

Monarch Airlines

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19th November 1998

Mr C Schellenberg
Chief Financial Officer
Federal Aviation Administration
800 Independence Avenue, SW.
Washington DC 20591
USA

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OFFICE OF THE
CHIEF COUNSEL
RULES DOCKET

Dear **Mr Schellenberg**,

I am writing to follow up the points made in the recent meeting at the FAA's offices which I and a number of other **IACA** member carriers attended on Thursday 12th November, meeting a small group from the FAA led by **Mr T Lawler**. I understand that a public docket has not yet been opened but with **Mr Lawler's** advice am writing in advance and intend to do so again once the docket is active.

Please extend my thanks again to **Mr Lawler** and his colleagues. We appreciated their listening to our points of view, and found the information that they were able to pass on of interest. I believe the meeting was a step in the right direction and hope that now a line of communication has been opened, it may be used to improve the consultation process.

Allocation of costs

I understand that the FAA's intention is once again to charge only overflying **traffic** for the provision of the **ATC** service in both the oceanic and domestic airspace areas. The method of cost allocation to ensure a **fair** charge is therefore of great interest to us in order to ensure that we are not disadvantaged. My understanding is that within the current ongoing cost allocation exercise which the FAA is carrying out, the total cost attributable to each area of airspace will in effect be divided by the total volume of **traffic** in that area, both **chargeable** and non chargeable in order to arrive at two separate per flight 'unit cost' **values**. It is **this** unit cost which will then be charged to overflying **traffic**. If this interpretation is incorrect I would very much appreciate your advice and correction.

Industry lead times and financial margins

The European inclusive tour industry, for which we and other **IACA** member charter **airlines** provide aircraft seats, works on very tight financial margins and long lead times.

Monarch is for example currently in the process of negotiating contracts for flying due to take place up to 18 months hence in some instances. Sales brochures, which include the airline seat as part of the overall package, are already on sale to the general public for next summer, covering a period out to the end of October 1999. The industry is unable to pass on additional charges to the travelling public and hence must absorb unforeseen cost increases.

This becomes a financially painful experience since the whole industry is intensely competitive and works to very tight margins. As an example during the last financial year Monarch made a network average profit of under USD 5 per passenger. The corresponding cost per passenger of the US oceanic overflight charge at its original rate was circa USD 4.15, leaving as you can see a margin of less than USD 1 per passenger on an eight hour flight. We believe this is fairly typical for the UK charter airline industry and shows the difficulties posed by the overflight charge in its previous form.

I hope you will therefore understand our concerns over insufficient lead-times and the problems that the subsequent erosion of financial margins these additional costs cause us.

Possibility of delaying implementing of overflight charges

Having conveyed to you our concerns regarding the impact of the charge we ask that you consider the following suggestion designed to alleviate the adverse impact.

It would provide us with significant comfort if we could obtain your agreement to exempt all flights contracted prior to the point at which official notification is received from the FAA, advising the rate of charge and the date of implementation of overflight charges. We would of course be prepared to provide a notarised affidavit with the relevant contracts stating operational dates and flight numbers annexed to it should this be deemed acceptable.

Without some solution to the potential problem it appears from the likely timescales advised in the meeting that the charges will again come into effect before we have sufficient notice to include them in our contracting and brochure prices. I appreciate that this may seem a somewhat unusual approach but we must explore all possible reasonable avenues to cause minimum impact on our business.

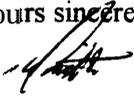
There is a precedent of sorts for this approach within Federal circles. The U.S. International Air Transportation Tax was increased from USD 6 per departing passenger to USD 12 for each arriving and departing passenger in October 1997. In recognition of the short notice that was given by the Federal Authorities and the consequent severe adverse impact on airlines, exemption from payment at the increased level of tax was permitted for all passengers booked prior to 13th August 98.

Invoicing

One detailed point which we request you consider for future action is that of the information provided on the invoices sent out to airlines. Originally the invoice contained details of date, flight number, aircraft routing and charge distances in both the domestic and oceanic airspace areas. However we found verification of the distances and hence the charges difficult. It would be most helpful if the latitude and longitude of entry and exit points for the chargeable airspace could also be shown on the invoice. This would aid verification and we feel lead to fewer queries being raised by users to the FAA resulting in benefits in reduced administrative for both parties.

I thank you for your time and consideration of the above points. I look forward to your response in particular on the subject of the possibility of charge exemption for specified flights. If I can be of any assistance in answering questions or **clarifying** the above please do not hesitate to contact me.

Yours sincerely,



M J Smith
Economic Planning Manager