

September 2009

MILITARY AIRLIFT

DOD Should Take Steps to Strengthen Management of the Civil Reserve Air Fleet Program



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Highlights of [GAO-09-625](#), a report to congressional committees

Why GAO Did This Study

To move passengers and cargo, the Department of Defense (DOD) must supplement its military aircraft with cargo and passenger aircraft from commercial carriers participating in the Civil Reserve Air Fleet (CRAF) program. Carriers participating in CRAF commit their aircraft to DOD to support a range of military operations. In the Fiscal Year 2008 National Defense Authorization Act, Congress required DOD to sponsor an assessment of CRAF and required GAO to review that assessment. GAO briefed congressional staff on its observations. As discussed with the staff, GAO further analyzed some of the issues identified in its review. This report assesses (1) the extent to which DOD has assessed potential risks to the CRAF program, and (2) the extent to which DOD's management of CRAF supports program objectives.

For this engagement, GAO reviewed DOD-sponsored CRAF study reports and interviewed study leadership. GAO also interviewed over 20 of 35 CRAF participating carriers that responded to a request for a meeting, DOD officials, and industry officials.

What GAO Recommends

GAO is recommending that DOD (1) conduct risk assessments on two CRAF passenger and cargo issues and (2) develop policies to strengthen its management of the CRAF program. In comments on a draft of this report, DOD disagreed with the first recommendation and agreed with the second.

[View GAO-09-625 or key components.](#)
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What GAO Found

DOD needs to establish the level of risk associated with declining charter passenger capabilities and DOD's increased need to move very large cargo. Although DOD depends on CRAF charter passenger aircraft to move more than 90 percent of its peacetime needs, there has been nearly a 55 percent decline in this CRAF capacity since 2003. In addition, since 2003, DOD's large cargo movement needs have increased with the acquisition of over 15,000 Mine Resistant Ambush Protected vehicles. Since there are no U.S. commercial cargo aircraft capable of moving cargo this size into Iraq and Afghanistan, DOD is using foreign-owned carriers to assist its military aircraft in such movements. However, there are scenarios where foreign-owned carriers may be unwilling or not allowed to fly. As a result, the lack of a commercial U.S. outsized cargo capability might restrict DOD's ability to meet its large cargo airlift needs in a timely manner. DOD has not quantified the risks these challenges pose to the CRAF program's ability to meet DOD's future transportation requirements because DOD has not completed risk assessments as described in the 2008 National Defense Strategy. Until risk assessments are conducted, DOD will not be sufficiently informed about potential risks in the CRAF charter passenger segment and in very large cargo airlift capability that could prevent DOD from managing its future airlift needs and the CRAF program effectively.

DOD's management of CRAF has not provided CRAF participants with a clear understanding, which could strengthen the program's ability to support its objectives, in some critical areas of the program. Although internal controls such as policies can help meet program objectives, CRAF business partners do not have a clear understanding of DOD's expectations concerning four CRAF objectives—an enhanced mobilization base, modernization, increased air carrier participation, and communication—because DOD has not developed policies in these four areas. First, DOD has not developed policies regarding the enforcement of its business rules, such as the 60/40 rule that states that participants should fly only 40 percent of their total business for DOD. DOD does not consistently enforce this rule and this may decrease the mobilization base since it is difficult for carriers to size their fleets to meet DOD demands. Second, DOD has not developed policies or economic incentives that promote CRAF modernization and this may hinder CRAF carriers from modernizing their aircraft. Third, DOD has not developed policies regarding oversight of the distribution of its peacetime airlift business, the primary incentive to carriers for participating in CRAF. DOD has no involvement in this distribution, and the perceptions of some carriers that this process is unfair could ultimately reduce carrier participation in CRAF. Fourth, DOD has not developed policy concerning communication with the carriers on CRAF studies or proposed changes to the CRAF program. DOD has not always communicated with carriers prior to implementing changes or completing studies. Until DOD develops policies that provide carriers with a clear understanding of CRAF, DOD cannot provide reasonable assurance that CRAF will meet its primary objective of providing critical airlift.

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Abbreviations

AMC	Air Mobility Command
CRAF	Civil Reserve Air Fleet
DOD	Department of Defense
IDA	Institute for Defense Analyses
MRAP	Mine Resistant Ambush Protected

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Washington, DC 20548

September 30, 2009

Congressional Committees

Since September 11, 2001, the U.S. Transportation Command's Air Mobility Command (AMC) has successfully transported more than 6.8 million passengers and nearly 3 million tons of cargo by air. To move these passengers and cargo, the Department of Defense (DOD) must supplement its military aircraft with aircraft from commercial carriers participating in the Civil Reserve Air Fleet (CRAF) program. Commercial air carriers participating in CRAF contractually commit their aircraft to DOD to be called upon, or activated, for use to support a range of military operations. At the most demanding end of this range, DOD plans for CRAF to move more than 90 percent of its passengers and almost 40 percent of its cargo requirements. As an incentive to encourage participation in CRAF, DOD contracts exclusively with CRAF participants to fly its daily peacetime passenger and cargo airlift business. Currently, this daily peacetime business includes airlift for operations in Iraq and Afghanistan, which is being handled without an activation of CRAF. CRAF has been activated twice—once during Operation Desert Shield/Storm and at the beginning of Operation Iraqi Freedom. The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (Transportation Policy) is responsible for establishing policies for the CRAF program. The U.S. Transportation Command is responsible for the daily management of the program and for making recommendations concerning the capability, capacity and other requirements for mobility assets needed to execute its mission.

The National Airlift Policy confirms the importance and the necessity of CRAF by establishing that national objectives cannot be met without using commercial air carriers.¹ DOD has little capability to meet its passenger airlift requirements in its military fleet; therefore, DOD relies almost entirely on CRAF commercial carriers to fulfill its requirements. Charter passenger carriers, operating on the customers' schedules, provide nearly 90 percent of all daily, peacetime passenger airlift for DOD, while the scheduled carriers, operating on set routes and timetables, provide the remainder. In contrast, DOD's military fleet has the capability to carry

¹National Security Decision Directive 280, June 24, 1987.

bulk, outsized, and oversized cargo;² however, DOD relies on commercial cargo carriers to move bulk cargo in both peacetime and times of crisis or war. Although CRAF cargo carriers can fly oversized cargo when needed, they do not have the capability to move outsized cargo. CRAF carriers are not capable of loading or moving strategic outsized equipment, such as Mine Resistant Ambush Protected (MRAP) vehicles, tanks, and helicopters.

Multiple DOD-sponsored studies have identified risks to the CRAF program, with some risks due to a changing business environment and challenges within the management of the CRAF program.³ For example, as required by the Fiscal Year 2008 National Defense Authorization Act, DOD sponsored an independent assessment of the viability of the CRAF program. DOD submitted this assessment to Congress in October 2008, and as required by that act, we subsequently conducted a review of that assessment and briefed congressional staff on our observations about the assessment and some issues we identified about the CRAF program in general. As discussed with congressional staff, we further analyzed some of the issues identified in that review. This report assesses (1) the extent to which DOD has assessed potential risks to the CRAF program and (2) the extent to which DOD's management of CRAF supports program objectives.

To assess the extent to which DOD has assessed potential risks to the CRAF program and the extent to which DOD's management of CRAF supports program objectives, we reviewed several DOD-sponsored CRAF reports. We interviewed study leadership from the DOD-sponsored studies to obtain their perspectives and identify relevant issues relating to the CRAF program from their respective studies. We also conducted structured interviews with over 20 CRAF air carriers of the 35 participating in the program as of October 2008 that responded to our request for a meeting and interviewed airline industry officials and DOD officials at the Office of Secretary of Defense, U.S. Transportation Command, and Air Force Air Mobility Command to discuss the CRAF

²There are three designations of cargo types: bulk, oversized, and outsized. Bulk cargo is cargo that will fit on a 463L cargo system pallet or standard commercial airline pallet/cargo container. Oversized cargo is air cargo that exceeds the dimensions of a standard (463L) pallet, but is air transportable on military and most civilian cargo carriers. Outsized cargo exceeds the dimensions of oversized cargo and requires the use of a military C-5 or C-17 aircraft or surface transportation.

³See appendix I for a list of the studies.

program. We analyzed this information in the context of DOD's National Airlift Policy, 2008 National Defense Strategy, and airlift requirements to determine how issues we identified might affect the CRAF program. We discussed the management of the CRAF program with officials at the Office of Secretary of Defense, U.S. Transportation Command, and Air Mobility Command. We also reviewed the 2008 National Defense Strategy, GAO's Standards for Internal Control in Federal Government,⁴ DOD's Manager's Internal Controls, and U.S. Transportation Command's Manager's Internal Controls (guidance to implement DOD's internal controls program) to determine how programs should be managed to minimize the risk of program failure and to identify elements of effectively managed programs to determine if these elements are part of the CRAF program.

We conducted this performance audit from January 2009 to July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

DOD has not assessed the level of risk that declining charter passenger capabilities and DOD's increased need to move outsized cargo might have on future airlift requirements and the CRAF program. Although DOD depends on CRAF charter passenger aircraft to move more than 90 percent of its peacetime and contingency airlift needs, there has been nearly a 55 percent decline in this capability since 2003. In 2003, DOD relied on a charter air carrier capability comprised of more than 60 aircraft; however, although DOD passenger needs have increased significantly since 2003, the CRAF charter passenger air carrier capability has decreased, declining to as few as 19 aircraft in April 2008 before stabilizing at 29 aircraft in May 2008. The decline to 19 aircraft delayed the return home of Maine National Guard troops in Iraq by about a week and caused DOD to quickly find additional airlift. Because scheduled carriers have historically been unwilling and/or unable to fly the CRAF missions completed by charter carriers, this decline suggests that, at some point in

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

the future, charter passenger carriers or aircraft participating in the CRAF program may not be able to meet DOD's airlift needs on a daily basis and in contingency operations. In addition, since 2003, DOD's need to move outsized cargo has increased with the acquisition of over 15,000 MRAP vehicles. As there are no U.S. commercial cargo aircraft capable of moving outsized cargo such as these high priority vehicles into Iraq and Afghanistan, DOD is using foreign-owned carriers to support such movements. According to DOD officials, using foreign-owned carriers relieves some of the stress on military aircraft—there are sufficient military aircraft to accomplish the missions—and is less expensive than military airlift. As the need to move outsized cargo has increased, use of foreign-owned carriers to move these assets has increased; however, in some scenarios foreign-owned carriers may be unwilling to fly, and in other scenarios, like a CRAF activation, foreign-owned carriers would only be used in exceptional circumstances. As a result, the lack of a U.S. outsized cargo capability might affect DOD's ability to meet its outsized cargo airlift needs in a timely manner. DOD has not established whether it will need to continue to use these foreign-owned aircraft or whether there is a need for a U.S. commercial capability to help relieve stress on the military aircraft, and has not completed risk assessments, as set out in the 2008 National Defense Strategy. The 2008 National Defense Strategy describes the need to assess, mitigate, and respond to risk in the execution of defense programs critical to national security. Until specific risk assessments are conducted and actions are taken to mitigate any risks that may exist in the CRAF charter passenger segment and in outsized cargo capability that could prevent DOD from managing its future airlift needs and the CRAF program effectively, DOD and congressional decision makers will not be fully informed about unmitigated risks—specifically, gaps, shortfalls, or redundancies.

DOD's management of the CRAF program has not provided CRAF air carrier participants with a clear understanding of some critical areas of the program. Management internal controls help provide reasonable assurance that programs are focused on and can achieve their objectives by requiring clearly articulated policies. The National Airlift Policy states that federal policies governing the CRAF program should enhance the

mobilization base,⁵ promote aircraft modernization, increase air carrier participation, and provide a framework for dialogue and cooperation with commercial air carriers; however, we found that CRAF business partners do not have a clear understanding of DOD's expectations concerning these objectives because DOD lacks formal, written policies in four critical areas of the program, which could strengthen the program's ability to support its objectives.

- First, DOD's lack of policy regarding the enforcement of its business rules may negatively affect the CRAF mobilization base. DOD does not routinely enforce a basic CRAF business rule, outlined in the CRAF solicitation, allowing that no more than 40 percent of a CRAF carrier's revenues should come from the government. DOD has no formal policy describing this rule or when it will be enforced, thus leaving CRAF participants and those interested in becoming participants potentially unaware of DOD's intent. Also, CRAF carriers have stated that the inconsistent enforcement of this rule makes it difficult since leasing or buying aircraft to meet DOD needs requires long-term planning.
- Second, DOD has not developed CRAF policies that promote modernization, although modernization of the CRAF fleet is an objective of the National Airlift Policy and has been acknowledged as a goal by senior Air Force officials. Despite repeated congressional testimony from DOD officials stressing the importance of modernization, DOD does not provide CRAF participants any guidelines, objectives, or economic incentives that would encourage modernization. Some charter passenger air carriers, which help fly the majority of peacetime missions for DOD, fly aircraft in the Federal Aviation Administration's National Aging Aircraft Research Program. In the absence of specific modernization objectives, CRAF business partners will remain unaware of DOD's expectations toward modernization, and might not take steps needed to modernize their aircraft.
- Third, DOD's lack of policy regarding the distribution of DOD's peacetime airlift business may negatively affect CRAF air carrier participation. According to DOD officials, the process and procedures

⁵DOD defines the mobilization base as the total of all resources available, or that can be made available, to meet foreseeable wartime needs. Such resources include the manpower and materiel resources and services required for the support of essential military, civilian, and survival activities, as well as the elements affecting their state of readiness, such as planning with industry and modernization of equipment.

for distributing DOD's peacetime airlift business among carriers have not been defined by and are not overseen by DOD. While DOD defines how participants earn entitlements to peacetime airlift business, DOD actually distributes the entitlements to three teams of CRAF participants. The teams then distribute the business based on arrangements made by each team's members. In our discussions with carriers, some carriers expressed concerns that the distribution of DOD's peacetime business was unfair, because carriers were not getting the distribution they expected based on their contributions to CRAF, and lacked transparency. Because the distribution of this business is intended to incentivize CRAF participation, this perception could ultimately reduce carrier participation in CRAF.

- Fourth, DOD has not developed policy that establishes a framework for dialogue and cooperation with commercial air carriers, which could involve CRAF participants in decision-making and facilitate sharing information with them. According to airline officials, DOD has not routinely involved CRAF carriers in proposed changes to the CRAF program in advance and it has not shared CRAF study results with the carriers until recently. As a result, CRAF participants told us that they have been unable to adjust their business plans to better address DOD needs and easily absorb some of the program changes that have been announced. DOD has told us that there are many ways in which they communicate with the carriers.

By developing policies that provide commercial air carriers with a clear understanding of critical aspects of the CRAF program, DOD can strengthen its management of the CRAF program and have reasonable assurance that the CRAF program will meet its primary objective of providing critical airlift to support DOD's potential future needs.

To provide additional assurance the CRAF program can continue to meet DOD airlift needs and to assist DOD in more effectively managing the program, we are making two recommendations. First, to help DOD identify and analyze risks that could assist DOD in meeting its future airlift requirements, we recommend that DOD conduct risk assessments that evaluate the declining U.S. charter passenger capability and the lack of a U.S. commercial outsized cargo capability and develop appropriate policies and procedures for mitigating any identified risks. Second, to facilitate effective management of the critical partnership between DOD and the U.S. commercial air carrier industry and to help ensure that CRAF can meet its program objectives, we recommend that DOD develop formal, written policy that establishes: enforcement guidelines for the basic CRAF

business rules; objectives and measures of effectiveness required to achieve modernization of the CRAF fleets; oversight over how peacetime airlift business is distributed; and mechanisms by which DOD seeks input from CRAF participants in program issues and concerns and information sharing.

In commenting on a draft of this report, DOD did not agree with our recommendation to conduct risk assessments that evaluate the declining U.S. charter passenger capability and the lack of a U.S. commercial outsized capability. DOD commented that the 2008 CRAF viability study conducted by the Institute for Defense Analyses (IDA) evaluated the risk of the charter passenger industry, and based on that study, they are examining potential mitigation strategies for the declining passenger charter fleet. However, during our review, we found no evidence that U.S. Transportation Command has conducted an up-to-date risk assessment or is developing policies and procedures to mitigate any risks associated with declining charter passenger capability. As we reported, the 2008 IDA study data ended in 2007. Also, the study did not establish a level of acceptable risk for the CRAF program. Additionally, DOD commented that there was no need to develop any mitigation strategies for an outsized cargo capability because CRAF is not intended to provide an outsized cargo capability. Given DOD's recent addition of over 15,000 MRAPs, we continue to believe that risk assessments, as outlined in the National Security Strategy, of both the charter passenger and outsized cargo issue would give DOD specific information that would help them shape their future strategic transportation requirements. DOD concurred with our recommendation to develop formal, written policy that establishes: enforcement guidelines for the basic CRAF business rules; objectives and measures of effectiveness required to achieve modernization of the CRAF fleets; oversight over how peacetime airlift business is distributed; and mechanisms by which DOD seeks input from CRAF participants in program issues and concerns and information sharing. A more detailed discussion of DOD's comments and our response to these comments follow the Recommendations for Executive Action section of this report.

Background

The CRAF program was created in 1951 and its importance was reaffirmed by the National Airlift Policy in 1987. The National Airlift Policy states that the military will rely on the commercial air carrier industry to provide the airlift capability required beyond that available in the military airlift fleet. Additionally, the policy includes nine guidelines to meet airlift requirements in peacetime and wartime. These guidelines direct that policies be designed to

-
- increase participation in CRAF;
 - enhance the mobilization base of the U.S. commercial air carrier industry;⁶
 - provide a framework for dialogue and cooperation with commercial air carriers; and
 - promote the development of technologically advanced transport aircraft and related equipment. According to DOD officials, these guidelines serve as the objectives of the CRAF program.

CRAF commitments are divided into three levels or stages—Stages I, II, and III—depending on the size of the operations or contingency in which DOD is involved. As defined in the CRAF contract between DOD and its commercial partners, Stage I activation supports expanded operations beyond DOD’s routine daily operations and provides the equivalent of 30 passenger and 30 cargo aircraft; Stage II activation is used in the event of a major regional contingency and supporting mobilization and provides the equivalent of 87 passenger aircraft and 75 cargo aircraft; and Stage III activation supports two major regional contingencies and provides the equivalent of 136 passenger aircraft and 120 cargo aircraft. When CRAF is activated, carriers have a specified time frame in which to provide aircraft, with pilots and crews, to DOD. Once activated, air carriers continue to operate and maintain the aircraft with their resources; however, AMC controls the aircraft missions.

The majority of DOD passenger flights require carrier flexibility, as many DOD missions are not routine in their locations or timing. Charter passenger carriers fly the majority of DOD peacetime, contingency, and Stage I business because charter passenger carriers’ businesses are designed with the flexibility to provide airlift based on the customer’s (DOD’s) schedule. Scheduled passenger carriers operate commercial flights on regular routes and can ill afford unplanned disruptions to their airline networks. However, because of their large fleet sizes, the scheduled carriers are a critical component of the CRAF fleet.

As an incentive to encourage participation in CRAF, DOD contracts exclusively with CRAF participants to fly its daily, peacetime passenger

⁶DOD defines the mobilization base as the total of all resources available, or that can be made available, to meet foreseeable wartime needs. Such resources include the manpower and materiel resources and services required for the support of essential military, civilian, and survival activities, as well as the elements affecting their state of readiness, such as planning with industry and modernization of equipment.

and cargo airlift business and any surge for contingencies. As articulated in an August 2008 DOD-sponsored CRAF study, carriers earn the entitlement to DOD's peacetime business through points awarded based on their aircraft commitments to each CRAF stage.⁷ According to the study, the greater the commitment by the carrier, the greater the amount of peacetime business to which a CRAF participant is entitled. These points become the basis of a carrier's entitlement to compete for the procurement of peacetime passenger and cargo airlift business.

To maximize the value of these entitlements, CRAF participants have formed into three teaming arrangements, which are created and managed by the participants themselves. These teams comprise of a mix of passenger and cargo carriers that join together to pool their entitlements to DOD business; that is, the entitlement directly associated with a carrier's individual commitment is combined with the entitlements earned by other carriers on their team. DOD assigns peacetime business to the team based on the team's total entitlement and availability, not to the individual carrier. Once that business is assigned to the team, the team leader, or administrator, is responsible for accepting and distributing the business to the carriers at their discretion.

DOD's 2008 National Defense Strategy requires the military to assess, mitigate, and respond to risk that could potentially damage national security.⁸ Identifying and managing risk is also an important goal of all successful internal control programs. Internal controls include the organization, policies, and procedures used by agencies to reasonably ensure that, among other things, critical programs like CRAF achieve their intended results effectively and efficiently. Internal control standards require that management should provide for an assessment of the risks the agency faces from both external and internal sources. These standards also require that there be control activities—that is, the policies, procedures, techniques, and mechanisms that enforce management's directives—in place to help insure that actions are taken to address risk.

⁷Upon commitment and acceptance to the CRAF program, the CRAF carrier's aircraft are assigned points based on range, payload, and productive utilization rate, essentially determining the value of each aircraft to the program.

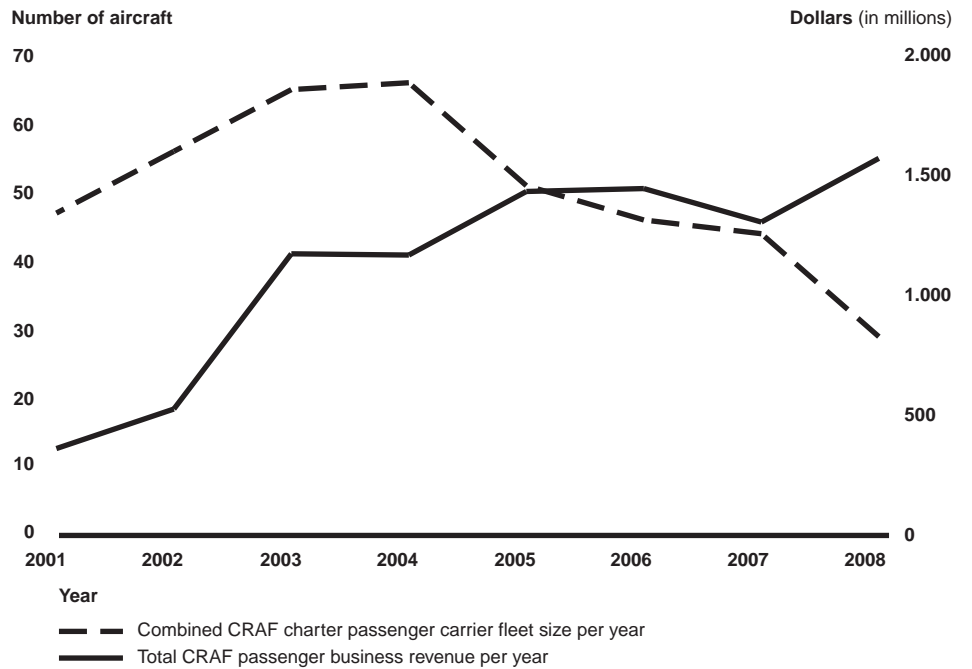
⁸The National Defense Strategy defined risk in terms of the potential for damage to national security combined with the probability of the occurrence and the measurement of the consequences should the underlying risk remain unaddressed.

DOD Has Not Assessed the Risks That Changes in Charter Passenger Capabilities and DOD's Outsized Cargo Needs Might Have on the CRAF Program

Charter Passenger Capability Has Declined

Although DOD depends heavily on CRAF charter passenger capability, this capability has declined substantially over the past 5 years and DOD has not established the risk that this decline may have for the CRAF program. DOD depends on the charter passenger industry to move more than 90 percent of its peacetime requirements, as well as all contingency surges. While the charter passenger capability has, historically, satisfied DOD's requirements, there has been a 60 percent decline in this capability since 2003 due mainly to a declining demand for charter airlines in the commercial sector. Figure I shows this decline in CRAF participants' charter passenger aircraft from a high of 66 aircraft in 2004 to 29 in 2008. Additionally, the figure shows that, even as commercial passenger carriers' revenues from DOD peacetime business increased to historic levels after 2001, and the amount of business available to charter passenger carriers was higher than it had ever been, the charter aircraft capacity continued to decline.

Figure 1: Size of CRAF Charter Passenger Fleet and DOD Peacetime Business (Fiscal Years 2001 through 2008)



Source: GAO analysis of CRAF data.

This decline in charter passenger capability led to a finding in the August 2008 DOD-sponsored CRAF viability study that this capability may become marginal for unexpected peacetime and contingency requirements. However, the study did not reflect that, in April 2008, CRAF's largest charter passenger carrier ceased operations due to bankruptcy. The sudden loss of 16 charter passenger airplanes from the CRAF program left DOD with only 3 charter passenger carriers and 19 total charter passenger aircraft until May 2008, when another passenger carrier dropped its scheduled services and committed 20 charter aircraft to CRAF. However, according to industry officials and confirmed by DOD, the sudden reduction in charter aircraft after the April 2008 bankruptcy led to a situation in which the return home of some redeploying Maine National Guard troops in Iraq was delayed by about a week. Because of a limited charter aircraft capability, the Commander, U.S. Transportation Command, personally called CRAF scheduled carriers and asked them to

free up aircraft to transport these troops back to the United States.⁹ The bankruptcy of DOD's largest charter passenger carrier without notice demonstrates the volatility of the charter passenger industry and raises questions about the industry's ability to continue to meet DOD requirements without a CRAF activation involving the larger, scheduled carriers to satisfy the requirements the charter passenger industry was filling.

There is little or no excess capacity among scheduled carriers. The five scheduled passenger carriers we spoke with told us that, due to market conditions and shrinking fleets that have been tailored to meet their commercial demands more efficiently, scheduled carriers are reluctant to commit aircraft to peacetime operations, contingencies, and CRAF Stage I beyond a small, required contribution.¹⁰ According to airline and industry officials, pulling a single aircraft out of a scheduled passenger carrier's daily planned service can cause major disruptions to its routes; therefore, to support any stage of CRAF activation, scheduled air carriers depend on a decrease in their commercial demands, similar to the reductions seen after September 11, 2001, that would make aircraft available. If the charter passenger industry business continues to decline, DOD will likely be forced to turn to scheduled air carriers to fulfill daily and Stage I requirements currently met by the charter carriers. However, given the scheduled carriers' smaller fleets, DOD has not quantified the number of charter passenger aircraft it may need on a daily basis and in contingencies and Stage I, or the risk of having a smaller charter passenger capability to handle these requirements. DOD officials have told us that they have no concerns that sufficient CRAF participants will respond to a call for airlift, whether during peacetime or in an activation.

DOD's Need to Move Outsized Cargo Has Increased

Since 2005, DOD's need to move outsized cargo to support peacetime and contingency operations has increased with the acquisition of more than 15,000 MRAP vehicles. Because there are no U.S. commercial cargo aircraft capable of moving outsized cargo such as MRAP vehicles into Iraq

⁹It should be noted that the teaming arrangements may provide DOD with an additional means to enforce the contract. Under the terms and conditions of some of these contracts the carriers are jointly and severally liable and would be contractually bound to provide the aircraft and services required under the terms and conditions of the contract.

¹⁰All carriers must commit at least one aircraft to Stage I to be eligible to commit to the later stages.

and Afghanistan, DOD is using foreign-owned carriers to support such movements to supplement its military airlift capability. As of April 2009, DOD had moved a total of 3,890 MRAPs by air, of which almost 80 percent were moved using foreign-owned carriers flying large Antonov-124 aircraft. We found and DOD confirmed that in the 2005 Mobility Capabilities Study, DOD planned for U.S. commercial cargo carriers participating in the CRAF program to move only bulk cargo, and did not identify a need for these carriers to move outsized cargo; however, without some supplemental capability—such as the use of foreign-owned carriers—the need for DOD to move outsized cargo into areas of crisis, and have that cargo arrive in a timely manner, could limit DOD’s ability to meet future airlift requirements. According to DOD analysts involved in the ongoing Mobility Capabilities and Requirements Study—2016, DOD will again plan for CRAF cargo participants to carry only bulk cargo.

As DOD moves additional troops and equipment into land-locked Afghanistan and in similar scenarios in the future, the need to airlift MRAPs and other large equipment, like helicopters, may continue to need the use of commercial carriers to assist military airlift. However, it is not clear whether foreign-owned carriers would be able or willing to fly in certain scenarios. For example, DOD officials acknowledged that foreign-owned carriers, for security reasons, would not likely be used during a CRAF activation.¹¹ Moreover, we believe the use of foreign-owned companies in support of U.S. military operations could be problematic if or when foreign-owned carriers find supporting a U.S. contingency to be inconsistent with their national interests. For example, in 2008, when the U.S. Transportation Command was using Russian-based carriers to fly outsized cargo to Iraq, Afghanistan, and other locations, U.S. military aircraft ferried Georgian troops from Iraq back to Georgia in anticipation of a potential confrontation with Russian troops. We believe that risk may be increased in such scenarios in the future. Without further analysis of DOD’s options for meeting its outsized cargo needs, including the potential role of commercial carriers, the inability of DOD to meet its needs to move outsized cargo into areas of crisis and have that cargo arrive in a timely manner could increase risk for DOD operations. However, DOD officials told us that DOD is using the foreign-owned aircraft only to ease the high stress on military aircraft and because such use is less expensive than

¹¹While foreign-owned carriers cannot fly CRAF missions, foreign-owned carriers can fly DOD (CRAF-like) chartered missions during peacetime operations in compliance with the Fly CRAF Act. These DOD chartered missions are contracted to CRAF participants, which subcontract these missions to foreign-owned carriers.

military aircraft, not because there is an insufficient number of military aircraft available to fly this outsized cargo.

DOD Is Not Fully Aware of How Changes in Its Charter Passenger Airlift Capabilities and DOD's Outsized Cargo Needs Affected CRAF Because It Has Not Conducted Risk Assessments

DOD is not fully aware of the extent to which these changes may have affected the CRAF program's ability to meet DOD's future transportation requirements because DOD has not conducted risk assessments as described in the 2008 National Defense Strategy. In this strategy, DOD defines risk to the national defense in terms of the potential for damage to national security combined with the probability of occurrence and a measurement of the consequences should the underlying risk remain unaddressed. This strategy also states that DOD must account for future challenges and their associated risks¹² to meet the objective of winning our nation's wars and describes the need to assess, mitigate, and respond to risk in the execution of defense programs critical to national security. In the case of the CRAF program, risk assessments can be used to determine if there are any gaps, shortfalls, or redundancies in the charter passenger or outsized cargo segments that could prevent DOD from meeting future airlift requirements.

The most recent DOD sponsored CRAF study, issued in August 2008, predicted that passenger charter capability may become marginal, but the capabilities reviewed in the study did not include the further declines in this capability that occurred in 2008. The study also did not quantify the risk associated with the passenger charter capability decline that has already occurred. In accordance with both GAO and DOD management internal controls,¹³ a risk assessment could inform program managers by establishing the maximum and minimum acceptable risk for the CRAF program. For example, it could identify the numbers of charter passenger aircraft necessary to meet DOD requirements. Without a risk assessment, DOD will continue to be uncertain what the levels of required CRAF charter participation is necessary to fulfill requirements, and DOD and industry decisions makers will not be able to begin to take steps to address the risks.

¹²Future challenges risks are those associated with the department's capacity to execute future missions successfully against an array of prospective future challengers.

¹³GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001); GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999); and Department of Defense Instruction 5010.40, *Managers' Internal Control Program Procedures* (January 4, 2006).

Furthermore, according to DOD officials, DOD has not conducted a risk assessment that examines outsized cargo movement, including the use of commercial air carriers to supplement its military fleet, and identifies any consequences of relying on foreign owned carriers to meet peacetime and contingency needs. As previously stated, DOD is using foreign-owned carriers to move MRAPs and other outsized equipment to Afghanistan and Iraq. However, the 2005 Mobility Capabilities Study¹⁴ predates the acquisition of more than 15,000 outsized MRAPs. Additionally, the August 2008 CRAF study did not assess any CRAF outsized cargo movement. A risk assessment could determine whether a gap, shortfall, or redundancy exists in relation to the U.S. commercial and military outsized cargo capability. In addition, a risk assessment could provide information to decision makers regarding the possibility of potential damage to national security from the reliance on foreign-owned carriers and the probability of such damage in future contingencies. Without such a risk assessment, DOD may not know the most effective method for transporting outsized cargo, and if any methods present potential risk to national security.

DOD Has Not Issued Policies That Would Strengthen Management of the CRAF Program

DOD's management of the CRAF program has not provided CRAF air carrier participants with a clear understanding of some critical areas of the program, which could strengthen the program's effectiveness and the ability to support its objectives. Although management internal controls such as clearly articulated policies can help meet program objectives, DOD has not developed policies related to four of the CRAF program objectives as outlined in the National Airlift Policy. These four objectives include: enhancing the mobilization base,¹⁵ promoting aircraft modernization, increasing air carrier participation, and providing a framework for dialogue and cooperation with commercial air carriers. As outlined by both GAO and DOD, management internal controls help provide reasonable assurance that, through effective management,

¹⁴The Mobility Capabilities Study which began in May 2004, reassessed DOD's mobility capabilities against the backdrop of a revised National Military Strategy. The study results were intended to support decisions on future strategic airlift needed to meet varying military requirements of combat operations and smaller military efforts. This study is the fourth in a series of major mobility studies that DOD has conducted since the end of the Cold War.

¹⁵DOD defines the mobilization base as the total of all resources available, or that can be made available, to meet foreseeable wartime needs. Such resources include the manpower and materiel resources and services required for the support of essential military, civilian, and survival activities, as well as the elements affecting their state of readiness, such as planning with industry and modernization of equipment.

programs can achieve their objectives. According to these management internal controls, one way to help assure that a program's objectives are met is to establish clearly articulated policies. Policies, a form of management control, are, according to U.S. Transportation Command, intended to provide guidance and procedures to carry out operations or achieve objectives. However, we found that CRAF business partners do not have a clear understanding of important aspects of the CRAF program because DOD lacks policies in critical areas of the CRAF program that could help DOD meet its program's objectives. U.S. Transportation Command officials have stated that the CRAF contract with the carriers serves as policy. However, the contract does not contain some elemental items of policy including objectives, goals, and measures of effectiveness as outlined in GAO and DOD management internal controls.

DOD Has Not Developed Policies Related to Four CRAF Program Objectives

DOD Has Not Developed Policy Concerning 60/40 Rule Enforcement

DOD has not developed policy regarding the enforcement of its business rules, such as the 60/40 rule, that would help strengthen the CRAF mobilization base. More than 40 years ago, DOD established measures to ensure that CRAF air carriers had both commercial and DOD revenue streams. These measures evolved into what is now known as the 60/40 rule, a rule defined in the CRAF solicitation allowing that no CRAF carrier should collect more than 40 percent of its revenues from DOD business. Carriers that earn more than 40 percent of their revenue from DOD may be penalized by reductions in their entitlement to DOD business. The original goals of the rule were to ensure that CRAF carriers maintained a strong business base, efficient operations, and modern fleets, all of which would prevent carriers from going out of business when DOD demands were low. The rule would also provide DOD with a surge capability to draw on if demand grew suddenly. Although DOD created the 60/40 rule with these intended goals, several CRAF carriers told us that they are unaware of the intent of the rule today because they are not sure if they have to follow the rule, or if it is even being enforced.

Some CRAF carriers have broken the 60/40 rule by depending in large part on DOD for their revenue. However, because there is no written DOD policy describing the rule and its enforcement, no carrier could tell us when, or under what conditions, the rule is actually enforced. According to airline officials, this lack of guidance affects carriers' business plans because they are not sure whether to account for 60/40 rule compliance

when determining the size their fleets. Unclear enforcement parameters also make it difficult to plan lease or purchase of planes or how many to acquire. Three DOD-sponsored CRAF studies completed in the last 3 years have all given differing recommendations regarding the 60/40 rule, adding to the ambiguity as to whether or not the rule is or will be in effect. Additionally, it is unclear whether or not CRAF objectives of participation and meeting DOD surge demands are being met. Without policy that clearly states the guidelines and objectives of the 60/40 rule, CRAF carriers may not be able to properly size their fleets to meet DOD demands, and have the capacity for DOD to draw on to meet demands, which may decrease the mobilization base of the CRAF program.

DOD Has Not Developed Policy Concerning CRAF Fleet Modernization

DOD has not developed policies that promote CRAF fleet modernization, although DOD officials have recognized the need for a more modern CRAF fleet. The National Airlift Policy directs that policies be created to promote the development of technologically advanced transport aircraft in order to ensure a commercial airlift capability. In addition, a December 2007 DOD-sponsored CRAF study acknowledged the importance of modernization and recommended that DOD develop policies to encourage CRAF carriers to modernize their existing fleets. Moreover, DOD officials have recognized the necessity of a modernized commercial air fleet by repeatedly testifying before Congress about its importance for the continued viability of the program.

However, DOD has not provided CRAF participants with policies that include guidelines, objectives, or economic incentives that would encourage modernization. Because the charter passenger industry plays such a large role in moving DOD passengers, we believe it is in DOD's interest to ensure the commercial airlines have guidelines and incentives, such as a rate structure that would pay more for carriers to fly newer airplanes, to assist in modernizing their fleets. Two of DOD's largest remaining charter passenger carriers are flying large numbers of aircraft listed on the Federal Aviation Administration's Aging Aircraft List. As the December 2007 DOD-sponsored CRAF study warned, these planes will soon be retired as the costs of inspections, maintenance, and life-extension work becomes prohibitive. Since these aircraft are being used to fly DOD business almost exclusively, charter passenger carriers told us that they look to DOD to provide guidance and incentives to modernize. DOD officials told us that they cannot influence modernization or force the carriers to modernize. However, without DOD policy that provides specific modernization guidelines, CRAF carriers may not see a reason or have a business case to take steps needed to modernize their aircraft.

DOD Has Not Developed Policy Concerning Oversight of Distribution of Peacetime Business

DOD has not developed policies regarding the oversight of distribution of its peacetime airlift business, which may negatively affect CRAF air carrier participation and may affect DOD's ability to manage the CRAF program effectively. DOD's incentive system of contracting with CRAF participants to fly its daily peacetime business is intended to meet the program objective of increasing air carrier participation in CRAF by providing each CRAF participant with a reasonable share of peacetime business. DOD policy that includes guidance, instructions, regulations, procedures, or rules that clarify the CRAF incentive system and some oversight of the distribution of peacetime business would give CRAF carriers a clearer understanding of this important process.

According to DOD officials, the process and procedures for distributing DOD's peacetime airlift business have not been described in policy and are not overseen by DOD. As discussed earlier, DOD awards individual carriers points based on the number and type of aircraft they commit to CRAF. These points become the basis of a carrier's entitlement to compete for the procurement of peacetime passenger and cargo airlift business. To maximize these points, the carriers have formed themselves into three teams that have their own agreements on how the business will be distributed among the team members. U.S. Transportation Command officials confirmed that they distribute peacetime business to the teams and have no further involvement in how the teams distribute peacetime business among the members. The officials also said that they consider the existing system to be adequate in meeting program objectives. In the absence of DOD oversight and control, some of the CRAF carriers have expressed concerns that peacetime business distribution is not transparent and can be inequitable. Some CRAF participants have told us that teams distribute DOD peacetime contracts disproportionate to an individual air carrier's CRAF commitment. These carriers also told us that the result is that some CRAF participants receive less DOD business than their entitlement reflects. Some CRAF carriers told us that the execution of the incentive system discourages participation and, in some instances, could cause carriers to go out of business. We understand that U.S. Transportation Command and Air Mobility Command have no involvement with the formation of the teams or the agreements teams have reached with their members. However, without DOD policies and oversight over the final distribution of the peacetime business that flows from the incentive system established by DOD, DOD cannot be sure that this system is accomplishing its goal of enhancing carrier participation in CRAF.

DOD Has Not Developed Policy Concerning DOD and CRAF Carrier Communication

DOD has not developed policy that establishes a framework for dialogue and cooperation with commercial air carriers that would invite CRAF participants to comment on pending program decisions and facilitate sharing information with them. Although facilitating an effective partnership between DOD and commercial carriers is a stated objective of the CRAF program, airline officials stated that DOD has not involved CRAF participants in some important program decisions that have had significant impact on the participants' business plans. For example, DOD announced a policy change that decreased the amount of money carriers were reimbursed for fuel, which is allowed under the CRAF contract. Carriers told us that they factor in fuel reimbursements in their yearly business plans, and are not prepared to adjust to a significant pricing change during the middle of a year, especially when they had no knowledge of the change ahead of its implementation and thus could not plan in advance for the effects. In addition, until recently, DOD had not shared information from DOD-sponsored studies on the CRAF program with CRAF carriers. For example, of the four DOD-sponsored CRAF studies completed in the past 6 years, most carriers we talked to told us they had neither seen nor heard of the studies until late 2008. Of the CRAF carriers we interviewed, only one carrier reported receiving a copy of any DOD-sponsored CRAF study.

DOD officials have said that mechanisms are in place for effective CRAF communication between DOD and CRAF carriers, such as using trade associations to perform what DOD officials describe as an "industrial reality check" and holding industry days and conferences. However, according to some carriers, communication through trade associations is not sufficient because some carriers are not allowed a voice in meetings, and some carriers are not members of the associations at all. Several carriers stated that DOD has little communication with them beyond using trade associations and annual meetings. With a clearly described policy that establishes a framework for an effective partnership fostering communication, DOD could strengthen its management of the CRAF program and enhance its relationship with the carriers, thus ensuring continued participation in CRAF.

Conclusions

Given the importance of CRAF in moving passengers and cargo for DOD to support peacetime and contingency operations and major operations requiring CRAF activation, it is critical for the CRAF program to be able to meet DOD's future needs. By policy, statute, and contract, DOD depends on CRAF business partners that increasingly find themselves in a challenging business environment. If the charter passenger industry

continues to decline, DOD could increasingly turn to scheduled air carriers to fulfill the daily and Stage I requirements that are currently being met by the charter carriers; however, the scheduled carriers may not be willing or able to fly these missions and meet DOD's airlift needs. Additionally, the potential absence of sufficient outsized cargo capability could potentially jeopardize national security by preventing DOD from accomplishing its missions due to an inability to move outsized cargo into areas of crisis within the time frames the commanders need it to arrive. Until risk assessments are conducted and actions are taken to mitigate any risks that are identified, DOD and industry decision makers will not be fully informed about risks in the CRAF charter passenger segment and in outsized cargo capability that could prevent CRAF from meeting DOD's airlift requirements. Moreover, the lack of appropriate policies that address critical areas of the CRAF program hinders DOD's ability to meet the objectives of the program. Until DOD develops policies that provide commercial air carriers with a clear understanding of critical aspects of the CRAF program, such as enforcement of business rules (such as the 60/40 rule), specific modernization guidelines, distribution of peacetime business, and a framework for communication, thus strengthening its management of the program, DOD cannot provide reasonable assurance that the CRAF program will meet its primary objective of providing critical airlift to support DOD operations.

Recommendations for Executive Action

To assist DOD with management of the CRAF program, we are making the following two recommendations for executive action.

First, to help DOD identify and analyze risks associated with achieving program objectives, we recommend that the Secretary of Defense direct the Commander, U.S. Transportation Command to

- Conduct risk assessments as outlined in DOD's National Defense Strategy that
 - evaluate the declining U.S. charter passenger capability by establishing the maximum and minimum acceptable risk for the CRAF program expressed in terms of numbers of charter passenger aircraft necessary to meet DOD requirements; and
 - evaluate the lack of an outsized cargo capability to supplement military capability and the extent to which the reliance on foreign owned carriers is appropriate;
- Develop appropriate policies and procedures for mitigating any identified risks.

Second, to strengthen the effectiveness of the critical partnership between DOD and the U.S. commercial air carrier industry and the management of the CRAF program to achieve its objectives, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology and Logistics (Transportation Policy) to develop policy that

- establishes enforcement guidelines for the basic CRAF business rules, to include intent, objectives, and measures of effectiveness mechanisms;
- establishes incentives, objectives and measures of effectiveness required to ensure modernization of the CRAF fleets;
- establishes and describes oversight mechanisms by which DOD will monitor how peacetime airlift business is distributed to ensure that its CRAF incentive program is working as intended; and
- establishes and describes the mechanisms by which DOD includes CRAF participants to provide comments on pending program decisions and in information sharing, and that includes objectives and measures of effectiveness of these activities.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD did not agree with our first recommendation to conduct risk assessments regarding the declining charter passenger capability and the lack of an outsized cargo capability as part of the Civil Reserve Air Fleet, but partially agreed with that part of the recommendation to develop policies and procedures to mitigate any identified risks. DOD agreed with our second recommendation to develop policy for aspects of the CRAF program. DOD's comments are reprinted in appendix II.

While DOD disagreed with our recommendation to conduct risk assessments, DOD agreed with the value of conducting a risk assessment on the declining U.S. charter passenger charter capability, stating that this has already been evaluated by the CRAF viability study conducted by IDA. DOD also stated that, based on the recommendations of the IDA study, DOD is already examining the declining passenger charter fleet and potential mitigation strategies. However, as we stated in our report, IDA's report included data that stopped at 2007 and did not include data regarding the 2008 business termination of a carrier that provided nearly 50 percent of the charter passenger capability available to DOD. Also, while the IDA report stated that the charter passenger industry may become marginal, data analysis that supported this statement did not establish the maximum and minimum acceptable risk for the CRAF

program. Therefore, we continue to believe that our recommendation to establish acceptable risk levels is still viable and important.

DOD also disagreed with the second part of our recommendation concerning the need to conduct a risk assessment on the lack of a CRAF outsized cargo capability, stating that the CRAF program is not intended to provide outsized cargo capability. In their comments, DOD stated that its use of foreign carriers to transport outsized cargo is a strategy to reduce costs, save military flying hours and flight crews for higher priority missions, reduce military footprint, or provide flexible contract length/timing. DOD also stated that it is not an indication of a shortfall in the DOD outsize cargo capability or the CRAF program. However, as we reported, DOD used foreign-owned carriers flying AN-124 aircraft to move high priority outsized cargo (MRAPs) into Iraq instead of the organic fleet of C-5s and C-17s. We did not state that there was a shortfall in either the CRAF program or DOD outsized capability. Rather, we point out that, if DOD is to know whether there is a shortfall, gap, or redundancy in that capability, particularly given the addition of over 15,000 MRAPs, they would need to do a risk assessment. We continue to believe that a risk assessment of this issue would give DOD specific information that would help it shape future strategic transportation requirements.

DOD partially agreed with the third part of our recommendation pertaining to the need to develop appropriate policies and procedures for mitigating any identified risks regarding the decline of charter passenger capability and lack of outsized cargo capability. DOD stated that U.S. Transportation Command is examining potential mitigation strategies for the declining U.S. passenger charter segment. However, during our review, we found no evidence that U.S. Transportation Command was developing policies and procedures to mitigate any risks associated with declining charter passenger capability and outsized cargo capability. DOD disagreed with the need to develop any mitigation strategies for an outsized cargo capability since CRAF is not intended to carry outsized cargo. As stated above, DOD's use of foreign-owned carriers to move outsized MRAPs would lead us to believe that there might be a future need for policies and procedures to mitigate any shortfall or gap.

DOD agreed that there is a need for comprehensive policy governing all of the CRAF program elements identified in our draft report. However, DOD did not identify what, if any, specific actions it would take in response to our recommendation. We encourage DOD to establish enforcement guidelines for CRAF business rules; objectives and measures of effectiveness for modernization; oversight mechanisms describing how

peacetime business should be distributed; and mechanisms for information sharing.

We are sending copies of this report to interested congressional committees; the Secretary of Defense; and the Under Secretary of Defense (Acquisition, Technology and Logistics). In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8365 or solisw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read 'W. Solis', with a long horizontal flourish extending to the right.

William M. Solis
Director, Defense Capabilities and Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Howard McKeon
Ranking Member
Committee on Armed Services
House of Representatives

Appendix I: Recent Department of Defense Studies

Sustaining the Civil Reserve Air Fleet (CRAF) Program, Institute for Defense Analyses, May 1, 2003.

Economic Review of the Civil Reserve Air Fleet (CRAF) Program, Institute for Defense Analyses, December 15, 2007.

Civil Reserve Air Fleet (CRAF) Study Report, Council for Logistics Research, July 13, 2008.

Civil Reserve Air Fleet: Economics and Strategy, Institute for Defense Analyses, August 22, 2008.

Appendix II: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

SEP 25 2009

Mr. William M. Solis
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-09-625 "MILITARY AIRLIFT: DoD Should Take Steps to Strengthen Management of the Civil Reserve Air Fleet Program," dated August 18, 2009 (GAO Code 351306). Detailed comments on the report recommendations are enclosed.

The Department non-concurs with the first recommendation. The Department does not agree that the lack of outsize capability in the CRAF program needs to be addressed. The Department partially concurs with the second recommendation, agreeing that USTRANSCOM should continue to develop mitigating strategies for the declining passenger charter capability. The Department concurs with the third recommendation.

My point of contact is Lt Col Michael Holmes, OADUSD(TP), at (703) 601-4461, extension 110.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Estevez".

Alan F. Estevez
Acting

Enclosure:
As stated

GAO DRAFT REPORT – DATED AUGUST 18, 2009
GAO CODE 351306/GAO-09-625

"MILITARY AIRLIFT: DoD Should Take Steps to Strengthen Management of the Civil
Reserve Air Fleet Program"

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Commander, U.S. Transportation Command to conduct risk assessments as outlined in DoD's National Defense Strategy that:

- Evaluate the declining U.S. charter passenger capability by establishing the maximum and minimum acceptable risk for the Civil Reserve Air Fleet (CRAF) Program expressed in terms of numbers of charter passenger aircraft necessary to meet DoD requirements; and
- Evaluate the lack of an outsized cargo capability to supplement military capability and the extent to which the reliance on foreign owned carriers is appropriate.

DOD RESPONSE: Non-concur. DoD agrees with the value of conducting a risk assessment on the declining U.S. charter passenger charter capability. This has already been evaluated by the Congressionally-mandated CRAF viability study conducted by the Institute for Defense Analyses (IDA) for DoD. The IDA study established the likely numbers of aircraft which would be left in the passenger charter segment in the post-OIF/OEF business environment. It also clearly described the likely impacts of a reduction in DoD business, including a greater potential for more frequent CRAF activations during future contingencies unless DoD devises new incentives for the scheduled passenger carriers to fill the gap in capability. Based on the recommendations of the IDA study, DoD is already examining the declining passenger charter fleet and potential mitigation strategies.

DoD disagrees with the recommendation to have the Commander, USTRANSCOM complete a risk assessment regarding the lack of outsize cargo capability in the CRAF program. The CRAF program is not intended to provide outsize cargo capability as DoD sizes its organic airlift fleet of C-5 and C-17 aircraft to meet anticipated peak oversize and outsize cargo requirements.

Foreign aircraft are contracted to carry outsize cargo as an operational strategy to reduce costs, save military flying hours and flight crews for higher priority missions, reduce military footprint, or provide flexible contract length/timing. It is not an indication of a shortfall in the DoD outsize cargo capability or the CRAF program.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Commander, U.S. Transportation Command to develop appropriate policies and procedures for mitigating any identified risks.

DOD RESPONSE: Partially concur. USTRANSCOM is examining potential mitigation strategies for the declining U.S. passenger charter segment. DoD disagrees with the recommendation to develop procedures for mitigating risks regarding the lack of outside cargo capability in the CRAF program, as CRAF is not intended to provide outside cargo capability, as described above.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology and Logistics (Transportation Policy) to develop policy that:

- Establishes enforcement guidelines for the basic CRAF business rules, to include intent, objectives, and measures of effectiveness mechanisms;
- Establishes incentives, objectives and measures of effectiveness required to ensure modernization of the CRAF fleets;
- Establishes and describes oversight mechanisms by which DoD will monitor how peacetime airlift business is distributed to insure that its CRAF incentive program is working as intended; and
- Establishes and describes the mechanisms by which DoD includes CRAF participants to provide comments on pending program decisions and information sharing and includes objectives and measures of effectiveness of these activities.

DOD RESPONSE: Concur. DoD agrees that there is a need for comprehensive policy governing all of the program elements identified in the GAO draft report.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William M. Solis, (202) 512-8365 or solisw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Ann Borseth, Assistant Director; Renee Brown; Jeremy Hawk; Jeffrey R. Hubbard, analyst-in-charge; Mae Jones; Karen Thornton; and Steve Woods made key contributions to this report.

Related GAO Products

MRAP Rapid Acquisition: Rapid Acquisition of Mine Resistant Ambush Protected Vehicles. [GAO-08-884R](#). Washington, D.C.: July 15, 2008.

Airline Deregulation: Reregulating the Airline Industry Would Likely Reverse Consumer Benefits and Not Save Airline Pension. [GAO-06-630](#). Washington, D.C.: June 9, 2006.

Commercial Aviation: Bankruptcy and Pension Problems Are Symptoms of Underlying Structural Issues. [GAO-05-945](#). Washington, D.C.: September 30, 2005.

Commercial Aviation: Legacy Airlines Must Further Reduce Costs to Restore Profitability. [GAO-04-836](#). Washington, D.C.: August 11, 2004.

Foreign Investment in U.S. Airlines: Issues Relating to Foreign Investment and Control of U.S. Airlines. [GAO-04-34R](#). Washington, D.C.: October 30, 2003.

Military Readiness: Civil Reserve Air Fleet Can Respond as Planned, but Incentives May Need Revamping. [GAO-03-278](#). Washington, D.C.: December 30, 2002.

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