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Report to the Chairman and Ranking
Minority Member, Subcommittee on
Seapower, Committee on Armed
Services, U.S. Senate

March 1996

MILITARY AIRLIFT

Observations on the Civil Reserve Air Fleet Program



**National Security and
International Affairs Division**

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March 29, 1996

The Honorable William S. Cohen
Chairman
The Honorable Edward M. Kennedy
Ranking Minority Member
Subcommittee on Seapower
Committee on Armed Services
United States Senate

This report responds to your request that we provide information on the Civil Reserve Air Fleet (CRAF) program, which augments military airlift during emergencies.¹ According to Air Mobility Command (AMC) documents, CRAF aircraft performed a vital role in Operations Desert Shield/Storm by providing 62 percent of the Air Force's passenger airlift capability and 27 percent of its cargo airlift capability. In this report, we discuss (1) the extent that participation by commercial carriers in the CRAF program meets wartime requirements, (2) the Department of Defense's (DOD) efforts to ensure future carrier participation, and (3) the recent review of the CRAF program that was directed by the C-17 Defense Acquisition Board (DAB).

Results in Brief

The extent of carrier participation varies in different segments of the CRAF program.

- Commercial carriers have committed only 19 of the 44 aircraft required for aeromedical evacuation. As a result, AMC could have difficulties evacuating casualties from an overseas contingency operation.
- Carriers have committed 114 of the 120 wide-body equivalent aircraft required for cargo airlift. However, this shortage of aircraft has not affected DOD's ability to quickly deploy troops and equipment.
- Participation in passenger airlift exceeds requirements—a commitment of 161 wide-body equivalent aircraft to meet a requirement of 136.

To encourage continued carrier participation, AMC has proposed making the award of additional DOD and other government airlift business contingent on some form of commitment to the CRAF program. Additionally, AMC is addressing carriers' concerns about war risk insurance coverage.

¹We last reported on the program in *Military Airlift: Changes Underway to Ensure Continued Success of Civil Reserve Air Fleet* (GAO/NSIAD-93-12, Dec. 31, 1992).

The recent C-17 DAB decision, recognizing the importance of the CRAF program, directed that DOD study ways to stabilize carrier participation and increase commitment of B-747-400 freighter aircraft. The final results are not due until June 1, 1996.

Background

The CRAF program is managed by AMC, a component of the U.S. Transportation Command, located at Scott Air Force Base, Illinois. Established in 1952, the CRAF program was designed to provide DOD with access to commercial aircraft to augment military airlift during emergencies. CRAF is composed of civil air carriers that voluntarily commit cargo and passenger aircraft to support airlift requirements that exceed the capabilities of Air Force-owned aircraft.

The rewards for CRAF participation—shares of DOD’s peacetime business with cargo and passenger aircraft services—are detailed in contracts with each carrier. Excluding the amounts paid for Operations Desert Shield/Storm airlift, the amount of annual international contracts to the carriers has averaged about \$536 million from fiscal years 1989 through 1996.

The carriers pledge aircraft at one or more of three stages. Stage I—committed expansion—was activated for the first time on August 17, 1990, during Operations Desert Shield/Storm. Stage II—defense airlift emergency—was subsequently activated on January 17, 1991. Stage III—national emergency—has never been activated.

A major benefit of the CRAF program is that it provides up to half of the nation’s strategic airlift capability without the government having to purchase additional aircraft, pay personnel costs, or fly and maintain the aircraft during peacetime. According to a recent RAND study, replacing the CRAF capability with military aircraft would have cost DOD about \$1 billion to \$3 billion annually over the past 30 years.²

CRAF Carrier Participation

AMC currently has a major shortage of aircraft committed to aeromedical evacuation and a minor shortage of wide-body equivalents for cargo airlift. However, the aeromedical evacuation requirement is being reassessed. Carrier participation in passenger airlift exceeds current requirements.

²Finding the Right Mix of Military and Civil Airlift, Issues and Implications, RAND (1994).

Aeromedical Evacuation Shortage

As of January 31, 1996, commercial carriers had committed only 19 B-767s for aeromedical evacuation, and only 4 of the 19 aircraft were ready for activation. Because of this shortage, AMC could have difficulty evacuating medical casualties. DOD currently requires 44 B-767 aircraft for aeromedical evacuation. However, according to AMC officials, an ongoing joint U.S. Transportation Command-AMC study suggests that this requirement could be lowered significantly.

Additionally, a problem exists with the modified cargo door on 15 of the committed B-767s. The kits used to convert the passenger aircraft to an evacuation aircraft need modification. As a result of changes made by aircraft manufacturers to enlarge cargo doors on these aircraft, parts of the aeromedical evacuation kits sit unsupported in front of the cargo door, making the system unusable. AMC is evaluating contractor proposals to resolve the problem and hopes to have it corrected later this year.

To help alleviate the aircraft shortage, AMC is considering using the DC-10 aircraft as well as the newer B-767 aircraft, which carriers are more reluctant to commit to the program. But first the aeromedical evacuation kits will have to be modified. AMC officials expect a feasibility study on using the DC-10s to be completed in early spring 1996. According to AMC officials, a reduced requirement could negate the need for the DC-10 aircraft. In addition, they said AMC is looking at using more military aircraft to help fill the requirement.

Cargo Aircraft Shortage

The CRAF program is just below its requirement for aircraft to fly long-range international cargo.³ Commercial carriers have committed 114 of the 120 required wide-body equivalent aircraft to the CRAF program. However, the current commitment is above the 17.5-million ton miles/day of capability (or 101 wide-body equivalent aircraft) AMC depends on getting from the CRAF program. Although DOD's cargo deployment capability is currently sufficient, if the shortage worsens, this capability could be threatened.

Passenger Aircraft Exceed Requirements

Commercial carrier participation in the CRAF long-range international passenger component is well above the recently revised requirement. The current CRAF commitment for passenger aircraft is 161 wide-body equivalents. In 1995, the requirement was reduced from 210 to

³These aircraft support AMC's global operations, such as Operations Desert Shield/Storm, and are required to be capable of extended overwater operations.

136 wide-body equivalents based on a reassessment of wartime requirements.

Future Carrier Participation

Although commercial carriers responded promptly to the activation and played a key role in Operations Desert Shield/Storm, they raised a number of concerns about the CRAF program. According to all the carriers we interviewed, they were considering reducing future aircraft commitments unless AMC changed the CRAF program. AMC's ability to maintain current and future levels of CRAF participation depends primarily on whether it can maintain adequate incentives for the carriers and resolve differences concerning war risk insurance coverage.

Incentives to Increase Carrier Participation

To maintain carrier participation, DOD and the General Services Administration (GSA) are now requiring that commercial carriers wishing to participate in passenger business through GSA be members of the CRAF program. Once in CRAF, carriers are required to commit 30 percent of their passenger fleet or 15 percent of their cargo fleet to the program. AMC is also considering additional incentives and/or requirements, such as

- allowing carriers to bid for contracts to transport small packages if they commit more than the minimum number of aircraft required for the CRAF program;
- allowing carriers to use military bases for commercial operations if they meet or increase the minimum number of aircraft committed to the program; and
- working with other federal agencies, such as the Federal Emergency Management Agency or the Departments of Transportation and State, to require that carriers wishing to do business with those agencies be enrolled in the CRAF program.

War Risk Insurance

Normal commercial insurance policies generally exclude coverage for air carriers operating in war zones or during CRAF activation periods. Thus, commercial carriers flying during an activation must generally rely on supplemental insurance programs provided by the government for carrier hull and liability claims. The Aviation War Risk Insurance Program, administered by the Federal Aviation Administration under 49 U.S.C. 44302-03, provides this insurance. The program generally covers losses due to war, capture, seizure, nuclear detonation, hijacking, strikes, and vandalism.

During Operations Desert Shield/Storm, carriers had problems with the types of coverage provided under the Aviation War Risk Insurance Program. AMC, in conjunction with the Federal Aviation Administration, has substantially modified the insurance program to address many of these problems.

Although the government would eventually reimburse carriers for aircraft losses during a CRAF activation, carriers are still concerned that insufficient funds are available for the timely settlement of insurance claims. The Aviation War Risk Insurance Program currently has about \$60 million available to it. According to U.S. Transportation Command officials, this fund is less than half the amount needed to cover the loss of a commercial aircraft valued at over \$150 million and substantially less than the estimated \$1 billion in associated liabilities. According to DOD officials, to resolve this problem, DOD has proposed legislation allowing the Secretary of Defense to tap unobligated funds from any source to promptly pay carrier liability claims.

C-17 DAB Study

The C-17 DAB directed the Air Force to study (1) the use of long-term contracts to stabilize CRAF commitment and (2) ways to encourage carriers to purchase more militarily capable aircraft, such as the enhanced version of the B-747-400 freighter aircraft. (The enhanced B-747-400 is the commercial alternative to the C-17.)

The DAB-directed study results are due on June 1, 1996. According to the study plan, AMC will evaluate alternative contracting strategies and the potential for long-term contracts to increase CRAF commitments. However, according to AMC officials, several factors make multiyear contracts difficult to use for the CRAF program. First, some carriers are unwilling to assume the increased activation risk that is inherent in longer-term contracts. Second, AMC's customers find it difficult to accurately predict the amount of commercial business they will receive during the next fiscal year with any accuracy. Third, CRAF is now tied to other programs awarded on an annual basis, such as the transporting of passengers through GSA.

The study will also assess the incentives needed for carriers to acquire and commit B-747-400 freighter aircraft to the CRAF program. However, a number of carrier representatives that we interviewed said it would be difficult, if not impossible, to provide enough incentives to encourage them to purchase B-747-400s. The capabilities of these aircraft exceed the carriers' normal commercial requirements, and government business is not

large enough for them to buy aircraft that do not fit well with their commercial operations. According to a representative of one major air carrier, for example, AMC contract revenue provided less than 1 percent of his company's fiscal year 1995 revenue.

Scope and Methodology

We performed our audit work primarily at the U.S. Transportation Command and AMC at Scott Air Force Base, Illinois. We also contacted representatives of seven CRAF air carriers, representing all major CRAF segments and 42 percent of total aircraft committed to the CRAF program, to solicit their views on the program.

We obtained written comments of a draft of this report from the Transportation Command and AMC and discussed the information presented in this report with the responsible program official from DOD's Office of the Secretary of Defense. These officials generally concurred with our observations, and their comments have been incorporated in the report where appropriate. We conducted our review between October 1995 and February 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense and the Air Force and other interested congressional committees. Copies will be made available to others upon request.

Please contact me at (202) 512-3961 if you or your staff have any questions concerning this report. Major contributors to this report were Elliott C. Smith, Gregory J. Symons, Claudia J. Saul-Dickey, and Karen Rieger.



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