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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

JAN 29 1976

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES



Fuel Savings And Other Benefits Achieved By Diverting Department Of Defense Passengers From Chartered To Scheduled Overseas Flights

Department of Defense
Civil Aeronautics Board

Diverting Department of Defense passengers from selected chartered flights to scheduled commercial flights flown by the same international carriers could result in annual savings to the Department of about \$3.5 million; greatly reduce international air carriers' operating cost; and save as much as 48 million gallons of jet fuel annually.

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JAN. 28, 1976



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-133025

To the President of the Senate and the
Speaker of the House of Representatives

The Military Airlift Command is participating in a temporary arrangement under which certain air carriers under contract to the Command are allowed to transport Department of Defense passengers on their regularly scheduled commercial flights over selected routes rather than on charter flights. We evaluated this service to see if it offered benefits warranting extension or expansion.

We found that the substitution of scheduled commercial service for charter service on a selective basis would benefit both the Department and the participating international air carriers and conserve jet fuel. This report points out the potential benefits from extending and expanding this service.

We made our examination pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Chairman, Civil Aeronautics Board.

A handwritten signature in cursive script, reading "James A. Starks".

Comptroller General
of the United States

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ABBREVIATIONS

AB Air Base
AFB Air Force Base
CAB Civil Aeronautics Board
CRAF Civil Reserve Air Fleet
DOD Department of Defense
GAO General Accounting Office
MAC Military Airlift Command

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FUEL SAVINGS AND OTHER BENEFITS
ACHIEVED BY DIVERTING DEPARTMENT
OF DEFENSE PASSENGERS FROM
CHARTERED TO SCHEDULED OVERSEAS
FLIGHTS

Department of Defense
Civil Aeronautics Board

D I G E S T

Expansion of a temporary arrangement for diverting Department of Defense passengers from chartered flights operated by U.S. international air carriers to occupy otherwise unoccupied seats on the regularly scheduled commercial flights of the same carriers could

--save as much as 48 million gallons of jet fuel annually (see p. 4);

--improve the U.S. balance of payments to the extent that the jet fuel saved would have been procured from foreign sources (see p. 4);

--reduce annual costs to the Department by as much as \$3.5 million through better utilization of seats (see p. 5).

--allow the financially ailing U.S. international air carriers to reduce annual operating costs by as much as \$38 million (see p. 5).

The Secretary of Defense should negotiate with the appropriate air carriers to expand the temporary program to all routes where certificated air carriers operate charters which parallel their commercial routes. (See p. 9.)

The Civil Aeronautics Board should evaluate extending the diversion concept for the four routes on which it has already authorized temporary service, and for other requested routes, in terms of the national interest in fuel conservation and mutual benefit to the Government and to the air carriers. (See p. 9.)

The expanded diversion would involve substituting scheduled service for selected charter

flights on a total of 13 Military Airlift Command channels. Under this concept, the passengers would move in groups of 20 or more on the carriers' regularly scheduled flights through commercial facilities at the charter rate which is much less than the regular commercial fare. (See pp. 3 and 4.)

The military passengers would occupy otherwise vacant seats on these flights. Although the affected carriers would receive less in total revenue from the Department, the savings in operating costs would greatly exceed this reduction. (See p. 5.)

The carriers are willing to accept the charter passengers at the lower rates because their regularly scheduled flights have low occupancy rates. For example, in calendar year 1974, passenger occupancy rates ranged from about 37 to 66 percent. (See p. 6.)

The Department believed the estimates of savings were somewhat overstated, but generally concurred in GAO's recommendation that the diversion concept be expanded. Although the Civil Aeronautics Board has allowed temporary diversion on several occasions, including the current test program scheduled to run through June 1976, its officials have deferred adopting a final position on the diversion concept, pending hearings on its merits. (See pp. 3 and 9.)

CHAPTER 1

INTRODUCTION

1 The Military Airlift Command (MAC), a major command of 7
the U.S. Air Force, is the single operating agency for air- 5
lift services within the Department of Defense (DOD). MAC
is responsible for providing overseas air transportation for
military personnel and for their dependents.

3 MAC headquarters at Scott Air Force Base (AFB), Illinois, 20
directs the activities of this airlift force. Operational
control is vested in the 21st and 22d Air Forces at McGuire
4 + 5 AFB, New Jersey, and Travis AFB, California, respectively. 11 + 125
Components of these Air Forces in the United States and over-
seas carry out the day-to-day functions necessary to operate
a global airlift service.

MAC, in addition to operating its own aircraft, contracts
with commercial airlines for additional airlift. MAC pro-
cured about \$170 million worth of airlift services in fiscal
year 1975; about \$140 million worth of this was for trans-
portation of passengers.

Airlift procurement is divided among air carriers in
proportion to their participation in the Civil Reserve Air
Fleet program. This program obligates the carriers to pro-
vide specific aircraft to MAC in emergencies.

6 During fiscal year 1974 MAC moved over 1.1 million 109
passengers between the United States and overseas locations.
About 78 percent of these passengers traveled on chartered
commercial aircraft under contract to MAC. The charter rate
per passenger, established and approved by the Civil Aero-
nautics Board (CAB), is much less than the standard commercial
fare. Under the charter arrangement, however, MAC must pay
for all available seats on the aircraft, whether used or
not.

Charter flights are procured both from supplemental
airlines (carriers which normally do not offer regularly
scheduled passenger service) and from certificated carriers
(carriers which also provide regularly scheduled flights
on CAB-approved routes). The charter flights usually depart
from and arrive at military air bases rather than commercial
facilities.

Procurement of commercial airlift is subject to CAB
regulation. CAB is an independent regulatory agency

with broad authority to regulate and promote civil aeronautics within the United States and between the United States and foreign countries. In carrying out these responsibilities, CAB issues regulations which have the force of law and which set forth its policies, requirements, and procedures.

In 1973, because of the fuel crisis, CAB approved applications from several certificated air carriers for authority to divert military passengers from charter flights to their regularly scheduled flights on a temporary basis. This action was to move the passengers into otherwise unoccupied space on scheduled flights, thereby eliminating the need to operate certain charter flights. Under this procedure, substitute service was scheduled several weeks in advance and DOD passengers were port called directly to a commercial airport.

Our review was made to evaluate this arrangement and to determine the benefits that could be achieved by extending and expanding the program.

CHAPTER 2

DIVERTING CHARTER PASSENGERS TO REGULARLY

SCHEDULED FLIGHTS

Diverting passengers from charter flights operated by U.S. international air carriers to regularly scheduled flights of the same air carriers could (1) save as much as 48 million gallons of jet fuel annually, (2) reduce annual costs to DOD by as much as \$3.5 million through better utilization of aircraft seats, and (3) allow the financially ailing U.S. international air carriers to reduce annual expenses by as much as \$38 million.

The diversion would involve substituting commercial service for selected charter flights operated by Pan American World Airways, Northwest Airlines, and Trans World Airlines. DOD would have the option of moving its charter passengers, in groups of 20 or more, on the scheduled flights through commercial facilities at the charter rate.

Under the diversion concept, DOD passengers would be routed directly into commercial airports and would occupy otherwise vacant seats on regularly scheduled flights. The corresponding charter flights would be eliminated. Although the carriers would receive less revenue from DOD, the savings in operating costs would greatly exceed this reduction.

The carriers involved are willing to accept the charter passengers at the lower charter rate because their regularly scheduled flights have low passenger occupancy rates. For example, in calendar year 1974 the passenger occupancy rates ranged from about 37 to 66 percent. Revenues of other commercial air carriers would not be adversely affected because the three airlines would be only converting their own charter flights.

CAB denied the initial petitions of the airlines for authority to transport charter passengers on regularly scheduled flights but later allowed the carriers to do so on specific routes for a 5-month period. CAB denied two subsequent petitions for authority to continue the practice but later allowed the carriers to handle the diverted passengers for a 6-month period. CAB later approved carriers' tariffs on the basis of charter rates that, in effect, permitted the diversion for another 15 months beginning April 1, 1975.

CONSERVATION OF FUEL BY
REDUCING CHARTER FLIGHTS

Diverting charter passengers on selected routes could reduce annual jet fuel consumption by as much as 48 million gallons. These savings could be achieved by substituting scheduled service for charter flights on 13 channels flown by Pan American World Airways, Northwest Airlines, and Trans World Airlines which parallel their commercial routes. We recognize that adding passengers to commercial flights will increase related fuel requirements somewhat, but this increase is insignificant when compared with the fuel that would be used on the charter flights eliminated.

The Boeing 707 aircraft generally used by these airlines on charter flights consumes an average of 2,063 gallons of jet fuel per hour. Our calculations of potential fuel savings were based on an annual reduction of 969 flights, the average fuel consumption rate, and the average time by channel. (See app. III.) The 969 flights represent our estimate of the total number of charter flights flown annually by the three carriers over 13 channels during 1973 and 1974. Potential savings would be reduced to the extent that passengers could not be absorbed on scheduled flights. For instance, we have been assured by international carriers that military requirements could be absorbed on existing scheduled flights. However, an occasional unexpected surge in either military or commercial traffic could result in MAC contracting for charter flights.

The three carriers have already achieved large fuel savings in the periods when charter passengers were diverted to scheduled flights. From February through June 1974, DOD converted 152 charter flights on the following three channels:

- McGuire AFB to Rhein-Main Air Base (AB), Germany
- Travis AFB to Yokota, Japan
- Travis AFB to Osan AB, Korea

These conversions saved about 6.2 million gallons of jet fuel. In addition, MAC estimated that conversion of 96 charter flights from January through March 1975 would result in further savings of about 4.2 million gallons of jet fuel.

The cancellation of charter flights and the diversion of passengers to scheduled flights conserves fuel, thus decreasing fuel imports, which has a beneficial effect on the U.S. trade balance.

SAVINGS BY BETTER UTILIZATION OF AIRCRAFT

Currently, DOD charters an aircraft for passenger transportation to overseas locations paying for all of the seats, whether occupied or not. DOD is now experiencing a seat occupancy rate of 92.3 percent on these flights. We estimate that DOD pays about \$3.5 million a year for unoccupied seats. A large part of this cost could be avoided by diverting passengers from charter to scheduled flights. (See app. IV.)

On charter flights, if duty-status passengers do not show up, MAC can only fill the seats with "space-available" passengers 1/ or allow the flights to leave with unoccupied seats. However, under the diversion concept, if passengers do not show up for a flight, MAC can reschedule up to 15 percent of the seats booked on later flights without a penalty charge. During the 1974 diversion operation, the Military Traffic Management Command reported a no-show rate of 10.9 percent; thus MAC could reschedule passengers without a cost penalty.

REDUCTION IN COMMERCIAL CARRIERS' COSTS

U.S. international air carriers could reduce their annual operating costs by as much as \$38 million and cancel as many as 969 charter flights by substituting scheduled service for charter service on 13 selected channels. (See app. V.) The charter passengers would use unoccupied seats on the same carriers' scheduled flights which parallel the charter routes. Although the carriers would receive less revenue from DOD, the savings in operating costs would greatly exceed this reduction.

The Government is interested in benefits to carriers because carriers are reporting financial difficulties. For instance, one carrier has requested a Government subsidy, and two others have recently restructured certain routes to reduce expenses.

1/Passengers traveling in a nonduty status for whom MAC is not obligated to provide transportation and receives no reimbursement.

CARRIERS WILLING AND ABLE TO
HANDLE DOD CHARTER PASSENGERS

The carriers are willing to accept the charter passengers on their scheduled flights at the lower charter fares because the occupancy rate on these flights is low. During calendar year 1974, occupancy rates on international flights were as follows:

	<u>Trans World Airlines</u>		<u>Pan American World Airways</u>		<u>Northwest Airlines</u>
	<u>Atlantic</u>	<u>Pacific</u>	<u>Atlantic</u>	<u>Pacific</u>	<u>Pacific</u>
	(percent)				
January	37.6	54.1	54.0	55.7	54.8
February	37.2	48.3	42.3	48.9	51.2
March	47.0	48.9	48.3	48.1	51.3
April	49.0	48.9	50.5	42.3	40.9
May	55.8	50.8	55.7	45.1	46.2
June	57.5	57.1	52.6	46.7	49.7
July	59.7	52.7	53.9	46.0	44.8
August	55.6	60.2	52.7	52.5	65.9
September	55.8	43.1	53.3	42.9	41.8
October	56.6	40.8	48.4	44.4	45.7
November	44.5	42.7	43.1	44.2	52.2
December	50.2	45.0	48.6	43.3	43.0

Although passenger traffic was somewhat seasonable, it should be noted that even during the busier months the occupancy rates rarely reached a monthly average of 60 percent.

Accordingly, airline officials assured us that they would even be able to absorb the diverted charter passengers on their scheduled flights during the peak passenger season. In the occasional instances in which scheduled commercial space was not available, the charter flights would be flown.

CAB HAS APPROVED DIVERSION,
BUT ONLY ON A TEMPORARY BASIS

In 1972 Northwest Airlines and Trans World Airlines petitioned CAB for exemption authority to divert DOD passengers from charter to scheduled flights. In 1973 Pan American World Airways filed a similar request.

The airlines, in these and subsequent petitions, contended that eliminating charter flights would not only save fuel but would also improve the U.S. balance of payments position since much of the fuel saved would otherwise be purchased from foreign sources. They also said the service

would reduce their costs without diverting revenues from other MAC-contracted carriers.

CAB denied the initial petitions of the airlines as being economically unsound. However, in late 1973 it approved subsequent airline petitions because of the fuel crisis. The CAB order allowed diversion of charter passengers for only a limited time on specific routes. The diversion began in February and ended June 30, 1974. During this time charter flights were converted on three channels.

The Military Traffic Management Command, in evaluating the diversion operation in 1974, reported that, from DOD's transportation viewpoint, the service was a complete success. The Command stated that because of increased flexibility and convenience and the need to conserve fuel, DOD should vigorously support the airlines' request to extend the diversion of charter passengers through fiscal year 1975.

CAB denied two subsequent airline petitions for authority to continue handling charter passengers on scheduled flights, but in October 1974 CAB approved continuation on three selected routes for the period ended March 31, 1975. At that time it stated:

"We also wish to make it clear that our action herein is not to be interpreted as an endorsement of a part-charter concept. Rather this action is in response to the softening of international traffic, the continued fuel crisis and its impact on our balance of payments, and the need to take whatever reasonable steps are available to assist our financially pressed international carriers."

It further stated that:

"* * * neither the carriers nor DOD should plan on any further extensions."

Despite the warning in the CAB decision, in February 1975 Northwest Airlines and Pan American World Airways filed tariffs which provided for the transportation of charter passengers on scheduled flights at the charter rate. The tariffs covered four selected routes. On March 31, 1975, CAB approved these tariffs for a 6-month period beginning April 1, 1975. It later extended this approval through June 1976.

Trans World Airlines did not file a similar tariff. In October 1974 Trans World Airlines and Pan American World Airways applied to CAB for restructuring of their Atlantic and Pacific flights as an economy measure. CAB approved the joint application, effective January 30, 1975. Essentially, service on the Trans World Airlines routes serving Europe and Asia and paralleling MAC charter routes will be provided by Pan American World Airways.

AGENCY COMMENTS AND OUR EVALUATION

CAB

On September 19, 1974, we interviewed responsible CAB officials on the relative merits of the diversion concept. They told us that it was CAB's policy to resist mixing chartered and scheduled services. CAB believes that the carriers must have a cost-based fare structure--each passenger carried must bear a pro-rata share of the service--if the transportation system is to be economically sound.

On February 27, 1975, we again met with CAB representatives and told them that our analysis of the diversion operations showed the potential fuel savings and other benefits discussed in this report. They told us that CAB had an open mind on diverting charter passengers to scheduled flights, but they reiterated their belief that discounted fares were not beneficial to either the air carriers or the Government.

In general, we are not differing with CAB's position. However, the Government passengers we are discussing would not have traveled in scheduled service at all if it were not for the diversion concept. As indicated earlier, diverting Government passengers clearly results in savings in carriers' operating costs.

In commenting on our report, CAB officials deferred adopting a final position on the diversion concept pending a hearing on its merits. We were told that this hearing could not be held until sometime in late 1976 or early 1977. CAB's comments are included as appendix I of this report.

DOD

DOD officials generally agreed with our recommendation that the diversion concept be expanded. They said, however, that our estimates of savings were somewhat overstated.

The complete text of DOD's comments and our evaluation of them are included as appendix II of this report.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Diverting charter passengers on the four routes currently authorized will result in fuel savings to the Nation and in economic benefits to DOD and the carriers. However, the potential is far greater considering the number of routes over which certificated carriers operate charter flights which parallel their regularly scheduled flights.

RECOMMENDATIONS

We recommend that the Secretary of Defense negotiate with air carriers to expand the temporary program of diverting charter passengers to regularly scheduled flights on all routes where certificated air carriers operate charters which parallel their scheduled flights.

We recommend that CAB evaluate extending the diversion concept to the four routes on which it has already authorized temporary service and to other requested routes because of the national interest in fuel conservation and because of the mutual benefit to the Government and to the participating air carriers.

We want to reiterate that the expanded diversion concept will affect only certificated carriers that operate charters which parallel their regularly scheduled flights. Carriers not involved in the diversion would continue to receive their share of MAC business.

CHAPTER 4

SCOPE OF REVIEW

We assessed the feasibility of and the potential savings and other benefits to be realized by substituting regularly scheduled service for charter service. The work was done primarily at headquarters, 22d Air Force, Travis AFB, California; headquarters, 21st Air Force, McGuire AFB, New Jersey; and headquarters, Military Airlift Command, Scott AFB, Illinois.

Estimates of potential annual savings and other benefits were based on analysis of charter flights of Pan American World Airways, Northwest Airlines, and Trans World Airlines on 13 channels during October and November 1973 and August and September 1974. These months were selected because of difficulties in extracting data on other months from MAC records. Air Force officials agreed that these months were representative periods for evaluating the current use of charter flights and the potential impact that would result from diverting charter passengers to scheduled flights.

In September 1974, before completing our field work, we obtained the views of personnel in DOD, CAB, and the commercial airlines on the diversion concept. Upon completing our fieldwork we discussed the results of our work with these agencies officials. Among the personnel contacted were:

- Director for Transportation and Warehousing Policy, Office of the Assistant Secretary of Defense (Installations and Logistics).
- Deputy for Transportation, Office of the Assistant Secretary of the Air Force (Installations and Logistics).
- Managing Director, CAB.
- Deputy Director, Bureau of Economics, CAB.
- Vice President, Northwest Airlines.
- Vice President, Trans World Airlines.
- Vice President, Pan American World Airways.
- President, Air Transport Association of America.
- President, National Air Carriers Association.



CIVIL AERONAUTICS BOARD

WASHINGTON, D.C. 20428

IN REPLY REFER TO: B-1-66

August 18, 1975

Mr. Victor L. Lowe
Director, General Government Division
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

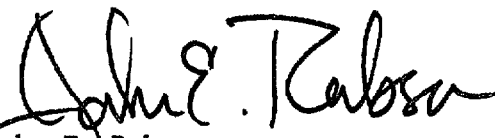
Dear Mr. Lowe:

Thank you for the G.A.O. draft report on fuel savings and other economic benefits derived by diverting Department of Defense passengers from chartered to scheduled flights (Code 943229). By Order 75-7-104, July 22, 1975, the Board instituted an investigation of this matter, a self-explanatory copy of which is enclosed for your information. It is hoped that this proceeding will lead to a final determination on the merits of the military part charter service concept.

We consider the recommendations set forth in the GAO draft report to be premature, and for this reason we cannot concur at present. Rather, we suggest that these recommendations be deferred pending a final Board decision in our investigation.

We appreciate the opportunity to comment on this report in advance of your finalizing it and hope the above commentary is helpful.

Sincerely,


John E. Robson
Chairman

Enclosure



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

25 AUG 1975

INSTALLATIONS AND LOGISTICS

Mr. F. J. Shafer
Director, Logistics and Communications Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Shafer:

This is in response to your letter of June 9, 1975, to the Secretary of Defense transmitting copies of your draft report concerning "Fuel Savings And Other Benefits By Diverting Passengers From Chartered to Scheduled Overseas Flights," OSD Case #4096.

The Department of Defense supports expanded use of blocked space Category Y service under a more permanent and broader Civil Aeronautics Board (CAB) authority, as long as it is formulated on the overall mobilization base contract awards, when it is in line with the military mission requirement and in agreement with the commercial carrier concerned. Although the savings are considered to be somewhat overstated, any fuel savings that can be achieved without impacting on Defense readiness and added costs should be pursued. We, therefore, concur with the recommendations to have the Secretary of Defense negotiate with the appropriate air carriers to expand the program and for the CAB to evaluate extension of the diversion concept on the present four routes and on other requested routes when in the National interest. However, to expand the program on all routes where the certificated air carriers operate charters that parallel their commercial flights is not always consistent with the requirements of the National defense.

Specific comments regarding the findings, conclusions, and recommendations in the report are attached as Enclosure 1.

Sincerely,

A handwritten signature in cursive script that reads "Paul H. Alley".

PAUL H. ALLEY

Acting Assistant Secretary of Defense
(Installations and Logistics)

Enclosure
a/s

Secretary of Defense Comments on GAO Draft Report:

"Fuel Savings and Other Benefits by Diverting Passengers from Chartered to Scheduled Overseas Flights" (OSD Case #4096)

1. Comments on the findings and conclusions:

a. Savings of 48 million gallons of jet fuel annually could be overstated if the act of adding Category Y traffic coupled with marketing influences causes additions to scheduled service in the future that would not otherwise be required.

b. A reduction in annual costs "by about \$3.5 million through better utilization of aircraft seats" is similarly misleading. The report assumes that all DoD travel that parallels commercial routes will fall under Category Y. However, to expand the program on all of these routes is not always consistent with the requirements of the National defense or is not necessarily compatible with the GAO final recommendation that the concept not affect revenues of the other certified carriers and those of supplemental air carriers. The Military Airlift Command (MAC) international airlift contracts are awards pursuant to the authority of 10 U.S.C. 2304 (a)(16) (Mobilization Base) and, as such, each carrier's award is based directly upon the number of suitable aircraft the carrier is willing to commit to the Civil Reserve Air Fleet (CRAF). Presently NWA and PAA are the only scheduled carriers that have fixed contracts for FY 76, and the aircraft committed by NWA and PAA do not justify awards of the magnitude set forth in the GAO report. If this were arbitrarily done in the scope indicated, it would adversely impact the other (supplemental and scheduled) carriers and their continuance in the CRAF program could be in jeopardy.

c. In addition, in stating a \$3.5 million annual cost reduction, the report does not address potential added DoD costs of moving passengers from military centers, located near military charter airfields, to commercial air terminals on the scheduled routes, and vice versa. Also, the report does not address potential future cost ramifications that could increase charter rates based on added terminal services provided by the commercial carrier that is presently handled by the military at military gateways. When these services are done by the airlines, the carriers' commercial systems cost will be included in the CAB cost analysis, and might increase the Category B rate as well as the corresponding Category Y costs. Conversely, the increased profits reported by the carriers in Category Y service may offset these terminal expenses. Thus, it is not certain at

this time regarding the amount of savings that might be realized through expanded use of Category Y airlift.

d. The reduction of 125 positions in the aerial port was not clearly demonstrated either by methodology or rationale. Aerial port manpower needs are determined by wartime mission requirements, not peacetime workloads. The asserted reduction of certain other aerial port personnel cited in this report as having been the subject of a 13 March 1975 GAO Letter Report, was refuted by the DoD response, which emphasized this point. Detailed documentation supporting this position has been provided to the Senate Armed Services Committee, the Senate Appropriation Committee, and more recently to the GAO stating that it will be made the subject of a special examination. The 125 aerial port personnel authorizations alluded to in the current report represent vital wartime positions which in our view cannot be eliminated.

2. Comments on GAO recommendations:

a. While the draft report covers the CAB limited approvals and their reluctance to approve future applications, it does not address the limitations imposed by CAB under the present authority and how these limitations also will not permit the carrier or MAC to convert to the magnitude indicated in the GAO report. In all cases, the Air Force on behalf of DoD has filed petitions with the CAB in support of the commercial carriers' petitions for exemption to carry military charter passengers on regularly scheduled service. We have requested that the Board not impose conditions which would eliminate or reduce the flexibility needed to permit maximum negotiation and use of the authority to meet the military operational requirements. We have recommended the CAB authority be broad and provide for the transfer of full airplane charter commitments for movement in available seats on scheduled commercial flights by the same carriers over the same or similar routing, whenever the DoD and the carrier in question can reach mutual agreement on the exact transfer. It was our position and understanding that it would apply only with respect to passenger transportation services which the DoD had first ordered from those carriers as full planeload charter service under the DoD's mobilization base award program. Thus, as indicated above, the extent to which the DoD would use the authority being sought by the scheduled carriers would depend upon the amount of charter service ordered under the mobilization base program from each carrier. However, the CAB in granting the authority felt that certain limitations were necessary to provide assurance that the exemptions do not work to the disadvantage of other carriers who do not have certificated scheduled services to avail themselves under the exemptions, but who are also competitors for MAC contracts. Therefore, the CAB restricted the

exemptions authorized to the military charter passengers which would have otherwise been carried on the round-trip planeload charter missions under **MAC** fixed buy allotments.

b. Thus, the routes were not only specified but the program was also limited to the fixed commitments made to the carriers at the beginning of the fiscal year. This represents approximately 60 percent of MAC total yearly passenger buy from the commercial air industry. Expansion charters which are still part of the overall award under the mobilization base are not eligible for conversion. This limitation by itself reduces the potential yearly conversion indicated by GAO in Appendix I of the draft report by 30 percent and, of course, this means that the fuel and economic savings are also overstated under the method of computation used by the GAO. In addition, when we consider that the GAO converted all one-way missions to round trips in their computations, and did not consider such factors as military requirements that could not be met by the commercial scheduled service or the commercial oversea airport facilities, and that our charters serve both on-line and off-line scheduled points in their estimate, then the number of missions which have the potential for conversion must be further reduced. In essence, using or establishing a criteria based only on diverting passengers from charter and commercial flights is erroneous and tends to overstate the potential savings and advantages that are available through such a program.

EVALUATION OF DOD COMMENTSON FINDINGS AND CONCLUSIONS

1. DOD: Savings of 48 million gallons of jet fuel annually could be overstated if the act of adding Category Y 1/ traffic coupled with marketing influences causes additions to scheduled services that would not otherwise be required.

GAO: GAO agrees that the above figure represents the maximum potential for savings and has changed the wording of the report to indicate this. The international air carriers whose charter flights would be converted to scheduled service have assured us that the military traffic could be absorbed on existing scheduled flights. However, to the extent that the military passengers could not be absorbed, charter flights (not additional scheduled flights) would be flown. Our recommendations are not intended to impede this flexibility.

2. DOD: A reduction in annual costs by about \$3.5 million through better utilization of aircraft seats is similarly misleading. The report assumes that all DOD travel that parallels commercial routes will fall under Category Y. However, to expand the program on all of these routes is not always consistent with the requirements of the national defense or is not necessarily compatible with the GAO final recommendation that the concept not affect revenues of the other certified carriers and those of supplemental air carriers. The Military Airlift Command international airlift contracts are awards pursuant to the authority of 10 U.S.C. 2304 (a) (16) (Mobilization Base) and, as such, each carrier's award is based directly upon the number of suitable aircraft the carrier is willing to commit to the Civil Reserve Air Fleet (CRAF). Presently Northwest Airlines and Pan American World Airways are the only scheduled carriers that have fixed contracts for fiscal year 1976, and the aircraft committed by these carriers do not justify awards of the magnitude set forth in the GAO report. If this were arbitrarily done in the scope indicated, it would adversely impact the other (supplemental and scheduled) carriers and their continuance in the CRAF program could be in jeopardy.

1/Category Y--military passenger traffic carried on commercial flights at special CAB-established rates.

GAO: The DOD personnel have apparently misunderstood our report. GAO did not assume that all DOD travel that parallels scheduled routes will fall under Category Y. Our report deals with three commercial airlines flying charters for MAC. We pointed out that the DOD personnel and dependents traveling on the chartered flights of these carriers could have traveled on regularly scheduled flights of the same airlines with large savings in fuel and overall cost. GAO suggested that use of scheduled service be extended to all charter routes where this opportunity exists. Again, the \$3.5 million is a maximum and savings would be reduced to the extent that passengers could not be diverted.

3. DOD: In addition, in stating a \$3.5 million annual cost reduction, the report does not address potential added DOD costs of moving passengers from military centers, located near military charter airfields, to commercial air terminals on the scheduled routes, and vice versa. Also, the report does not address potential future cost ramifications that could increase charter rates on the basis of added terminal services provided by the commercial carrier that is presently handled by the military at military gateways. When these services are done by the airlines, the carriers' commercial systems cost will be included in the CAB cost analysis and might increase the Category B rate as well as the corresponding Category Y costs. Conversely, the increased profits reported by the carriers in Category Y service may offset these terminal expenses. Thus it is not certain at this time regarding the amount of savings that might be realized through expanded use of Category Y airlift.

GAO: The comment regarding added costs of moving passengers to and from the commercial air terminal ignores the fact that most passengers do not originate near MAC terminals and often must use the commercial terminal anyway. Thus, the use of commercial gateways results in savings in shuttle costs to MAC aerial ports and, due to its convenience, has been applauded by the military services. Speculation about increases in charter rates ignores the fact that carriers have been providing scheduled services at fares based upon one-way charter rates (Categories A and Z) for many years with no effect on charter rates.

4. DOD: The reduction of 125 positions in the aerial port was not clearly demonstrated either by methodology or rationale. Aerial port manpower needs are determined by wartime mission requirements, not peacetime workloads.

The asserted reduction of certain other aerial port personnel cited in this report as having been the subject of a GAO letter report, March 13, 1975, was refuted by the DOD response which emphasized this point. Detailed documentation supporting this position has been provided to the Senate Armed Services Committee, the Senate Appropriation Committee, and more recently to GAO stating that it will be made the subject of a special examination. The 125 aerial port personnel authorizations alluded to in the current report represent vital wartime positions which, in our view, cannot be eliminated.

GAO: The question of staffing aerial ports was considered in another GAO report and is presently being reevaluated at the request of the Senate Armed Services and Appropriations Committees. Consequently, we have deleted reference to staffing from this report.

5. DOD: While the report covers CAB's limited approval and its reluctance to approve future applications, the report does not address the limitations CAB imposed under its present authority and how these limitations also will not permit the carrier or MAC to convert to the magnitude indicated in the GAO report. In all cases, the Air Force, on behalf of DOD, has filed petitions with CAB in support of the commercial carriers' petitions for exemption to carry military charter passengers on regularly scheduled service. We have requested that CAB not impose conditions which would eliminate or reduce the flexibility needed to permit maximum negotiation and the use of authority to meet the military operational requirements. We have recommended the CAB authority be broad and provide for the transfer of full airplane charter commitments for movement in available seats on scheduled commercial flights by the same carriers over the same or similar routing, whenever the DOD and the carrier in question can reach mutual agreement on the exact transfer. It was our position and understanding that it would apply only with respect to passenger transportation services which DOD had first ordered from those carriers as full planeload charter service under DOD's mobilization base award program. Thus, as indicated above, the extent to which DOD would use the authority being sought by the scheduled carriers would depend upon the amount of charter service ordered under the mobilization base program from each carrier. However, CAB, in granting the authority, felt that certain limitations were necessary to provide assurance that the exemptions do not work to the disadvantage of other

carriers who do not have certificated scheduled services to avail themselves of under the exemptions, but who are also competitors for MAC contracts. Therefore, CAB restricted the exemptions authorized to the military charter passengers which would have otherwise been carried on the round-trip planeload charter missions under MAC's fixed buy allotments.

Thus, the routes were not only specified but the program was also limited to the fixed commitments made to the carriers at the beginning of the fiscal year. This represents approximately 60 percent of MAC's total yearly passenger buy from the commercial air industry. Expansion charters which are still part of the overall award under the mobilization base are not eligible for conversion. This limitation reduces the potential yearly conversion indicated by GAO in appendix III of the report by 30 percent and, of course, this means that the fuel and economic savings are also overstated under the method of computation used by the GAO. In addition, when we consider that GAO converted all one-way missions to round trips in their computations and did not consider such factors as military requirements that could not be met by the commercial scheduled service or the commercial overseas airport facilities and that our charters serve both on-line and off-line scheduled points in their estimate, then the number of missions which have the potential for conversion must be further reduced. In essence, using or establishing criteria based only on diverting passengers from charter and commercial flights is erroneous and tends to overstate the potential savings and advantages that are available through such a program.

GAO: Once again, these comments reveal a basic misunderstanding of GAO's report. GAO is aware of CAB's restrictions and has recommended that CAB approve diverting military passengers from charter flights which parallel scheduled service routes flown by the same carriers to these scheduled flights when possible. While it is true that GAO converted one-way missions to round-trip missions in its computations, this reduced the savings rather than increased the savings, as alleged by DOD, because the one-way charter rate per passenger mile is almost twice the round-trip charter rate per passenger mile. The computation using round-trip missions was done to avoid overstating potential benefits.

It is not true that GAO did not consider military requirements which could not be met by scheduled service or charters servicing off-line as well as on-line points.

GAO dealt only with those charters servicing on-line points which paralleled scheduled flights servicing nearby locations. Those charters transported military personnel and their dependents to areas also served by scheduled service flights.

GAO recognized that off-line points and specific military requirements would still require charter service. Such service, however, is necessarily separate from the charter flights for which diversion to scheduled service is recommended.

POTENTIAL ANNUAL JET FUEL SAVINGS BY SUBSTITUTING

SCHEDULED SERVICE FOR CHARTER SERVICE (note a)

Channel	Average per flight		Number of flights converted (note c)	Total gallons of fuel (000 omitted)
	Round-trip flight time (hours)	Gallons of fuel consumed (note b)		
21st Air Force:				
McGuire AFB, New Jersey/Charleston AFB, South Carolina--Rhein-Main AB, Germany	16.74	34,535	270	9,324
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Mildenhall AB, England	17.13	35,339	12	424
McGuire AFB, New Jersey--Mildenhall AB, England	14.43	29,769	21	625
McGuire AFB, New Jersey--Torrejon AB, Spain	15.86	32,719	3	98
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Torrejon AB, Spain	18.62	38,413	18	691
			<u>324</u>	<u>11,162</u>
22d Air Force:				
Travis AFB/Norton AFB, California--Hickam AFB, Hawaii	11.38	23,477	40.5	951
Travis AFB/Norton AFB, California--Kadena AB, Okinawa				
Mid-Pacific route	31.65	65,294	102	6,660
North Pacific route	27.44	56,609	54	3,057
Travis AFB, California--Yokota AB, Japan				
Mid-Pacific route	25.44	52,483	129	6,770
North Pacific route	21.42	44,189	6	265
Travis AFB, California--Osan AB, Korea				
Mid-Pacific route	28.83	59,476	24	1,427
North Pacific route	25.74	53,102	90	4,779
Travis AFB, California--Anderson AFB, Guam	24.71	50,977	70.5	3,594
Travis AFB, California--Clark AB, Philippines	29.50	60,859	22.5	1,369
Travis AFB, California--Taipei International Airport, Taiwan	27.06	55,825	27	1,507
Travis AFB, California--Bangkok International Airport, Thailand	38.27	78,951	79.5	6,277
			<u>645</u>	<u>36,656</u>
Total			<u>969</u>	<u>47,818</u>

a/Based on an analysis of charter flights of Northwest Airlines, Pan American World Airways, and Trans World Airlines during 4 representative months.

b/A Boeing 707, such as those used by the carriers on MAC charters, uses an average of 2,063 gallons of fuel per hour.

c/The number of flights is shown on a round-trip basis. One-way flights were converted to round-trip flights--i.e., two one-way flights equal one round-trip flight.

POTENTIAL ANNUAL SAVINGS TO DOD THROUGH

IMPROVED SEAT UTILIZATION (note a)

Channel	Passenger miles (note b)			Computed utilization percentage	Savings through use of commercial service (note c) (000 omitted)
	Available	Used	Unused		
21st Air Force:					
McGuire AFB, New Jersey/Charleston AFB, South Carolina--Rhein-Main AB, Germany	358.42	352.02	6.40	98.2	\$ 157
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Mildenhall AB, England	15.56	15.14	.42	97.3	10
McGuire AFB, New Jersey--Mildenhall AB, England	24.47	24.26	.21	99.1	5
McGuire AFB, New Jersey--Torrejon AB, Spain	3.53	3.20	.33	90.7	8
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Torrejon AB, Spain	24.75	22.93	1.82	92.7	45
	<u>426.73</u>	<u>417.55</u>	<u>9.18</u>	97.9	<u>225</u>
22d Air Force:					
Travis AFB/Norton AFB, California--Hickam AFB, Hawaii	35.86	26.93	8.93	75.1	219
Travis AFB/Norton AFB, California--Kadena AB, Okinawa	354.42	333.86	20.56	94.2	504
Travis AFB, California--Yokota AB, Japan (note d)	297.99	267.00	30.99	89.6	760
Travis AFB, California--Osan AB, Korea (note d)	239.81	224.22	15.59	93.5	382
Travis AFB, California--Anderson AFB, Guam	144.87	130.67	14.20	90.2	348
Travis AFB, California--Clark AB, Philippines	54.14	48.89	5.25	90.3	129
Travis AFB, California--Taipei International Airport, Taiwan	60.13	53.52	6.61	89.0	162
Travis AFB, California--Bangkok International Airport, Thailand	240.91	208.63	32.28	86.6	792
	<u>1,428.13</u>	<u>1,293.72</u>	<u>134.41</u>	90.6	<u>3,296</u>
Total	<u>1,854.86</u>	<u>1,711.27</u>	<u>143.59</u>	92.3	<u>\$3,521</u>

a/Based on analysis of charter flights of Northwest Airlines, Pan American World Airways, and Trans World Airlines during 4 representative months.

b/Passenger miles equal the distance traveled multiplied by the number of passengers carried; i.e., five passengers going 1 mile equals 5-passenger miles. Under the charter system, DOD charters the entire airplane and pays for all of the available passenger miles based on the number of seats available-- even those that are unoccupied. The savings derived by diverting to scheduled flights occur because DOD pays for only those passenger miles used on a particular flight (assuming that unoccupied seats do not exceed the 15-percent rescheduling provision).

c/Based on the round-trip charter rate effective August 1974. The rate during this period was 2.197 cents per passenger mile plus a fuel surcharge of 11.60 percent for a total of 2.452 cents per passenger mile. We did not segregate one-way flights even though they have a higher rate.

d/Includes available, occupied, and unoccupied passenger miles on both mid-Pacific and North Pacific routes.

BEST DOCUMENT AVAILABLE

POTENTIAL COST REDUCTIONSTO COMMERCIAL CARRIERS (note a)

<u>Channel</u>	<u>Number of flights converted (note d)</u>	<u>Fuel cost reductions (note c)</u>	<u>Gallons of jet fuel saved (note b)</u>	<u>Operating expense reductions (note e)</u>	<u>Total cost reductions</u>
(000 omitted)					
21st Air Force:					
McGuire AFB, New Jersey/Charleston AFB, South Carolina--Rhein AB, Germany	270	\$ 3,478	9,324	\$ 3,780	\$ 7,258
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Mildenhall AB, England	12	158	424	168	326
McGuire AFB, New Jersey--Mildenhall AB, England	21	233	625	294	527
McGuire AFB, New Jersey--Torrejon AB, Spain	3	37	98	42	79
McGuire AFB, New Jersey--Rhein-Main AB, Germany/Torrejon AB, Spain	<u>18</u>	<u>258</u>	<u>691</u>	<u>252</u>	<u>510</u>
	<u>324</u>	<u>4,164</u>	<u>11,162</u>	<u>4,536</u>	<u>8,700</u>
22d Air Force:					
Travis AFB/Norton AFB, California--Hickam AFB, Hawaii	40.5	355	951	1,013	1,368
Travis AFB/Norton AFB, California--Kadena AB, Okinawa					
Mid-Pacific route	102	2,484	6,660	2,550	5,034
North Pacific route	54	1,140	3,057	1,350	2,490
Travis AFB, California--Yokota AB, Japan					
Mid-Pacific route	129	2,525	6,770	3,225	5,750
North Pacific route	6	99	265	150	249
Travis AFB, California--Osan AB, Korea					
Mid-Pacific route	24	532	1,427	600	1,132
North Pacific route	90	1,763	4,779	2,250	4,033
Travis AFB, California--Anderson AFB, Guam	70.5	1,341	3,594	1,763	3,104
Travis AFB, California--Clark AB, Philippines	22.5	511	1,369	563	1,074
Travis AFB, California--Taipei International Airport, Taiwan	27	562	1,507	675	1,237
Travis AFB, California--Bangkok International Airport, Thailand	<u>79.5</u>	<u>2,341</u>	<u>6,277</u>	<u>1,988</u>	<u>4,329</u>
	<u>645</u>	<u>13,673</u>	<u>36,656</u>	<u>16,127</u>	<u>29,800</u>
Total	<u>969</u>	<u>\$17,837</u>	<u>47,818</u>	<u>\$20,663</u>	<u>\$38,500</u>

a/Based on analysis of charter flights of Northwest Airlines, Pan American World Airways, and Trans World Airlines during 4 representative months.

b/See appendix III.

c/Commercial carriers purchased fuel from DOD on the basis of a price of 37.3 cents per gallon--the DOD cost for jet fuel as of January 17, 1975. It should be noted that prior to this date, the scheduled carriers were able to purchase fuel for charter flights from DOD at a special contract price of 11.3 cents per gallon. The carriers estimated that they purchase about 60 percent of their charter fuel from DOD.

d/Includes one-way flights converted to a round-trip basis.

e/Based on the carriers' estimated costs of about \$25,000 and \$14,000 for typical round-trip transpacific and transatlantic flights, respectively. These estimates were exclusive of fuel and aircraft ownership costs.

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FOR ACTIVITIES DISCUSSED IN THIS REPORT

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	From	To
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James R. Schlesinger	July 1973	Nov. 1975
William P. Clements, Jr. (acting)	Apr. 1973	July 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
DEPUTY SECRETARY OF DEFENSE:		
William P. Clements, Jr.	Jan. 1973	Present
Kenneth Rush	Feb. 1972	Jan. 1973
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
Dr. John J. Bennett (acting)	Apr. 1975	Present
Arthur I. Mendolia	June 1973	Mar. 1975
Hugh McCullough (acting)	Jan. 1973	June 1973
Barry J. Shillito	Feb. 1969	Jan. 1973
<u>DEPARTMENT OF THE AIR FORCE</u>		
SECRETARY OF THE AIR FORCE:		
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Dr. John L. McLucas	July 1973	Nov. 1975
Dr. John L. McLucas (acting)	June 1973	July 1973
Dr. Robert C. Seamens, Jr.	Jan. 1969	May 1973
ASSISTANT SECRETARY OF THE AIR FORCE (INSTALLATIONS AND LOGISTICS):		
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Richard J. Keegan (acting)	Aug. 1973	Oct. 1973
Lewis E. Turner (acting)	Jan. 1973	Aug. 1973
Philip N. Whittaker	May 1969	Jan. 1973

Tenure of office
From To

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Richard J. O'Melia (acting)	Jan. 1975	Apr. 1975
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