this reason, the Atlantic non-fuel cost per available ton-mile reflects a change from 19.87 cents (actual) to 19.06 cents (projected) for April 1, 1998, a 4% decline in addition to the 4.1% decline that actually occurred from September 1996 to September 1997 due primarily to Delta's depreciation expense change.

The broader objection that stems from the perceived illogic of the proposed Atlantic rates is in the methodology that relies on trending of airline reported Form 41 expense information. Form 41 internal allocation of costs presents a near un-auditable source for cost variance information. Trending this data results in variability of rates that do not consistently conform with market expectations.

American proposes that the methodology for establishing international service mail rates be reviewed. At a minimum, the trending of Form 41 non-fuel capacity expenses should be discontinued. An alternate source for the Form 41 cargo cost metric should be sought that cannot be driven by a single carrier's cost variance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carl B. Nelson, Jr." The signature is written in dark ink and is positioned above the typed name and title.

CARL B. NELSON, JR.
Associate General Counsel
American Airlines, Inc.

January 23, 1998