THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET (CRAF) PROGRAM

(111–30)

HEARING

BEFORE THE

SUBCOMMITTEE ON
AVIATION

OF THE

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TRANSPORTATION AND
INFRASTRUCTURE
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May 8, 2009

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Aviation

FROM: Subcommittee on Aviation Staff

SUBJECT: Hearing on "The Economic Viability of the Civil Reserve Air Fleet Program"

PURPOSE OF HEARING

The Subcommittee on Aviation will meet at 10:00 a.m. on Wednesday, May 13, 2009, in Room 2167 Rayburn House Office Building to receive testimony on the Economic Viability of the Civil Reserve Air Fleet Program.

BACKGROUND

The Civil Reserve Air Fleet (CRAF) is a voluntary program through which the nation's passenger and cargo airlines provide stand-by commitments to support the mobilization of troops and equipment in the event of a major military contingency. The CRAF program was established in 1951 by President Truman to augment the Department of Defense's (DOD) fleet of military transport aircraft during times of high demand for airlift services.

In 1987, President Reagan issued the National Airlift Policy, which declared that military and commercial resources are "equally important" and "interdependent" in meeting wartime airlift requirements:

> The commercial air carrier industry will be relied upon to provide the airlift capability required beyond that available in the organic military airlift fleet. It is therefore the policy of the United States to recognize the interdependence of military and civilian airlift capabilities in meeting wartime airlift requirements, and to protect those national security interests contained within the commercial air carrier industry.[1]

[1] National Airlift Policy, National Security Decision Directive 280 (June 24, 1987).

According to the U.S. Transportation Command (USTRANSCOM), during a period of national mobilization (i.e., if the military had to fight more than one major theater war at the same time or operate in a larger crisis), CRAF would meet approximately 93 percent of DOD's passenger and approximately 37 percent of DOD's cargo requirements.

CRAF is also an extremely cost effective program. A 1994 RAND study stated that, at that time, replacing the CRAF capability with military aircraft would have cost DOD about $1 billion to $3 billion annually over the past thirty years.[2] This equates to a $30 billion to $90 billion cost avoidance reported in 1994 dollars. USTRANSCOM, using Office of Management and Budget cost-of-living figures, estimates the cumulative total in 2009 dollars to be in the range of $43 billion to $128 billion in cost avoidance.

Under the CRAF business model, U.S. commercial air carriers contractually commit aircraft and air crews to be activated for use by DOD, at predetermined rates, during times of crisis. In exchange for that commitment, DOD makes "CRAF peacetime business"[3] available to carriers that participate in the program. Carriers are entitled to peacetime business in proportion to the mobilization capacity that they have committed to the program. Most peacetime CRAF missions are flown by charter airlines that share revenue with large scheduled airlines and integrated cargo carriers (e.g., Federal Express (FedEx) and United Parcel Service (UPS)), which have the greatest entitlement to CRAF business because of their committed capacity (these arrangements are known as "teaming arrangements," which are explained further below).

CRAF has been formally activated only twice: the first instance occurred for Operations Desert Shield/Storm from August 18, 1990, through May 24, 1991; the second activation, during Operation Iraqi Freedom, lasted from February 8, 2003, through June 18, 2003.[4] However, since September 11, 2001, the annual business tendered to CRAF carriers has been more than four times the average annual CRAF business prior to September 11. As required by section 356 of the Fiscal Year (FY) 2008 National Defense Authorization Act (P.L. 110-181), the Institute for Defense Analyses (IDA) published a report on CRAF last August, in which it stated:

> Projected CRAF mobilization commitments from the large scheduled carriers will meet planning targets in DOD warplans. Both cargo and passenger charter airlines will provide capacity sufficient to meet DOD's ongoing requirements in support of OIF, OEF, and other routine operations. However, given the long-term downward trend in the commercial passenger charter business [as well as a projected decrease in military business], action will likely be needed to ensure sufficient DOD access to passenger airlift capacity to meet unexpected surges in military requirements without requiring activation of CRAF.[5]

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[2] RAND, Finding the Right Mix of Military and Civil Airlift, Issues and Implications Volume 1. 21 (1994).
[3] The term "CRAF peacetime business" generally refers to DOD charter cargo and passenger airlift contracts required to meet DOD's airlift needs outside of formal CRAF activation. So while the U.S. is currently engaged in armed conflict in both Iraq and Afghanistan, airlift contracts in support these operations (and elsewhere) are still often referred to as "peacetime business."
[4] William Knight and Christopher Bolkcom, CRS Report for Congress: Civil Reserve Air Fleet (CRAF) 3 (2008).
[5] The Institute for Defense Analyses, Civil Reserve Air Fleet: Economics and Strategy ES 1(2008).

A July 2008 report by the Council for Logistics Research (CLR)[6] and an October 2007 Congressional Budget Office (CBO)[7] report also both expressed concerns that an anticipated decrease in DOD commercial airlift requirements, due to the winding down of Middle East operations, could adversely impact CRAF carriers. Passenger charter carriers in particular, which have experienced a shrinking civilian commercial market and which provide over 90 percent of DOD's peacetime passenger airlift (in FY 2008, six passenger charter airlines provided 93 percent of DOD's passenger airlift, three of which provided 77 percent), would be particularly vulnerable.[8]

Should the passenger charter industry continue to decline, or even disappear, the immediate effect would be airlift shortfalls and delays within the DOD transportation system. This concern was heightened last April when ATA Airlines (ATA), which at the time provided approximately 10 percent of DOD's passenger airlift, declared bankruptcy and abruptly ceased operations resulting in temporary service delays of two to six days. In the longer-term, as IDA suggests, DOD may become more reliant on CRAF activations to meet passenger airlift requirements. In turn, more frequent CRAF activations could potentially have a disruptive affect on scheduled airlines and adversely impact long-term CRAF participation.

IDA put forward a series of recommendations as part of an overall "assured supply model," the thrust of which is to improve CRAF incentives and business practices to assure the industry's long-term commitment to DOD's peacetime, surge and mobilization requirements. Section 1033 of the FY 2009 National Defense Authorization Act (FY 2009 NDAA) (P.L. 110-417) provides USTRANSCOM with "assured business" authority to further incentivize the CRAF program by enabling USTRANSCOM to increase the amount of guaranteed business it offers CRAF carriers each year. In addition, the FY 2009 NDAA requires the Secretary of Defense to incentivize CRAF carriers to use newer, more efficient aircraft and to improve the predictability of DOD charter requirements. USTRANSCOM is reviewing and taking action to respond to both IDA's recommendations and the requirements of the FY 2009 NDAA.

I. The Structure of the CRAF Program

Thirty-four carriers (1,083 aircraft) participate in the CRAF program. All CRAF participants must be U.S. carriers fully certified by the Federal Aviation Administration (FAA), and meet the standards of the Federal Aviation Regulations pertaining to commercial airlines found in 14 Code of Federal Regulations (C.F.R.) part 121. Moreover, all carriers must demonstrate that they have provided substantially equivalent and comparable commercial service for one year before submitting their offer to fly for the DOD.

In addition to maintaining certification as a part 121 air carrier, CRAF participants must also undergo a comprehensive onsite technical evaluation that assesses an air carrier's ability meet all DOD Quality and Safety requirements, as outlined in title 32 C.F.R. part 861. After it is determined an air carrier meets all requirements, the carrier is approved by the Commercial Airlift Review Board to provide air transportation services to the DOD.

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[6] Council for Logistics Research, Inc., Civil Reserve Air Fleet Study Report (2008).
[7] Congressional Budget Office, Issues Regarding the Current and Future Use of the Civil Reserve Air Fleet (2007).
[8] *Id.* at 6; *see also*, IDA *supra* note 5 at ES 1.

To join CRAF, a carrier must commit at least 30 percent of its CRAF-capable passenger fleet, and 15 percent of its CRAF-capable cargo fleet. Air carriers must also commit and maintain at least four complete crews for each aircraft in CRAF (crew members must be U.S. citizens not encumbered with military commitments - i.e., military reservists).[9]

CRAF has three main segments: international, national, and aeromedical evacuation. Assignment of aircraft to a segment depends on the nature of the requirement and the aircraft performance characteristics needed:

- **International**: Most of the aircraft in the CRAF are committed to the international segment, which is further divided into the long-range and short-range sections. The long-range international section consists of commercial airliners capable of transoceanic operations (a range of at least 3,500 nautical miles (nm)). Medium-sized passenger and cargo aircraft make up the short-range international section supporting near offshore airlift requirements.

- **National:** The much smaller national segment of the fleet also has two sections: a domestic section for most transportation within the U.S. and a small Alaska section that provides airlift within U.S. Pacific Command's area of responsibility, specific to Alaska needs. The domestic section includes only passenger aircraft, and the Alaskan section, only cargo aircraft.

- **Aeromedical Evacuation**: The aeromedical evacuation segment assists in the evacuation of casualties from operational theaters to hospitals in the continental U.S. Kits containing litter stanchions, litters, and other aeromedical equipment are used to convert civil Boeing 767 passenger aircraft into air ambulances.[10]

The commander of USTRANSCOM, with the concurrence of the Secretary of Defense, has the authority to activate CRAF, which can be called up incrementally in three stages. During a crisis, if the U.S. Air Force Air Mobility Command (AMC) has a need for additional aircraft, it would request the USTRANSCOM commander to take steps to activate the appropriate CRAF stage. Each stage of the CRAF activation is only used to the extent necessary to provide the amount of civil augmentation airlift needed by DOD:[11]

- **Stage I** covers minor operations or operations in which adequate time is available so that a small augmentation of the military's fleet is sufficient to move the required people or cargo. A Stage I CRAF activation of long-range international cargo and passenger aircraft occurred from August 1990 to January 1991 in support of Operation Desert Shield, and a Stage I activation of long-range international passenger aircraft occurred from February to June 2003 in support of Operation Iraqi Freedom.

- **Stage II** is tailored for a major theater war that requires rapid deployment of forces. From January through late-May 1991, the long-range international segment was activated to Stage

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[9] U.S. Air Force (USAF), CRAF: Fact Sheet, July 2007, at http://www.af.mil/factsheets/factsheet.asp?id=173.
[10] *Id.*
[11] *Id.*

II for both passenger and cargo aircraft in support of Operation Desert Shield/Desert Storm.

- **Stage III** is a period of national mobilization. A Stage III CRAF activation has never occurred. It was seriously considered after the Desert Storm air war began, in late January 1991, but was rendered unnecessary by the short duration of the conflict.[12]

When notified of a call-up, the carrier response time to have its aircraft ready for a CRAF mission is 24 to 48 hours after the mission is assigned by AMC. Carriers continue to operate and maintain the aircraft with their resources; however, AMC controls the aircraft missions.[13]

Aircraft in the Different Stages and Segments of CRAF

CRAF Stage			I	II	III
International	Long	Passenger	43	123	458
		Cargo	31	73	232
	Short	Passenger		10	292
		Cargo		11	24
National	Domestic	Passenger		23	36
		Cargo			0
	Alaskan	Passenger			
		Cargo		2	2
Aeromedical Evacuation				25	39
TOTAL			74	267	1083

Source: USTRANSCOM

II. CRAF and the Industry

a. Contractual Relationship: Mobility Value (MV) Points, Entitlements, Rate Structure and Other Incentives

To incentivize CRAF participation, the DOD's $2.5 billion a year peacetime charter airlift business for moving personnel and cargo, is allocated exclusively among participating carriers. A CRAF carrier earns "entitlements" to peacetime business in direct proportion to the capacity that carrier commits, as measured by MV points, vis-à-vis the total mobilization commitments provided to the government.

Upon acceptance, the CRAF carrier's aircraft are assigned MV points and are assigned to a specific segment of the program. MV is based on the range, payload, and productive utilization rate of aircraft compared to the baseline aircraft, the Boeing B-747-100. MV point bonuses are awarded for aircraft assigned to CRAF Stage I, the Air Evacuation segment and for certain range and payload

[12] CBO, *supra* note 7, at 3.
[13] USAF, *supra* note 10.

characteristics.[14] According to USTRANSCOM officials, the Command will revise the MV point process in FY 2010 to give even more points to those aircraft in Stage I. The new system will further incentivize carriers to commit aircraft to Stage I where there is a higher risk of activation.

The current ratemaking procedure sets rates separately for several classes of aircraft (e.g., large, medium and small passenger aircraft; large, medium, and combination cargo aircraft). Within each class, a rate is established based on:

- The prior year's average operating costs of the aircraft serving that class (weighted by each aircraft's share of revenues in the class);
- Escalation clauses adjusted for fuel prices; and
- A rate of return based on the larger of either: 1) 10 percent of average operating costs; or 2) 11 percent of invested capital (prorated to the share of business a specific aircraft does for DOD). Rates of return are paid out in fees; participating airlines are currently earning about $250 million in fees.[15]

In addition to CRAF peacetime business, other incentives for CRAF participation include:

- **The Fly America Act (49 U.S.C. § 40118),** which requires the use of U.S. carriers to transport personnel and goods if the government pays for such transportation, and the service is: *available*, if between the U.S. and a place outside the U.S.; or, *reasonably available*, if between two places outside the U.S.. Exceptions are authorized if pursuant to bilateral and multilateral agreements.

- **The Fly CRAF Act (49 U.S.C. § 41106)**, which requires all DOD agencies to use CRAF carriers if the service is: *available*, if between two places inside the US; *available*, if between the U.S. and a place outside the U.S.; or, *reasonably available*, if between two places outside the U.S..

- **The General Services Administration (GSA) City Pair Program** that provides approximately $2.4 billion a year in business to CRAF carriers. The GSA city pairs program is an annual contract with commercial scheduled airlines for official government-wide travel that provides individual ticketed passenger seats at discounted airfares on over 5,000 routes. CRAF participation is a prerequisite for contract award. Since most scheduled service airlines do not want to participate in peacetime charter business, the GSA City Pairs program provides an additional incentive for scheduled airlines to participate in CRAF.

- **The DOD's Worldwide Express Cargo (WWX)** program provided approximately $115 million in business to CRAF carriers in FY 2008. WWX is for international small package express door-to-door delivery of urgent letters and packages weighing up to and including 300 lbs. In addition, **DOD Tenders** cargo program for international heavyweight (more than 301 lbs.) freight delivery provided $417 million in business to CRAF carriers in FY 2008.

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[14] CLR, *supra* note 6, at 19.
[15] IDA, *supra* note 5, at 13.

b. Teaming Arrangements

Scheduled carriers, which provide the bulk of CRAF mobilization capacity commitments (thus earning the most entitlements to DOD business), are not well organized to operate charter flights, which make up the bulk of CRAF peacetime demand. Therefore, industry teaming arrangements are a major feature of the CRAF program. The charter airlines (such as Omni Air International, Gemini, North American, Evergreen International, Polar, ASTAR, and Atlas) that currently provide over 95 percent[16] of the CRAF peacetime flying are teamed with major, scheduled airlines and integrated cargo carriers (such as United, American, Delta, Northwest, Alaska, FedEx, and UPS that provide most of the mobilization commitments (83 percent in 2006).[17]

According to USTRANSCOM, three industry teams currently handle approximately 90 percent of CRAF peacetime business: the Alliance team, managed by Evergreen International and World Airways, handles approximately 43 percent; a team led by FedEx handles between 38 percent and 39 percent; and a team led by UPS handles approximately 9 percent.

CRAF Carriers and Teams[18]

Alliance Team	FEDEX Team	UPS Team	Independents
American Airlines	Air Transport Int'l	ABX Air	AirTran Airways*
Arrow Air	Atlas Air	Alaska Airlines	Allegiant Air*
ASTAR Air Cargo	Northwest Airlines	Kalitta Air	Continental Airlines
Delta Air Lines	Omni Air Int'l	National Air Cargo	Frontier Airlines*
Evergreen Int'l	Polar Air Cargo	Ryan Int'l Airlines	Hawaiian Airlines
North American	Tradewinds Airlines	Southern Air	JetBlue Airways
United Airlines	Federal Express	United Parcel Service	Lynden Air Cargo
US Airways			Miami Air Int'l
World Airways			MN Airlines
			Northern Air Cargo
			Southwest Airlines*

Source: USTRANSCOM

Airlines are free to form teams, join teams, or operate independently.[19] Teaming agreements are negotiated annually, and the composition of teams changes yearly. Through teaming arrangements, charter carriers effectively pay commissions from the fees they earn to the scheduled

[16] *Id.* at ES-2.
[17] *Id.*
[18] Asterisk represents aircraft committed to the national segment only.
[19] Independent carriers often sell MV points to one of the three teams. For example, the FedEx team has purchased the MV points earned by Continental Airlines and Hawaiian Airlines. CLR, *supra* note 6, at 29.

carriers for their entitlements to DOD business.[20] Scheduled carriers, in turn, do little peacetime CRAF flying, but are accepting the risk that their aircraft will be activated in exchange for payments from their other team members.

DOD does not regulate fee sharing within CRAF teams. However, DOD does hold team members jointly and severally liable for: 1) Mission Award – the actual peacetime CRAF flights that contractors have committed to; 2) CRAF Commitment – aircraft obligated to perform by carriers during a formal activation of CRAF Stages I, II or III; 3) and Schedule Reliability – USTRANSCOM requires an 85 percent on-time departure rate, and if a contractor does not perform, contractual remedies can be sought against other team members.

IDA notes that CRAF teams are generally composed of both cargo and passenger carriers, and that this system has evolved to grant CRAF teams maximum flexibility in obtaining and using MV points.[21] IDA states that teams may need to specialize in either passenger or cargo services, and that doing so would provide greater depth and more assured service should one team member cease operations or otherwise not meet its service commitments.[22] According to IDA, its point was demonstrated last year when ATA declared bankruptcy in April and abruptly ceased passenger operations. The team leader FedEx, a cargo carrier, was unable to quickly muster replacement aircraft from within the team resulting in shortfalls and service delays of two to six days for several weeks.[23]

USTRANSCOM officials generally support teaming arrangements, stating that they provide large carriers the incentives they need to enroll large numbers of their aircraft into the CRAF program. USTRANSCOM officials also believe that the teams, as currently structured, have sufficient depth to absorb mission award shortfalls should one team member cease operations. With regard to the ATA bankruptcy, USTRANSCOM officials believe the Command's ability to work with carriers to fill airlift gaps over a period of weeks actually demonstrated its strong partnership with industry to support the members of the armed forces.

c. Fixed Buy, Expansion Buy and Assured Business

CRAF peacetime business is divided into a "fixed buy" and an "expansion buy." The fixed buy covers airlift support that can be specifically identified for the coming year. For example, a base in Germany might require a known number of transport flights each week to carry out its routine operations. The expansion buy covers other airlift needs that may arise, especially support for contingency operations, for which specific requirements are not known in advance.[24]

The distinction between the fixed buy and the expansion buy is important because the government guarantees payments to CRAF program participants in the amount of the fixed buy at the beginning of each fiscal year. Those guaranteed minimum payments are a particularly attractive incentive to carriers to participate in CRAF because they can count on those funds in formulating their annual business plans.[25]

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[20] IDA, *supra* note 5, at 2.
[21] *Id.* at 8.
[22] *Id.*
[23] *Id.*
[24] CBO, *supra* note 7, at 4.
[25] *Id.*

To strengthen this incentive, USTRANSCOM sought and obtained "assured business" authority in the FY 2009 NDAA. With this authority, USTRANSCOM can increase the contract guaranteed minimum past the level of the fixed buy in years with excessively low requirements. Specifically, DOD can base its annual guaranteed minimum on forecasts, up to 80 percent of its average annual expenditure for charter air transportation services during the previous five years (omitting years of unusually high demand). Because this would allow guaranteed payments to be based on expected rather than known requirements, the government would run some risk of having to pay for services that it might not use.[26]

As an initial benchmark, USTRANSCOM officials indicate that the Command will seek to maintain a guaranteed minimum payment of approximately $400 million per year. Due to continued high wartime requirements, USTRANSCOM will not exercise the assured business authority in FY 2010, which will have requirements estimated to exceed $2.3 billion. It is worth noting that USTRANSCOM projects a sharp decline in CRAF peacetime business around FY 2012.

(in $ millions)

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09[27]	FY10	FY11	FY12
Fixed	347.4	504.8	439.7	424.0	274.1	395.8	583.0	377.0	346.1	650.0	663.0	265.0
Expansion	216.4	775.5	1922.0	1554.1	2148.9	2052.2	2000.0	3040.0	1826.3	1653.0	1684.0	671.0
Total	563.8	1280.3	2361.7	1978.1	2423.0	2448.0	2583.0	3417.0	2172.4	2303.0	2347.0	936.0

Source: USTRANSCOM

As part of its "assured supply model," IDA recommended DOD adopt multi-year contracting to strengthen its assured business to, and lock-in multi-year supply commitments from, CRAF carriers.[28] At least one integrated cargo carrier has expressed concerns with this proposal, stating that requiring a carrier to commit to the potential activation over multiple years (as opposed to the current 18 month periodic commitment) would present too much risk and could have a detrimental impact on the program. In any case, multi-year contracting would require additional legislative authority and improved forecasting capability. Section 1033 of the FY 2009 NDAA also requires DOD to improve the predictability of charter airlift requirements. USTRANSCOM is conducting a process review with the goal of improving its forecasting ability.

d. Passenger Charter Airlines

DOD's peacetime passenger airlift capability is highly concentrated among a small group of passenger charter airlines. According to USTRANSCOM, in FY 2008, six passenger charter airlines provided 93 percent of DOD's passenger airlift, three of which provided 77 percent.[29]

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[26] *Id.* at 2.

[27] FY 2009 through April 20, 2009.

[28] IDA, *supra* note 5, at 18.

[29] FY 2008 Percentage of DOD Passenger Lift: ATA Airlines (no longer in operation) - 9.85 percent; Miami Air - 1.75 percent; North American - 23.69 percent; Omni Air - 23.98 percent; Ryan International - 4.85 percent; World Airways - 29.15 percent; Passenger Charter Carrier Total - 93.27 percent.

In the last few years, passenger charter airlines have faced a shrinking civilian charter market. According to the Bureau of Transportation Statistics, between 2003 and 2008, U.S. passenger charter airlines have reduced civilian commercial system capacity (as measured by available seat miles) by 47 percent and civilian revenue passenger traffic (as measured by revenue passenger miles) for these airlines has declined 50 percent.

Industry observers note that in the past, vacation travelers frequently used travel agents and indirect air carriers (i.e., charterers) to plan and book complete vacation packages, often to destinations with high seasonal demand. These charterers, in turn, hired charter airlines as their partners to provide the air transportation part of the vacation package. The growth of low-cost scheduled airlines offering flights to popular tourist destinations like Mexico, and the use of the Internet for direct access to these flights, has resulted in vacationers migrating away from passenger charters to low-cost scheduled airlines. To stay competitive, indirect air carriers are also increasingly purchasing blocks of seats on scheduled airlines instead of chartering the entire capacity of an aircraft since it is less expensive.

These structural changes combined with other macro-economic effects such as the fuel shock of late-2007/2008 and the current economic crisis have all combined to significantly reduce the size of the civilian charter passenger industry. At the same time, the DOD operations in Iraq and Afghanistan have created significant opportunities for these charter airlines. However, as the DOD prepares for the eventual draw down of military activities, there is a concern as to whether some of these carriers have become too dependent on CRAF business, and therefore are particularly vulnerable in a post-Iraq/Afghanistan environment. Should this segment of the industry continue to decline, or even disappear, DOD may become more reliant on CRAF activations to meet passenger airlift requirements. In turn, more frequent CRAF activations could potentially have a disruptive affect on scheduled airlines and adversely impact long-term CRAF participation.

To provide a "soft landing" for passenger charter carriers in the post - Iraq/Afghanistan environment, USTRANSCOM may expand its Patriot Express (PE) network of regularly scheduled DOD passenger missions flown by charter carriers. In peacetime, PE represents the bulk of USTRANSCOM's CRAF contract "fixed buy" for charter passenger carriers. USTRANSCOM is researching means for improving the financial conditions under which PE missions must operate, in the hope of increasing the amount of peacetime business that will be available to charter passenger carriers.

e. The "60/40 Rule"

DOD has maintained a long-standing policy that no more than 40 percent of a CRAF carrier's revenues should come from the government. This policy is commonly referred to as the "60/40 Rule." Carriers that exceed the 40 percent threshold may be penalized by having their MV points reduced commensurate to the percentage exceeded - effectively lowering the limit on the amount of DOD's business they would be entitled to in subsequent years.

According to IDA, DOD aggregate revenues in 2006 represented 30 percent of the market for the cargo charter airlines.[30] However, DOD revenues accounted for 55 percent of the total revenues across all of the passenger charter markets.[31] So, in the aggregate, the passenger

[30] IDA, *supra* note 5 at 9.

charter airlines were not meeting the 60/40 Rule.[32] According to USTRANSCOM, five carriers exceeded 40 percent in FY 2009: Evergreen International, Lynden Air Cargo, Omni Air International, North American and World Airways.

IDA recommends suspending the 60/40 Rule, stating that the strict enforcement of the 60/40 Rule would require DOD to seek other carriers to meet its current contingency requirements, which would cause at least a temporary disruption to the efficient movement of forces overseas. In addition, IDA states that enforcement of this rule could also result in the carriers going out of business.[33]

According to IDA, the original rationale behind the 60/40 Rule is that carriers with a large commercial presence face competitive pressures to improve efficiency, reliability, customer service and safety, and that this rationale is outdated:

> DOD's original concern, 40 years ago, was that "fly-by-night" operators that had no aircraft and no flying history could obtain DOD contracts and then run out and lease aircraft and start an "airline." There is nothing like that occurring now, nor has this occurred in recent history, and should the issue arise it can be prevented easily without the use of the 60/40 rule. With respect to safety, charter airlines are required to maintain their aircraft to the same FAA safety standards as scheduled airlines. No distinction is made in the FAA safety regulations between carriers flying CRAF versus commercial charter vs. scheduled passengers. In addition, the [Secretary of Defense] has directed the Commander of USTRANSCOM to ensure the safety of air carriers supporting DOD.[34]

However, USTRANSCOM officials note that another rationale behind the rule is to ensure that individual participants do not rely too heavily on the DOD's peacetime business because a carrier that dedicated a large portion of its capacity to DOD during peacetime would have little additional capacity to contribute to a wartime surge. USTRANSCOM will retain the 60/40 Rule, but will consider suspending it during periods of high operations tempo (i.e., during a high rate of commercial contracted missions).

USTRANSCOM officials are also considering using block hours (i.e., the amount of time between the moment the aircraft begins moving from the point of origin and the moment it stops moving at the destination) instead of revenue to calculate the 60/40 Rule. According to USTRANSCOM officials, using block hours, which would reflect aircraft usage during a given contract, will more accurately reflect the amount of business a company does with DOD in relation to its commercial business.

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[31] *Id.*
[32] *Id.*
[33] *Id.*
[34] *Id.*

f. Aircraft Utilization and Fuel Efficiency

Aircraft utilization is a measure of productivity and is given in revenue aircraft hours flown per available aircraft day (or month). IDA states, and USTRANSCOM acknowledges, that DOD charter aircraft have lower utilization rates than commercial charter aircraft.

The FY 2009 NDAA requires the Secretary of Defense to incentivize carriers to use newer, more efficient aircraft. IDA notes that low utilization rates make it more economical to use older aircraft, whose high hourly operating costs are more than offset by low capital costs. If higher utilization rates could be obtained, carriers would have improved incentives to use more modern aircraft that cost less to operate and whose higher capital costs could be spread over a larger number of flight hours.[35]

According to USTRANSCOM officials, lower CRAF aircraft utilization rates result largely from the fact that ground times are typically longer on CRAF missions than for comparable commercial flights. An aircraft that spends more time on the ground versus in the air will have a lower utilization over the long run. The primary reason for low CRAF utilization is because unlike commercial flights, which occur between airports that the airline industry controls, CRAF missions often transit bases that are not controlled by AMC. As a result, ground times are affected by a number of functions that are not totally under the control of AMC.

USTRANSCOM officials state that the Command will undertake several measures to reduce ground times and increase aircraft utilization rates. For example, from July to September 2009, USTRANSCOM will test extended range cargo missions with non-stop 5,000 nm service. This will eliminate the en route fuel stop and associated ground time. In addition, USTRANSCOM has begun implementing process improvements, such as concurrent servicing (i.e., fueling aircraft while passengers are on board) at some airfields, which has resulted in reducing ground times by at least 30 minutes.

III. Other Issues

a. Man Portable Air Defense Systems (MANPADS)

Shoulder-fired surface-to-air missiles (SAMs), also known as MANPADS (man-portable air defense systems) were developed in the late 1950s to provide military ground forces protection from enemy aircraft.[36] Published estimates on the number of missiles presently being held in international military arsenals range from 350,000 to 500,000.[37] Moreover, other unclassified estimates suggest that between 25 and 30 non-state groups also possess MANPADS.[38]

According to the National Air Carriers Association (NACA), whose members include CRAF carriers, CRAF carriers are increasingly flying missions into conflict areas like Iraq and Afghanistan.

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[35] *Id.*

[36] Christopher Bolkcom and Bartholomew Elias, CRS Report for Congress: Homeland Security -Protecting Airliners from Terrorist Missiles 1 (2006).

[37] *Id.* at 3.

[38] *Id.* at 4.

Therefore, NACA has proposed that the government establish an evaluation program whereby 10 CRAF aircraft would be outfitted with counter-MANPADS technology, which it estimates would cost approximately $20 million.

USTRANSCOM officials acknowledge more CRAF passenger missions are being flown into Iraq because of the decrease in threat conditions. In addition, USTRANSCOM officials state that using CRAF to transport cargo and passengers directly into Iraq and Afghanistan reduces tasking of C-17's that would otherwise bring cargo and passengers into those countries from external hubs. USTRANSCOM officials do not envision a requirement for CRAF aircraft to be equipped with counter-MANPADS technology. According to USTRANSCOM, CRAF charter missions fly only to locations that have been vetted and selected based on threat assessments and force protection requirements. CRAF aircraft do not fly into known MANPAD threat areas.

To date, with the exception of NACA, airline groups have, for several reasons, generally opposed the concept of equipping commercial aircraft with counter-MANPADS technology. Airline groups believe that the technology, as it exists, must be repaired or refurbished too often to be compatible with commercial use; and that the associated maintenance and logistical infrastructure would make it cost prohibitive. The Department of Homeland Security (DHS) is in the final "in-service" evaluation phase of a multi-year program to demonstrate the feasibility of reengineering and migrating military technologies to protect commercial aircraft against MANPADs. Specifically, DHS is testing two Direct Infrared Countermeasures (DIRCM – an infrared device that jams missile guidance systems) manufactured by Northrop Grumman Corp. and BAE Systems. DHS is expected to report its findings to Congress later this year.

WITNESSES

PANEL I

General Duncan J. McNabb, USAF
Commander, United States Transportation Command
Scott Air Force Base

PANEL II

Mr. Frederick W. Smith
Chairman and CEO
FedEx Corporation

Mr. Robert K. Coretz
Chairman
Omni Air International, Inc.

Mr. Brian Bauer
President
Evergreen International Airlines, Inc.

Mr. William J. Flynn
President and Chief Executive Officer
Atlas Air Worldwide Holdings, Inc

Mr. Thomas E. Zoeller
President and CEO
National Air Carrier Association

Dr. David R. Graham
Deputy Director
Strategy Forces and Resources Division
Institute for Defense Analyses

HEARING ON THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET PROGRAM

Wednesday, May 13, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, the Honorable Jerry F. Costello [chairman of the Subcommittee] presiding.

Mr. COSTELLO. The Subcommittee will come to order. We apparently have the sound system and everything in order, we hope.

That is a first, General, I have to tell you, since we have remodeled the room and have a new sound system.

The Chair will ask all Members, staff, and everyone to turn electronic devices off or on vibrate.

The Subcommittee is meeting today to hear testimony on the economic viability of the Civil Reserve Air Fleet program.

First, I will give a brief opening statement; call on the Ranking Member, Mr. Petri, for any statement that he would like to make or brief comments; then we, of course, will go to our first witness, General McNabb.

I welcome everyone to the Aviation Subcommittee hearing on the economic viability of the Civil Reserve Air Fleet, or CRAF.

President Truman established the CRAF program in 1951 to augment the Department of Defense's airlift capability when there is a high demand for airlift. Under CRAF, U.S. carriers voluntarily pledge aircraft and crews to support the mobilization of troops and equipment for predetermined rates. In return, DOD offers several incentives, including exclusive access to charter cargo and passenger airlift business, often called peacetime business, when CRAF is not formally activated.

Currently, 34 U.S. air carriers have committed almost 1100 aircraft to the program. During a major war, CRAF carriers are expected to meet approximately 93 percent of DOD's passenger and approximately 37 percent of DOD's cargo requirements. It is important that everyone is aware of the vital role that the air transportation industry plays in our national security.

I would like to welcome General Duncan McNabb, the Commander of the U.S. Transportation Command, headquartered at Scott Air Force Base in the congressional district that I am privileged to represent, who is responsible for managing the CRAF program.

For over 50 years, the CRAF program has been an extremely successful government and industry partnership. The CRAF program meets the military's mobilization requirements while saving taxpayers billions of dollars by foregoing the cost of procuring a government fleet to meet those requirements.

USTRANSCOM, citing a 1994 RAND study, estimates the cumulative cost of volumes associated with the program as high as $128 billion in 2009 dollars.

General McNabb, I think you will find bipartisan support for the CRAF program here in this Subcommittee, the Full Committee, and in the Congress.

In 2007, Chairman Oberstar and Ranking Member Mica, Mr. Petri, and I sent a letter to Chairman Skelton, the Ranking Member, and to the Ranking Member, Mr. Duncan Hunter, of the House Armed Services Committee, in support of the USTRANSCOM assured business proposal. This proposal would authorize DOD to guarantee a higher minimum level of peacetime business for CRAF participants.

In fiscal year 2009, we were successful in getting this assured business authority provision included in the annual Defense Authorization Act, and it will be an effective incentive for air carriers to commit aircraft to the CRAF program.

Last August, the Institute for Defense Analyses published a report on the CRAF program in response to a fiscal year 2008 National Defense Authorization Act. While IDA concluded that CRAF is a vigorous program capable of meeting DOD requirements, it also expressed some concerns that, as the operations in the Middle East begin to decrease, it could adversely impact CRAF carriers. Passenger charter carriers, which have experienced a shrinking civil commercial market, would be particularly vulnerable. I look forward to hearing from our witnesses what additional steps can be taken to strengthen this program.

Chairman Oberstar, Ranking Member Mica, Ranking Member Mr. Petri, and I are well aware of the importance of a well equipped CRAF program. It is essential to supporting our national security interest and helping our aviation industry remain competitive globally. I am committed to working to improve and strengthen this successful partnership to ensure its future viability.

Before I recognize Mr. Petri for his opening statement, I would ask unanimous consent to allow two weeks for all Members to revise and extend their remarks, and to permit the submission of additional statements and materials by Members and witnesses. Without objection, so ordered.

At this time, the Chair now recognizes the Ranking Member of the Subcommittee, Mr. Petri.

Mr. PETRI. Thank you very much, Mr. Chairman. I am pleased to join with you in welcoming our witnesses here today as we consider the viability of the Civil Reserve Air Fleet program.

The Civil Reserve Air Fleet program is a voluntary contractual arrangement between the Department of Defense and privately owned and operated U.S. airlines. In order to support the mobilization of troops and equipment during times of need, U.S. airlines voluntarily provide standby commitments of aircraft and crews. In return, the Defense Department provides incentives through the

Civil Reserve Air Fleet program peacetime business. The idea is simple and the program is and has been very successful.

The Civil Reserve Air Fleet program was created by President Harry Truman back in 1951, and in 1987 President Reagan affirmed its importance. The Civil Reserve Air Fleet program has been activated only twice since its inception. However, since 9/11, the Department of Defense has become increasingly reliant on the peacetime provisions of airlift by the Civil Reserve Air Fleet program's air carriers.

As we all know, the aviation industry is constantly changing; the market changes and the industry reacts. Volatile fuel prices, shrinking credit markets, growing debt and pension obligations, and the impact of the current global recession on air travel have impacted the airline industry in numerous ways.

The U.S. passenger airline industry lost $4.3 billion in the first three quarters of last year. Demand for commercial passenger charter flights has dwindled. At the same time, U.S. airlines have reduced domestic capacity by 9 percent from 2007 to 2008, and airlines have also reduced active fleet aircraft by some 18 percent.

The question is, how have these changes in the airline industry impacted the Civil Reserve Air Fleet program? I am interested in the status of the program in light of the dramatic changes in the marketplace. As General McNabb states in his written testimony, a robust commercial air industry is vital for our national defense. I am also interested in learning from today's witnesses what changes or improvements they believe will help the continued viability of the Civil Reserve Air Fleet program.

The Civil Reserve Air Fleet program is a great example of a public-private partnership. It has seen us through 58 years and numerous crises. Its success should be applauded and learned from, and if we can improve this already successful program, then we need to know what can be done.

So I thank all of our witnesses for appearing before the Subcommittee today to share your points of view and look forward to your testimony.

Mr. COSTELLO. The Chair thanks the Ranking Member and now recognizes for brief remarks or an opening statement the gentleman from New York, Mr. McMahon.

Mr. MCMAHON. Thank you, Chairman Costello and Ranking Member Petri.

And thank you, General McNabb and to all our witnesses, for coming to testify today.

Since its creation in 1951, the Civil Reserve Air Fleet program has proven to be a tremendous success. This program ensures that, in times of national emergency, we have the aviation capability to fully mobilize our Nation. The unique partnership of commercial airlines with the Department of Defense guarantees that our country will always be ready to provide vital airlifts in times of crisis.

This cooperation between commercial airliners and the DOD is a win-win for U.S. taxpayers and the commercial aviation industry. The $2.5 billion allocated by DOD each year for this peacetime charter airlift program is clearly money well spent, especially when we consider that OMB estimates that it would have cost the country perhaps as much as $128 billion in inflation-adjusted dollars for the DOD to maintain the same capacity over the life of this program.

In these difficult economic times, the airline industry is struggling to remain affordable, yet competitive. For example, ATA Airlines once provided approximately 10 percent of the DOD's passenger airlift, but was forced to declare bankruptcy and ceased operations, causing service delays within the CRAF.

Air travel is critical to support not only businesses, but it is a critical part of our military transportation network. Therefore, it is imperative for us to make sure that carriers stay in business so we can continue to count on them.

It is estimated that over the next several years the DOD may rely more heavily on the CRAF activations, which may have an adverse effect on scheduled airlines. We should consider whether to improve CRAF incentives to strengthen DOD's partnership with the commercial airline industry.

Throughout the times of peace and times of crisis, we should be grateful that we can count on the commercial airline industry to deliver outstanding results every time our country calls on them. But we need to make the necessary investments to continue this important partnership, and that is why I think this hearing is so important, and we are grateful to you for convening it, Mr. Chairman. Thank you.

Mr. COSTELLO. The Chair thanks the gentleman from New York and now recognizes our witness from our first panel, General Duncan J. McNabb, who is the Commander of the United States Transportation Command at Scott Air Force Base.

General, welcome. It is a pleasure to have you before us today. As I think some of the staff know, we go way back in other capacities, when you were over Air Mobility and a different position with TRANSCOM before you became the commander. So we welcome you here today, we look forward to your testimony, and I want to assure you that we have enjoyed a close working relationship not only on the CRAF program, but look forward to working with you on other matters as well.

General, your entire statement will be inserted and appear in the record. If you would like to summarize, take as much time as you would like. General McNabb.

TESTIMONY OF GENERAL DUNCAN J. MCNABB, USAF, COMMANDER, UNITED STATES TRANSPORTATION COMMAND, SCOTT AIR FORCE BASE

General MCNABB. Chairman Costello, Congressman Petri, and distinguished Members of the Committee, it is indeed my privilege to be with you today representing the men and women of U.S. Transportation Command, more than 136,000 of the world's finest logistics professionals.

USTRANSCOM leads a committed total force team of active duty, guard, reserve, civilian, contractors, and commercial partners. This team provides the capacity to deliver logistics and distribution capability to support power projection in both peace and war.

Today we focus on one of the earliest, most unique and extremely successful partnerships between the Department of Defense and the commercial airline industry, the Civil Reserve Air Fleet, or CRAF.

How timely it is to hold this hearing on this capability that airlift brings. Just yesterday we celebrated the 60th anniversary of the Berlin airlift. On May 12th, 1949, the Soviet Union capitulated to the Allied Airlift Offensive into Berlin and lifted their blockade. Air power, employed with the will and determination of some truly great aviation heroes, helped save a nation.

With the success of the Berlin airlift as his backdrop, President Truman instituted the CRAF program in 1951. He was confident that this military-commercial partnership would provide capabilities to the United States and to the world like those witnessed in Berlin, the ability to save lives, and even nations, when the need and opportunity arose.

Our commercial CRAF partners have certainly answered the call, standing beside us for more than five decades. In exchange for DOD peacetime airlift business, the carriers promise to be there when needed for contingencies and emergencies.

Since the program's inception, our partners have kept that promise by participating in every military contingency involving the United States. They have flown missions voluntarily in peacetime and, during the two wartime CRAF activations, first in 1991 during Operations Desert Shield and Desert Storm, and again in 2003 during Operation Iraqi Freedom.

Currently, 34 separate CRAF carriers participate in the program. Their commitment of 1100 aircraft, along with our military organic fleet, represents a tremendous value to the Nation. We simply could not accomplish our mission without the unique capabilities our commercial industry partners provide. It is this championship team, working together, that gives our Nation unrivaled global reach, committed to serving our Nation's war fighters by delivering the right stuff to the right place at the right time. USTRANSCOM is diligently working to ensure the program remains strong, viable, and able to withstand changes in the global environment.

We are also mindful of potential threats we face as our adversaries try to sever or slow the logistics lifeline to our war fighters, and we will continue to keep the safety of our CRAF carriers at the forefront of how we carry out our mission. We are absolutely dedicated to preserving this key partnership for our Nation's defense.

Chairman Costello and Congressman Petri, I am grateful to you and the Committee for all you have done in support of U.S. Transportation Command and the CRAF program. It has certainly paid huge dividends for our Nation. I respectfully request my written testimony be submitted for the record, and I look forward to your questions.

Thank you, Mr. Chairman.

Mr. COSTELLO. General, thank you.

General, I just have a few questions. One is, with the economy as it is and we are facing several challenges in an economy that is probably the worst that we have seen since the Great Depression, we saw ATA Airlines go into bankruptcy last year. Is CRAF properly structured to maintain adequate airlift capacity and absorb any future losses? In other words, if other carriers file bankruptcy, what will that do to your capacity?

General McNABB. Chairman Costello, one of the things that was really good about visiting all the carriers as we look to what we would have to do to CRAF and what are the smart things that we would do following the CLR and the IDA studies was that, when we went to each of the carriers, we said, hey, what are your thoughts. So I would tell you that all of the discussion with the carriers focused along that line of not only what is happening economically, but also, as you mentioned earlier, as we slow down, maybe, operations in the Middle East, what will that impact be.

Your support of assured business was one of the first steps that we asked for to help us do that, so that we could give them kind of a projection that they could count on, that they knew it would be there; and that was a big step that our carriers had asked us to look at and then propose to you all, and you certainly have done that.

We are also examining the military readiness and commercial balance as you think to how we manage our overall fleet. Part of it is the readiness of that active duty, guard and reserve fleet, the military fleet, to make sure that it is ready to go. As you know, the pilots and load masters that we trained in that often times go on to either the guard and reserve and fulfill their obligations there, and many of those same people are in the Civil Reserve Air Fleet as part of that team.

So that readiness is absolutely essential but, again, how we do that commercial mix is something that we can do, and there is new technology, like simulators and others, that we can take a very good look, make sure that we have got that right.

One other, one that we are specifically looking at, again, after talking to the carriers, is look at our Patriot Express missions, which is those charter missions. We had looked hard at that before. Basically, we were losing about $39 million a year. DOD and OSD told us to go back and take a look at that and try to make every— you know, look at all of the routes.

We have made quite a few changes that saved a lot of money for the government. But now we have gone back, based on the world we face, and say, hey, are there some of the places that we might be able to reinstitute Patriot Express that is both good for the war fighters, for the combatant commanders that are out there, also good for their families, and then, obviously, it is very good for the CRAF and our CRAF partners. So we are taking a look at that as well.

It is the one that I worry about the most on the CRAF, is how do you have a soft landing as we come back down. Obviously, this impact of the current economic crisis impacts that even more. What I do feel very good about is all of us are talking about it and looking for ways that we can make sure that we can help wherever we can.

Mr. COSTELLO. Thank you. The assured business authority that you made mention of, that you requested and received, when you received that, it increased the minimum amount of business that you can offer to participating carriers. Can you elaborate a little bit as to why you needed that authority and why it was important for you to receive it?

General McNABB. Yes, Chairman. Prior to 9/11, we did an average of about $600 million a year with the Civil Reserve Air Fleet. After 9/11, that obviously grew tremendously, and we are in excess of $3 billion now. But at some point that will come back down, and that assured business really does help the carriers on looking at what do we do for the future to make sure that we put this together, if you will, so that they can make plans on leasing or buying of aircraft, what they are going to do with their crews and what they are going to do for the long-term.

We have not had to institute the assured business. You said that there were a couple of things that we had to do, like make sure that we can look out and project better. We are doing that. And I think that, in working with industry, we will know when we need to do that, but right now, obviously, business is up. We haven't had to use that. We don't plan to use it in 2010.

And as we look at the movement of forces into Afghanistan, it looks like that will be extended out a little bit further. So we will watch that very carefully, but that assured business, make sure that they can look even further to know that we have a certain amount that they can plan on all the way out into the future.

Mr. COSTELLO. Thank you.

The Chair, at this time, recognizes the Ranking Member, Mr. Petri.

Mr. PETRI. Thank you. I probably should know a lot more about this than I do, but I will just ask a basic question or two. You do the regular logistics for the entire military as well, don't you? I mean, people fly back and forth. You charter planes or sometimes buy them tickets, people moving from one base to another? It is a huge travel agency operation that you have, I think. Is that correct?

General McNABB. Sir, it is the transportation requirement; we do that with our commercial partners, so we work very closely with them. As the TRANSCOM Commander, I also have responsibility given to me as the distribution process owner, which is really that end-to-end movement and distribution system that I don't own all of that, but I help oversee that and work with both the theater commanders and also the folks in the States like the services and the agencies to make sure that we put that all together. So I get to touch most of that, sir, and, again, the commercial partners are key to that as we work through the best way to do that for both the war fighter, but also for the taxpayer.

Mr. PETRI. And you move both soldiers and from time to time you must do equipment or like package operations or whatever.

General McNABB. Yes, sir.

Mr. PETRI. Air freight.

General McNABB. Yes, sir. We do about 25,000 passengers a week would give you an idea of the magnitude that our Civil Reserve Air Fleet partners do that, and they also move about 6,000 short tons of equipment every week. So they are taking a lot. We plan on them doing about 93 percent of our passengers and about 37 percent of our cargo lift. They take care of the palletized cargo, kind of the bulk cargo that is moved, and then we use our military side to move, when there is a higher threat, we will use that if we were moving passengers in, and then on the cargo side we will use it primarily to move the military equipment, the rolling stock and stuff like that. So we mix and match as we need to based on what the combatant commanders need.

Mr. PETRI. But how does this program really then—I mean, it has been used only twice, in Desert Shield and Desert Storm, and you are already leasing and purchasing all kinds of activity. Is this actually necessary? How does this fit in? You could commandeer, if you had to. I suppose it is a sort of graduated deal. Could you describe why it is really necessary or what it brings to the table and how much it is costing?

General MCNABB. Yes, sir. Absolutely. It is very cost-effective. We have three stages: basically regional conflict, stage 1, we have a certain number of aircraft that are committed to that by the carriers; stage 2 is a theater war, much larger; and then stage 3 is full activation, and you might call that we have activated the whole country in time of threat.

On committing their airplanes to this program, what we offer them is peacetime business to make sure that that—it not only brings money to them, but also standardization, the training, how they fly within our system. So today, for instance, we have basically 135 sorties that are being done by our commercial carriers. You hear us sometimes talk about 900 sorties a day done by the Air Mobility Command, my air component, but 135 of those are these commercial partners that are right within our system, and they are moving passengers and cargo, and it is seamless.

We change and we mix and match whether it is more cost-effective to do it commercially or, because of the threat, we will do it militarily. That relationship obviously changes depending on what is happening out there and what we are being asked to do. In all cases, if I can do it commercially, that is the cheapest way I can do that.

So this partnership, over the last 50 years, they have been doing that kind of movement all the way through those years, and we have, as you mentioned, only had to call them up twice. But we have asked them to volunteer many times, and they have said, yes, we have some airplanes that are available; how many do you need.

I have had a number of instances, even over Christmas, when you know that they are very busy, we had to move some forces. We put a call out to the carriers and said this is what we need; they said if you can move three days later, we have you covered. And that is what they do. That goes on day in and day out, and if I can move it commercially, it is in the interest; and the President's national airlift policy basically said, hey, if they can do it on the commercial side, that saves money.

Overall, as was mentioned, when you think about how much this has saved, rather than us own this militarily, because what I have this fleet for is that full-up wartime surge.

Mr. PETRI. Just one quick final question. There was a little bit of a brouhaha a couple years ago when some soldiers were coming back, I think, on a charter flight from the Middle East to Los Angeles Airport, and evidently the airport hadn't been notified or there was some confusion. I think it was in Oakland, actually. There was a feeling that the soldiers were not treated appropriately and were kept out on the grass or something for a long period of time. Has that recurred or have you worked out procedures to deal with that? There was some kind of a breakdown in communication, as I recall.

General MCNABB. No. I sometimes mention on the 900 sorties a day, it only takes one that will make CNN. So every day is another day where we are trying to make sure our processes stand up to that, so we work very carefully with the carriers and say, hey, here are the standards and here are the kinds of things that we need, the same as on our military cargo aircraft.

When we have gone back and done our surveys, not only have the carriers been 92 percent-plus on their departure reliability and on-time reliability, but the customer surveys have come back and, from the service standpoint, 98.9 percent satisfaction. So that is something that when I look and, of course, I say, well, where is that other 1 percent, you know, let's get at that, because you never can stand on that, you always want to improve it and get much more because you know the folks are depending on that.

That doesn't mean we don't have incidents and it doesn't mean there are not going to be times when, because of weather or others, we are going to have to come in and help, and that actually, you know, hopefully we have the processes in place to do that. Certainly, we are committed to always fixing whatever problems come up, and it is a continual improvement all of the time.

Mr. COSTELLO. The Chair thanks the Ranking Member and now recognizes the gentleman from New York, Mr. McMahon.

Mr. MCMAHON. Thank you, Mr. Chairman.

General, the DOD currently has a policy that states that no more than 40 percent of the CRAF carriers' revenue come from the government. I guess that is called the 60/40 rule.

General MCNABB. Right.

Mr. MCMAHON. I understand that the block hours, the amount of time between the moment the aircraft begins moving from the point of origin and the moment it stops moving at the destination, instead of using revenue, it could be considered to calculate to 60/40 rule. Where does the USTRANSCOM stand, as of today, when it comes to using block hours instead of revenue for calculating these figures?

General MCNABB. Congressman, great question. For FY10, we decided we would stay with the revenue, but then we are going to change it to block hours. We think block hours is a better apples to apples because commercial, the way you account for that is a little different than what we do in the military. Something the carriers brought up said block hours would probably be a better way to do that, so we are going to do that.

Mr. MCMAHON. Thank you, Mr. Chairman.

Mr. COSTELLO. The Chair thanks the gentleman and now recognizes the gentleman from Ohio, Mr. Boccieri.

Mr. BOCCIERI. Thank you, Mr. Chairman.

General, thank you for your testimony. As a C-130 pilot, we appreciate this program. Obviously, we can't carry all the troops to the Middle East on times of national mobilization. A couple questions for you, General. Do you envision the need to equip some of the CRAF aircraft with defensive systems to ward off MANPADs, especially if we are flying them into a forward-operating base or having mass mobilizations?

General MCNABB. Sure, Congressman. One, as the C-130, as you know what a workhorse that is, I actually, when I was the Air Mobility Command commander, I looked very closely at this issue and I worked with the National Defense Transportation Association, their airlift Subcommittee, and said, hey, let's get everybody's thoughts on that, and, quite frankly, we had some carriers that said we would be willing to do that; most said that they would probably defer.

And the way I finally came down on that is you know that it is a lot more than defensive systems that allows us to operate in those areas; it is the tactics, techniques, and procedures, it is being able to do random approaches, it is the defensive systems, but it is also using night vision goggles, and landing on the runway, it is all of the kinds of things that we are able to do that we have 130s and C-17s and C-5 crews that we spend a lot of time training so that they can do that safely.

If you ended up having CRAF have defensive systems on and we took them into the same locations, they would have to spend an awful lot more on training those crews, which, again, that kind of takes away from their business base. So that training cost would be very large. And, in the end, I came out of that thinking that the better way to do this is have the military side really focus on the ability to go into that threat, make sure that our threat working group looked at all of the places we go into, and if there are places that we can safely operate the Civil Reserve Air Fleet into with all parts of the tiered security, then we would allow them to operate into that.

We have worked with the FAA on that as well, and that is why we actually do allow cargo operations into Bagram, we do allow cargo and pax operations into Al Asad.

Mr. MCMAHON. Is there a significant threat still to those commercial aircraft flying in?

General MCNABB. No. I think that what we do is we watch that every day to make sure that we watch that in a multitude of ways to include patrols to make sure that they are not in threat. If I ever even sense that there is a threat to them, then I just say, okay, we will stop short, transload to military airplanes and we will bring them in that way.

Mr. MCMAHON. And do you make that call or does the theater commander make that call?

General MCNABB. The threat working group, that comes to me and that is done at TRANSCOM. But, obviously, we are talking to the theater commanders all the time and comparing notes. One of the big parts is, if you end up having an airplane that is just about to land and you find that out, we work very closely on the command and control to make sure that we can very quickly get hold of those crews and say go into holding or divert, make sure that that is done safely.

Mr. MCMAHON. Okay. General question about the National Defense Authorization Act. Fiscal year 2009 required the Secretary of Defense to incentivize the CRAF carriers to use newer, more efficient aircraft and to improve the predictability of the DOD charter requirements. In addition to maintaining their certification under FAA Part 121 as air carriers, the CRAF participants must also undergo a comprehensive on-site technical evaluation that assesses an air carrier's ability to meet all the DOD quality and safety requirements as outlined in 32 C.F.R.

I am looking over the carrier teams and I see that there are international carriers like Ryan, and I am not familiar with Calida Air, but, number one, how do you maintain the training and quality assurance for international carriers and also those domestic carriers? We see what happened with Flight 3407 that perhaps even our own domestic carriers perhaps didn't receive the adequate training that our own military is required to undergo, so how do you assure those quality assurance procedures?

General MCNABB. Well, first and foremost is the FAA certifies those carriers and they make sure that all the standards that go into being certified by the FAA are taken and those carriers pass that. The second part is they are approved by our CARB, and the CARB is that oversight board that we have that looks into not only the operations, but does the periodic inspections.

Also, if there is any problem with safety, that comes back and the CARB can suspend the carriers from doing that. So all of our CRAF carriers are both certified by FAA and approved by the CARB, so we have got an extra layer in there to make sure that they are ready to go and they can do this safely.

Mr. MCMAHON. Okay. Thank you, Chairman.

Mr. COSTELLO. The Chair thanks the gentleman and now recognizes the distinguished Chairman of the Full Committee, Chairman Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman, for holding this hearing. Mr. Petri, I appreciate your participation.

General McNabb, you come highly recommended. Chairman Costello says he has known you a very long time.

General MCNABB. Sir, he has been superb in not only this Committee, your Committee, but Chairman Costello, in the way he has taken care of TRANSCOM and Scott Air Force Base has been something that you can see what has happened as far as our ability to do the defense transportation mission. So thank you again.

Mr. OBERSTAR. It has been a while since I have been out to Scott Air Force Base, but it was at a time when there was joint use being considered. Is that working out now?

General MCNABB. Sir, it is working out superbly. They built a Mid-America Airport, they gave us another runway, and because of that we basically now have three wings. That allowed us to bring the tankers down from Chicago, so you have got a tanker wing there that is a guard wing; you have got a reserve wing that has C-9s and C-40s, and you have an active duty wing that has C-21s and also helps man those C-40s and C-9s, and then you have four major headquarters.

So I would say that we would love to have you come visit Scott, because it has been growing and we have been consolidating, so business is good at Scott. The corn is growing, so it is a very nice time to come. But I would say that Mid-America Airport was absolutely key to that, Chairman, and the reason was if we hadn't had that second runway, we would not have been able to bring in those other airplanes. That dual runway allows us to do the training and make sure that we can—you know, it opens that up to other missions, which, again, allowed the growth to happen. So it has worked out great.

Mr. OBERSTAR. I appreciate your assessment, because there are other opportunities for joint use throughout our military and civilian system, and it would be useful to have a further perhaps not in the context of a Committee hearing, but a roundtable discussion about creating additional capacity through joint use operations, which is what Mr. Costello was away ahead of the curve about 12, 14 years ago, 16 years ago that we made that tour. San Diego comes to mind; there are others out in the West Coast that could DOD commissioning of military facilities in the base closure commission and of those that are active.

And the President just recently—this is way far afield from Civil Reserve Air Fleet, but it is important to our overall aviation capacity and domestic airspace—President Bush opened up airspace that had previously been reserved to military use, and that allows for straighter routes. As we work through the restructuring of the air traffic control system and revising the end route facilities, 21 end route centers now that ought to be reduced, consolidated, combined and create straighter routing, which today actually follows the route of bonfires in the 1920s and lighthouses first and then beacons in the 1930s, we have to, and can do, better than that today.

General MCNABB. Yes, sir.

Mr. OBERSTAR. And doing this would be very important to integrate the work and the thinking of the airlift command in this process.

General MCNABB. Chairman, I would be glad to help however I could. We have a couple of examples. When I think about Scott, that was one. Charleston Air Force Base shares a runway with a commercial and it really does work well, because one that helps us is that our airplanes tend to be kind of doing the same things, so we tend to fly larger airplanes that are flying in commercial airfields anyway, and it ends up being pretty easy to use those for operations. So it works great.

Mr. OBERSTAR. Seventeen years ago this Subcommittee held a hearing on the Civil Reserve Air Fleet and war risk insurance at which Mr. Klinger, the ranking Republican at the time, observed the civil commercial air fleet has proven absolutely critical to the success of the Nation's defense mission. Operation Desert Shield/ Desert Storm demonstrated that fact abundantly. We would not have enjoyed the success we did without the considerable airlift capacity provided by U.S. flag carriers.

In that operation, the Civil Reserve Air Fleet carried out 5500 missions, carried enormous numbers of personnel and enormous amounts of cargo into the zone, but they were flying back empty. While they were somewhat compensated, our passenger airlines that had committed certain numbers to their fleet, the DC-10s, the 747, 100s, 200s, were disadvantaged compared to their European competitors who were flying revenue flights out of the theater to Europe and on to the United States. At the time, there was a concern that—so that was one issue that we were trying to address.

Another is that then, as Mr. Klinger observed, military owned and operated heavy lift aircraft continued to dwindle in number, and of the transports still operating, many find themselves load limited as a result of aging airframes. I think you can say that for the civil fleet as well. After September 11, the commercial airline carriers downsized their fleet, took about 20 percent of the fleet out, older airframes, older engines, parked them in the desert, and we have fewer 747s, very fewer DC-10s, probably no 1011s except in a cargo capacity operated principally—most of those flying are operated overseas by other airlines, not subject to CRAF.

What concerns do you have about, if any, in your assessment, of the state of the art? When CRAF was activated in Desert Shield, in Desert Storm, initially, 38 aircraft were called up in the stage 1—and you described the three stages of call-up. Stage 2, there were an additional 140 long-range aircraft called up and there were some problems of mismatches between airlift demands and aircraft available, and the planning was not as efficient, according to the hearing that we had, as it might have been with closer coordination. There were coordination problems between DOD and the Transportation Department; it was the Research and Special Projects Administration, RSPA, of DOT, which is now RITA, the Research Information Technology Agency.

The purpose of our hearing was to try to untangle these complexities, improve the coordination between DOD and DOT, and do a better job of scheduling through that kind of coordination, so, 17 years later, it occurs to me that you might give us a report on the status of coordination, integration of scheduling and relationship between DOD and DOT.

General MCNABB. Yes, sir. Well, one I would say is my compliments, because you think about where we are. You have to start somewhere, where somebody comes in and says, hey, we have got to get our arms around this. But now that we have been really at a surge operation for the last seven years and you think about where we are today, as I mentioned, 135 sorties going today that are being done with our commercial partners, we have basically had a constant surge in which we have really been able to work through a lot of the issues that you identified through lessons learned.

A lot of the fixes were already in place, but some of the things like forecasting and looking to can we give you a stable system, I commanded the TACC in the late 1990s, and I would tell you it was something we always were hoping to be able to do, is to say here is the good forecast, and we know that what we want to do is kind of give a sustained level of effort is the best thing that we can give the commercial world so they can plan against it, and basically fill in the valleys, smooth out the peaks, and if we can do that, they can really do a lot for us.

That is what we do now. We look out the next four or five months and we constantly adjust to that. If we have a pop-up requirement—and I would use a disaster relief as an example—we may end up asking commercial carriers to pick up some of the military legs so that we can have the military aircraft now freed up to go do the disaster. All of that takes place in what I think is a very superb manner. We can always do better.

One of the things that we would like to do is forecast and really try to look to the future even more, because in many cases the carriers want to look well beyond six months; they need to be planning their fleets for the next five and ten years. So we are working that. Again, your support of that assured business really did help us on that.

Mr. OBERSTAR. What are your call-up availability requirements now, is it 24, 48 hours? Does it differ under stage 1, 2, and 3?

General MCNABB. It does, sir. Twenty-four hours for stage 1 and 2, and 48 hours for stage 3. So, again, I think that the system has worked very well, almost everything they have been able to do on a volunteer basis, and when we have said we need additional help from them, they have been able to figure out how to do that. And, again, I think it is about the relationships and that coordination between us of mixing and matching, and looking at what their requirements are as well, their commercial requirements.

Mr. OBERSTAR. How many 747s are committed, if that is not a classified number, and 767s?

General MCNABB. Sir, I would like to take that for the record. When you think about the 1100 aircraft, we have got a mix of all types of airplanes, and it is 747s, 767s, 777s.

You had talked earlier about modernization. It is the one thing that I have talked to the carriers and the National Defense Transportation Association about that concerns me, is how do we incentivize you to modernize your fleet. How do we make sure that if we are putting something in the desert, it is the 747-100, not the 747-400, which I think is what you were getting at.

And my take is that they are looking hard at that, but one of the things they came back to us is they said you have got to give us some routes where we can get good utilization on those aircraft; and, in fact, we are starting a test in June where we are going to have a flight directly from Dover all the way to Incirlik, Turkey, and that airplane will just go back and forth; and that will get that utilization rate so that they can say, hey, I have invested in this aircraft and I now get the utilization on it so I can get it to pay back.

Mr. OBERSTAR. Now, the investment in the aircraft also includes strengthening the internal members, the structural support members of the floor of the aircraft to accommodate heavier weight and also tie-down facilities internally. So is that work still being done on CRAF aircraft? And for that added weight is the Defense Department continuing to compensate aircraft that fly in commercial service for carrying that additional weight and the fuel penalty it engenders?

General MCNABB. Yes, Chairman. And primarily the growth in the commercial cargo industry kind of changed everything. I mean, obviously, in that 17 years, you think about where commercial cargo is vis-a-vis passenger. So where we used to have to modify passenger airplanes, we don't have to do that anymore; they are coming right off the assembly line built as freighters.

Mr. OBERSTAR. With that additional internal structural strength?

General MCNABB. Absolutely.

Mr. OBERSTAR. Maybe Mr. Smith, who is right here with us, can explain that in his testimony; he is the leading proponent of air freight.

General MCNABB. It is amazing how far the industry has come on commercial cargo and how the world has changed. Certainly, when I think back to the early 1990s, when I was a Charleston squadron commander flying 141s, and when we stood up Desert Shield and Storm and you thought of where the industry was then and then where we sit today, truly, my biggest concern right now is passenger charter, which was not even something we had to worry about back in the early 1990s; that was a very robust area, but today, because of the market, that has changed a little bit.

Mr. OBERSTAR. Today, a number of those passenger charter operators are sidelined, they are either in bankruptcy or out of business altogether, downsized their fleets. Has market condition principally post-September 11, but more recently since the onset of recession in December 2007, has that reduced the scope of aircraft available?

General MCNABB. I think primarily the market changed. And I will defer to the second panel, but when I went around and saw them, they said, hey, the market has changed the travel agency, and it also has changed because newer aircraft, they have smaller aircraft that have longer range because of technology.

So you have really changed the dynamics of the market. Where charters filled a portion, in some cases you now have direct flights from the legacy carriers going to the places where you used to only have charter would be the only way you could get there. And I think that that portion of that of working with industry to say, hey, based on the new market, how do we do this, that discussion continues on. But there are opportunities and we are constantly having to adjust that.

Mr. OBERSTAR. Thank you. Your comments suggest that with improved airframes and improved internal strength, that retrofitting aircraft to carry heavier loads is not the issue it was 15-plus years ago; you are not making that compensation payment for that fuel penalty for heavier internal structure.

General MCNABB. Sir, what I would say is if a commercial carrier uses a more efficient airplane, they will make more money on that because we will pay them a rate, and if they have a very efficient airplane they will make more money; if they have a less efficient airplane, they will make less or maybe even lose some.

So that is kind of how we incentivize it now, but, again, I have been working with the carriers to say how do we help you get to more efficient airplanes that we can use in our Civil Reserve Air Fleet day-to-day, so the peacetime lift that we are doing, because, obviously, I am very concerned about the amount of fuel that we use overall, not only in our military fleet, but the commercial fleet that supports us as well.

Mr. OBERSTAR. And you need to work out a back-haul for those aircraft for efficient use of aircraft and reduce your costs?

General MCNABB. Yes, sir.

Mr. OBERSTAR. In Desert Shield and Desert Storm and subsequently, carriers—I am just looking at our hearing transcript—entered into joint venture relationships and agreements that allowed one carrier to, through this joint venture under the CRAF agreement, to send a different carrier out with aircraft. That raised legal problems later on, where there was an accident in the zone or on return, or a carrier that went out of business, the contract contracted carrier went out of business and then the Air Force held the CRAF airline or company to accountability. Do those issues exist today?

General MCNABB. No, I would say those issues are not there. What I would say is, for instance, with ATA, when ATA was grounded, basically, the team that they were part of, they picked that up, they felt responsibility. As we had 71 missions that were affected, about 3,000 soldiers and sailors and Marines and airmen were affected, that team came together very quickly and used other members of their team to fill that in, and we ended up having a minimal impact. That feeling of responsibility by the team to say, hey, we understand that we have an obligation here, certainly I think shows how good that works.

I would also say, in this market, I find that there are usually a lot of other folks that say we are willing to take this on if we can, and the short notice nature is probably the hardest part to deal with, because if you give them a little time, there are an awful lot of people that can help.

Mr. OBERSTAR. In short, your assessment is that the Civil Reserve Air Fleet is serving our defense establishment well, needs to be continued, there may be some adjustments necessary. Are there any adjustments that you think might require legislative action?

General MCNABB. Chairman, your help on the assured business was huge for us. The continued support of war risk insurance is huge for us, that is really important to us. And I think that there may end up being—we have some of our carriers have talked about if we could get to a multi-year approach in some capabilities.

It is one that not everybody agrees, because the teaming relationships are usually one to two years, and then they adjust from there. I will just say that is one that I would like to look at and I plan to have our folks look at, and I promise to take a look if there is anything, any joy there that would help the industry overall, but, again, we haven't got far enough along that road. That is kind of like the next step that we would like to take a look at.

Mr. OBERSTAR. Well, that is very encouraging to hear, and what a contrast from our hearing a decade and a half ago, when DOD refused to show up because they were so embarrassed about their program that they couldn't face conflicting testimony from the carrier sector, from DOT, and bipartisan—what should I say?—correction. You have apparently corrected a lot of these issues and I am very much appreciated. Obviously, CRAF is in good hands.

General MCNABB. Chairman, your support over these years, that is why it is the way it is, because everybody worked very hard together, to include this Committee, on doing the kinds of things that we needed to do to make sure that we did make it whole, because we do say it is a great value to this country to have CRAF. I mean, it is tremendous. There are some things that they can actually do a whole lot better than anything I can do on the military side, and they also teach us about efficiency. Industry has a way of coming in and we have that relationship, and it really pays off for us as well.

Mr. OBERSTAR. Thank you, General. You too are a great credit to our country.

General MCNABB. Thank you, Chairman.

Mr. COSTELLO. The Chair thanks Chairman Oberstar.

General McNabb, we thank you for appearing before this Subcommittee today to offer your testimony. I think Chairman Oberstar summed it up correctly, the program is in good hands under your leadership. We thank you for your testimony. We look forward to working with you to make any improvements that we can in the CRAF program, and if you have legislative suggestions, as you did with the assured business issue, we stand ready to work with you.

With that, thank you, General McNabb, and we will ask the second panel to come forward. Thank you.

General MCNABB. Thank you, Mr. Chairman.

Mr. COSTELLO. The Chair welcomes all of you at the witness table today. Gentlemen, we appreciate your being here and look forward to hearing your testimony. Let me introduce and recognize our witnesses. Let me say, before I do, that your entire statement will be appear in the record. We would ask you to summarize your statement.

The Chair now would introduce the panel. First, I will introduce Robert Coretz, the Chairman of the Omni Air International; Mr. Brian Bauer, President of Evergreen International Airlines; Mr. William Flynn, President and Chief Executive Officer, Atlas Air Worldwide Holdings; Mr. Tom Zoeller, who is the President and CEO of the National Air Carrier Association; Mr. David Graham, the Deputy Director, Strategy Forces and Resources Division, the Institute for Defense Analyses; and certainly the last witness I will yield to my colleague from Tennessee, Mr. Cohen, to introduce Mr. Smith.

Mr. COHEN. Thank you, Mr. Chairman. It is indeed my honor to introduce Memphis's number one citizen, Mr. Frederick W. Smith. He is Chairman, President, and Chief Executive Office of FedEx Corporation, which is the largest and most efficient and timely air carrier in the world, a $38 billion global transportation company, provides services that are headquartered in Memphis, Tennessee.

Mr. Smith started this company after doing a paper in college that didn't receive a very good grade, but that has received a wonderful grade from the world's economy, the world's business community, and the investing public. It has made the difference in my city being a city on the globe and a great city in America, instead of being a languishing city without national, international reputation, 30,000-odd jobs, and an NBA basketball team, which wouldn't have existed without Mr. Smith stepping to the plate and funding the arena necessary to bring that team to the city.

When there is anything important in Memphis, Fred Smith is there, whether it is coming up with helping with the gold tournament at St. Jude's, he is also a co-sponsor of and provides Memphis international exposure, but also provides funding for St. Jude's, or other efforts, Federal Express is there.

This particular subject matter is, I know, dear to Mr. Smith's heart, because when it came time to have a memorial on the mall for World War II veterans, he stepped up and was the co-chair, if I remember correctly, in raising the funds and seeing that our World War II veterans were properly memorialized and remembered and that effort was remembered.

When he was a young man—and I heard this story just recently, and I don't know exactly how true it is or accurate—allegedly, he and Landon Butler, and maybe even Sid, from what I was told, got together and decided they need to go over to Vietnam and volunteer. They were not drafted, but they volunteered for service and Mr. Smith served as a pilot in Vietnam.

I have read his statement. I wish I could be here for the entire time. Unlike a mayor, Congresspeople have to be two places at once and don't march to their own drum, so I have to be at the Judiciary Committee, where we are marking up a performer's rights bill, which is important to a lot of constituents in my district as well. I have read your statement and appreciate what FedEx has done in Desert Storm and other areas. It is important that we have this cargo available to us, fleets, in case we have the need to call them up in peacetime, and FedEx has been there and participated.

During this recent economic situation, his efforts in not cutting employees until absolutely necessary, but, instead, jointly cutting pay was highly commendable and recognized and he cut his own pay 20 percent, and he has been a leader on the challenge of climate change in this country and delivered addresses here in Washington and elsewhere to educate the public. So it is my honor to be here to represent Mr. Smith in Congress and to welcome him to the Aviation Subcommittee.

Thank you, Mr. Chairman.

Mr. COSTELLO. The Chair thanks the gentleman from Tennessee and now recognizes Mr. Smith.

TESTIMONY OF FREDERICK W. SMITH, CHAIRMAN AND CEO, FEDEX CORPORATION; ROBERT K. CORETZ, CHAIRMAN, OMNI AIR INTERNATIONAL; BRIAN BAUER, PRESIDENT, EVERGREEN INTERNATIONAL AIRLINES, INC.; WILLIAM J. FLYNN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ATLAS AIR WORLDWIDE HOLDINGS, INC.; THOMAS E. ZOELLER, PRESIDENT AND CEO, NATIONAL AIR CARRIER ASSOCIATION; AND DAVID R. GRAHAM, STRATEGY FORCES AND RESOURCES DIVISION, INSTITUTE FOR DEFENSE ANALYSES

Mr. SMITH. Well, thank you very much, Mr. Chairman, Ranking Member Petri, Chairman Oberstar. Mr. Cohen, I appreciate that kind introduction. Let me correct one item for the record, though. You talked about the grade I got in college. It was a very good grade for me and I was happy to receive it.

[Laughter.]

Mr. SMITH. I am here, as Mr. Cohen said, representing FedEx Corporation. FedEx is a very large enterprise, composed of four operating divisions: FedEx Services, FedEx Freight, FedEx Ground, and our largest operating company, Federal Express, which is the company, as he mentioned, that I founded in 1971. It is the world's largest all cargo air carrier, operating in 220 countries, moving 3.5 million shipments, with a fleet of 650-plus aircraft. It is the largest assemblage of wide-body aircraft in the world. It is by far the largest fleet of wide-body cargo aircraft in the world.

We have been a long-term participant in the Civil Reserve Air Fleet program and I would like to make a few points, noting, as you did, Mr. Chairman, that our complete statement is entered into the record.

We believe that the CRAF program and the participation of civil air carriers in our Nation's defense has served this country very well. CRAF provides 1,000 civilian aircraft, augmenting the Air Force fleet in time of war or crisis in a highly cost-effective way. We take our commitment to CRAF very seriously, and we have a proven track record in fulfilling CRAF obligations. CRAF participants provide aircraft for peacetime and surge capacity, as the General noted, and we believe it is important that CRAF remain strong and sound.

FedEx Express is a major contributor to the CRAF program. We commit 78 long-range, wide-body aircraft, which is 100 percent of our eligible long-range fleet and represents 34 percent of the all cargo wide-body fleet committed to stage 3. As an example of that commitment, we moved over one-third of the cargo transported on commercial aircraft during Operations Desert Shield and Desert Storm. We provide peacetime lift as well. We are currently flying about 13 to 14 missions per month, and we participate in the military's worldwide express cargo program.

Large scheduled carriers with a large, ongoing business, like FedEx, do not utilize, generally, all of the points allocated for our commercial fleet. To compensate for the risk of that substantial commitment, the CRAF program allows carriers like FedEx Express to provide value and receive compensation for directing a team of CRAF participants. We believe the team concept works well, allowing smaller charter carriers on the team to, in effect, purchase some of the points from scheduled carriers that gives them more peacetime flying, and thereby provides the Department of Defense with a broad range of aircraft for peacetime and mobilization, and also, as the General pointed out a moment ago, a single point of contact for a group of carriers.

The Civil Reserve Air Fleet program continues to work and we believe that the basic structure should be preserved, but we believe there are some aspects that can be improved. Some commentators recommend discontinuing the team concept, but we believe strongly it should be preserved to provide the economic incentives for large carriers to commit aircraft, necessary levels of peacetime flying for charter carriers, and valuable administrative and managerial benefits for the U.S. Transportation Command in the Department of Defense.

The ATA situation that was referenced we do not believe is a reason to discontinue teams. The teams were not the cause of this, but, rather, the disruption was a lack of sufficient passenger charter capacity in the industry as a whole. In fact, the team concept allowed the team to assemble assets to meet DOD's demand, as General McNabb noted.

We do not support the requirement to commit to a certain level of peacetime flying because we believe it will reduce the flexibility of the teams, hinder efforts to place the most appropriate aircraft for peacetime missions, and we believe the voluntary method works quite well.

DOD can and should, we believe, rely less on 747 aircraft for peacetime flying and more on more cost-efficient, smaller wide-body aircraft which can, with proper loading, be used more effectively.

DOD can improve opportunities for carriers to fly a peacetime business and thus strengthen the CRAF program through operational changes that will encourage increased use of simulator training in the military and more use of the less costly civilian lift provided by CRAF carriers.

With that, after the panel speaks, I would be happy to answer any questions that you might have.

Mr. COSTELLO. The Chair thanks you, Mr. Smith, and now recognizes Mr. Coretz.

Mr. CORETZ. Mr. Chairman, Mr. Petri, and Members of the Committee, as Chairman of Omni Air International, a passenger charter airline based in Tulsa, Oklahoma, it is my distinct privilege to appear before this House Aviation Subcommittee to discuss the economic viability of the Civil Reserve Air Fleet. Providing passenger air charter service is the core competency of our airline. Hence, my comments this morning will be focused on the passenger charter segment of the industry and its relevance to the CRAF program.

Omni has been an approved CRAF carrier since 1995 and has been an active and significant CRAF participant providing passenger airlift to USTRANSCOM. From 2001 to present, Omni, along with other charter and scheduled airlines, have safely transported nearly 4 million U.S. service men and women in support of DOD operations in Iraq and Afghanistan. Notably and importantly, during this time period, charter passenger airlines provided in excess of 90 percent of all USTRANSCOM commercial passenger airlift. Less than 10 percent of USTRANSCOM missions were operated by scheduled airlines.

Why this disproportionate amount of business between the charter versus the scheduled airlines? The substantial majority of USTRANSCOM passenger demand requires mission flexibility. This airlift is being met daily by charter airlines. Charter airlines are in the business of providing on-demand lift based on the customer's schedule, not the airlines' schedule.

While scheduled airlines provide an important and meaningful role within CRAF, the fact remains that the large scheduled airline operating systems were designed for their core business of routine scheduled airline service for business and leisure passengers. Their systems are rigid and do not successfully allow for the elasticity required to meet the challenges unique to DOD operations.

Charter airlines are those the Nation regularly counts on for mobility and readiness, no matter what the contingency or mobilization requirement. Charter airlines are now, as we speak, providing the majority, if not all, the augmentation DOD needs to support our troops in Iraq, Afghanistan, and other military efforts around the world. In any national crisis, charter airlines are the first responders to USTRANSCOM, with a can-do philosophy to get the job done.

Maintaining a strong, continued, viable, robust CRAF requires a national focus on those elements that optimize commercial fleet participation along with best value to the government. An intimate understanding is needed from the unique perspective of the charter passenger airlines and their role supporting USTRANSCOM in order to fully understand the charter airline significant value within the CRAF program.

The past success of CRAF government program and industry partnership will evolve to a new level of success with the benefit of hindsight only by understanding the current challenges and taking appropriate action. In order to maintain an economically viable CRAF, specific actions must include:

First, minimum annual purchase which focuses appropriated funding directly to the passenger charter airlines who bring the war fighter to the fight and ensures optimum readiness at the least cost and best value.

Second, understanding USTRANSCOM utilization requirement. This becomes the economic driver dictating best value assets to provide passenger airlift to USTRANSCOM. Such assets should be selected by industry through responsible economic modeling.

Third, CRAF can be further stabilized by providing multi-year contracting. This allows predictability to charter airlines, ultimately benefitting DOD with stability and cost savings which come through long-term planning.

Fourth, the 60/40 rule previously discussed is antiquated and should be permanently abolished. It is advantageous to the government to allow airlines to exercise fiscal responsibility in determining their own customer base. An arbitrary government mandated business mix is detrimental and causes destabilization of airlines.

Fifth, USTRANSCOM and Congress decision-makers should continue to collaborate with the charter industry for successful implementation of any changes in CRAF policy.

Incontrovertibly, since its inception in 1951, the CRAF program has proven to be a successful government and industry partnership. The CRAF program has repeatedly demonstrated its significant economic value to the American taxpayer.

In closing, CRAF enjoys an enviable, proven track record. USTRANSCOM is an exceptional customer with unique requirements. While CRAF remains strong and viable, there is room for modification to assure future health and success. Such improvements can only be achieved by spending dollars wisely that appropriately align with USTRANSCOM's need of flexible mobility.

Thank you.

Mr. COSTELLO. The Chair thanks you, Mr. Coretz.

Before I recognize Mr. Bauer, let me announce that we have three votes pending on the floor. We hope to receive your testimony, Mr. Bauer, and then we will go to the floor as quickly as possible, get the votes done, and come back and resume the hearing.

Mr. Bauer, you are recognized.

Mr. BAUER. At least I have no pressure today.

Mr. Chairman, Members of the Committee, on behalf of the men and women of Evergreen International Airlines, I am pleased to appear before you today to discuss the Civil Reserve Air Fleet and the role Evergreen plays in CRAF peacetime and contingency operations and plans.

In brief, CRAF represents the best of a public-private partnership. It is a partnership tested in times of contingency and exercised daily for the USTRANSCOM CRAF contracting provisions, which we believe have served the program well for many years. Abrupt changes to these provisions, including teaming arrangements, would have a significant negative effect on CRAF participation.

Evergreen is a manager of the largest teaming arrangement involving almost 50 percent of the CRAF aircraft, and we well understand our partners' concerns for changes affecting their participation. It must also be noted that maintaining a vibrant CRAF is dependent upon the level of peacetime airlift business to sustain current CRAF commitments. It is the robust and assured level of peacetime contract dollars that allow CRAF participants to operate daily for the DOD. Reducing that level of business would be detrimental to CRAF participation and, as a result, national security will be jeopardized.

We applaud Congress for passing the assured business legislation affecting CRAF contracting; however, we would suggest it should also extend beyond passenger operations and include cargo operations as well.

For its part, Evergreen is proud of the fact that it has been a CRAF carrier since its inception. Year after year, Evergreen has operated peacetime cargo missions for the Department of Defense and has been at the forefront of missions operating during CRAF activation. Evergreen operates a fleet of classic Boeing 747 cargo aircraft.

To better respond to the Department of Defense's needs, we are assessing the cost benefit of fleet enhancement to more modern 747s, which offer increased payloads at significantly less cost, especially in terms of fuel. We are cognizant of the Nation's continued dependence on foreign-provided fossil fuels and hope through these efforts to do our part for the strategic and environmental benefit that will accrue.

While we are eager to proceed on our capitalization plan, the Nation's current economic plight has thwarted our attempts to obtain sustainable credit and terms to satisfy this effort. We are in search of a bold new leadership approach which will afford Evergreen, and any other CRAF carrier, the opportunity to upgrade our fleet.

The Administration and the Congress have recognized the importance of measures to stimulate the economy. Providing such an opportunity to the CRAF carries makes good sense for all of the reasons above, as well as stimulating employment in the manufacture and re-manufacture of commercial aircraft tied to the CRAF. Evergreen looks to your leadership to assist the U.S. commercial aircraft industry gain the benefits associated with incorporating modern aircraft into their flights. It makes good sense for the industry and for our Nation

Thank you for your attention.

Mr. COSTELLO. The Chair thanks you, Mr. Bauer.

The Subcommittee will recess. I would ask our witnesses at the table to please return. We are hoping to resume the Subcommittee hearing at 11:50, so I think you have got about 20, 25 minutes to get a cup of coffee or whatever you would like to do. We will return immediately after the third vote.

The Subcommittee stands in recess.

[Recess.]

Mr. COSTELLO. The Subcommittee will come to order. The Chair will now recognize Mr. Flynn.

Mr. FLYNN. Good afternoon, Chairman Costello and Members of the Committee. I want to thank you and the Committee for the opportunity to participate in this hearing today and share the Atlas perspective in CRAF.

The strength of our company begins with our people. Among our 1500 employees, we have 900 pilots, 324 who have prior military aviation experience and 34 of whom currently serve in the National Guard and in the Air Force Reserve, and our strength is built upon our fleet. Atlas operates the world's largest fleet of Boeing 747 freighter aircraft. We currently have 29 aircraft in our fleet.

To Mr. Oberstar's point earlier, 21 of these aircraft are modern, purpose-built 747-400 freighters and have an average life of nine years.

In addition, we are a launch customer for Boeing's newest 747-8 freighter. We have 12 on order. Our order is valued at about $2 billion and represents a significant modernization of our fleet and all of our aircraft, including our new deliveries will be committed to CRAF.

Atlas is one of the few American flag carriers that other major foreign airlines contracts with for heavy airlift requirements. Our customers include British Airways, Emirates, Qantas, and DHL Express. In 2008, we operated over 19,000 flights, serving 316 destinations in 110 countries.

The CRAF program is the benchmark for how government and industry can work effectively together to support U.S. national security interests around the globe. Like my CRAF teammates here today, Atlas is proud of our CRAF participation and support of our troops in Iraq, Afghanistan, and other locations around the world.

I have the following comments and recommendations that relate to the future economic viability of the CRAF program. I would like to first focus on assured business. I applaud Congress for enacting the legislation that approves assured business and peacetime incentives for U.S. flag CRAF carriers that appeared in the 2009 National Defense Authorization Act. Assured peacetime business does attract and incentivize CRAF volunteerism, as General McNabb pointed out, and peacetime business is a strong incentive to participate in CRAF.

I would like to point out, though, that the assured business language specifically mentions CRAF passenger carriers. I believe the intent was to include both CRAF cargo and passenger carriers, and I suggest the language be amended to recognize both groups' participation and contribution.

I would also like to focus on organic and commercial readiness. Commercial fleets have been effectively and efficiently integrated into the DOD and combatant commander plans for many years. Together, we produce unmatched mobility for the U.S. forces who respond to crises and contingencies around the globe. Unfortunately, our organic military fleets are experiencing unprecedented wear and tear resulting from the additional flying hours required to prosecute two wars. Concerned commanders, including General McNabb, have stressed that this increased wear and tear threatens not only our current readiness, but also jeopardizes our Nation's future ability to surge.

We can reduce military fleet wear and tear by increasing utilization of commercial CRAF carriers, as directed in the national air lift policy, and this will preserve and extend the critical combat life of our organic military fleets.

Modern aircraft, like the 747-400 and the new 747-8F, offer significant operating cost efficiencies, and those savings can be passed on to the American taxpayer. We need to adopt and accelerate the business processes that realize supply chain and distribution chain efficiencies, and task the most efficient and effective aircraft for those missions, as outlined by General McNabb in his earlier statement.

Mr. Chairman, I believe we have a call to action here today. We need to preserve CRAF capability and ensure its future viability. Our national security depends on our collective commitment, and a viable and vibrant CRAF preserves and creates jobs that will aid our national economic recovery.

Mr. Chairman, I appreciate the Committee's willingness to address this important issue and raise the level of awareness across the Government. We are committed to modern aircraft solutions that drive commercial economic growth and development, while standing ready to support the DOD through the U.S. Transportation Command, should the Nation call.

This concludes my remarks. Thank you.

Mr. COSTELLO. The Chair thanks you, Mr. Flynn, and now recognizes Mr. Zoeller.

Mr. ZOELLER. Thank you, Mr. Chairman, Members of the Committee. Thank you for the opportunity to appear here today to discuss the financial viability of our Nation's charter airline business and the economic viability of the Civil Reserve Air Fleet program.

As you have already heard this morning, given the global economic environment, recession, fuel prices, the occasional outbreak of H1N1 flu, these are difficult times for the air carrier industry, and that is what makes this hearing so timely.

We certainly appreciate the opportunity, as the association that represents a number of the carriers that are involved in the daily operations of CRAF, to be here today. NACA is an industry association which represents a variety of Part 121 air carrier operators, including low-cost passenger airlines, charter passenger carriers, and charter and ACMI cargo operators.

At the outset, let me say that the CRAF program has worked well and has been an instrumental part of the success of the military's operations, getting our troops and cargo to their intended destinations safely and on time. It is a model partnership between the Federal Government and the private sector, and over the last 50 years it has been continually nurtured and refined and is today a robust program.

General McNabb and General Lichte at Air Mobility Command continue to monitor the overall economic health of the carriers. Through informal and formal meetings, we work with both the generals and their staffs to provide timely updates on the status of our carriers and the industry as a whole. We believe that it is important that we continue to work together to refine and develop appropriate policies that sustain the economic viability of the carriers.

As we have already heard from General McNabb and the other witnesses today, the success of the missions rely heavily on the commercial airline industry. From April 2008 to March 2009, commercial passenger aircraft accounted for 58 percent of the transportation of troops and 32 percent of the cargo was transported by commercial aircraft.

Throughout the years, a number of U.S. troops overseas has determined the transportation requirements for TRANSCOM. As a result, the level of incentives has fluctuated. Logistic policies and programs continue to change and while most of the focus at TRANSCOM has been on the transportational logistics for the draw-down of troops in Iraq and the renewed focus in Afghanistan, TRANSCOM and AMC have begun to look towards the future when our military involvement in both countries comes to an end.

Certainly, we have heard enough of the minimum annual purchase requirement for charter carriers. A so-called minimum buy authorization language included in last year's Defense Authorization Act was important to our members and we certainly appreciate the work of Congress in providing TRANSCOM this authority, which simply authorizes TRANSCOM to take the steps necessary to improve the predictability of the DOD charter requirements.

We will be working with USTRANSCOM as it begins to implement this authority. We want to ensure that the minimum buy is set at the right level of value to ensure appropriate subscription of carriers into the CRAF program. The total value must be sufficient to provide the appropriate incentives to upgrade the aircraft, which in turn can improve the overall efficiency for CRAF operations.

While the minimum buy program goes a long way to help sustain the charter airline industry, there are other Federal policies that are equally important to the overall health of the charter industry in the United States. We are deeply concerned about the upcoming negotiations between the U.S. and the European Union as they continue discussion on the drafting of a second Open Skies agreement, which is intended to build upon the agreement which went into effect last March.

It has been made clear within the context of initial negotiations and the exchange of correspondence that the EU is extremely interested in the further liberalization of U.S. laws and regulations. In particular, the Europeans are strongly interested in an agreement which would grant European carriers seventh freedom rights.

For many years, the DOT has permitted foreign air carriers charter authority to fly U.S. passengers from the U.S. to third country destinations. A majority of the foreign carriers operating these flights pair with U.S. tour operators or other indirect air carriers in the winter months to run vacation programs from the U.S. to various destinations. These charters operate for extended periods of time, for up to four months or so, without ever returning to their home country.

The primary reason that foreign carriers are used is price. At the height of the winter travel season in the U.S., carriers around the world are experiencing a low in passenger vacation flights, and these foreign carriers have the excess capacity and aircraft and are willing to offer them to U.S. tour operators at cost to simply meet the lease payments on the aircraft. The U.S. carriers simply cannot meet this competitive advantage, thus, resulting in the lost business for the U.S. charter airlines, and we believe an ultimate threat to the long-term viability of U.S. charter aircraft participation in CRAF.

Despite some regulatory clarifications made by the DOT in 2006, we believe that DOT is routinely approving seventh freedom charters in part because the DOT argues that it has total discretion in deciding what criteria it will use for granting such permission, as they consider this an extra bilateral issue. As I mentioned, this is taking renewed importance within the context of the second agreement negotiations. The EU has proposed to formally adopt seventh freedom passenger rights in any new agreement.

We strongly oppose the adoption of seventh freedom traffic within the context of a second Open Skies agreement because we result it will result in destruction of the U.S. charter industry. First, there is no significant market in the EU for U.S. carriers to fly. Many EU residents use the extensive rail system and the advent of low-cost carriers like Ryan Air and Easy Jet. The charter market has become less viable in Europe today than before. Contrast that to the U.S., where air transportation is essential for tourists to reach their destinations.

EU carriers are attractive to tour operators because they cost generally less than U.S. carriers. There is a significant difference in the cost of the U.S. regulations compared to foreign carriers. Basically, the FAA has authority only over making sure that crew members have valid pilot certificates and that aircraft have valid air worthiness certificates.

In addition to seventh freedom rights, we have seen deterioration in the application of the Fly America Act, which requires that any contract for air transportation of passenger or property by any U.S. Government agency must be provided by U.S. air carriers. Fly America is an essential element in our national defense, as the U.S. is so dependent on the commercial air fleet for its airlift needs.

Finally, I would just add, Mr. Chairman, I was going to talk a little bit about congestion, because that continues to be a problem. We certainly appreciate the work that this Committee has done in moving a long-term, financially stable program for funding NextGen to the FAA, which is long overdue.

I was going to talk a little bit about the slot restrictions in New York, but I think Secretary LaHood today took care of that for us, so that will hopefully resolve itself through negotiations with DOT and the carriers. But, obviously, our carriers operate the entire air transportation system here subject to the same problems as our legacy carriers, so we appreciate the work and we look forward to working with you.

Mr. COSTELLO. The Chair thanks you, and let me say, as you know and I think everyone in the room knows, we passed our reauthorization bill in the House in September of 2007. We believe that that bill and the bill that we are about to move to the floor of the house, hopefully next week, has a robust funding mechanism not only to provide additional funding to the FAA to do things that they need to do as far as inspecting repair stations and a number of other things, but also provides a substantial amount of money to moving NextGen to its next step, which we all know is vitally important to the aviation system in the United States.

I thank the gentleman for his testimony, and while I have you, all of you, you might, assuming that we get to the Floor next week and have the same positive result that we had in 2007 in moving a bill out of the House, we would encourage you to go over to the other body and encourage them to pass a reauthorization bill so that we can get to conference and get a stable flow of funds into the system for the next three to four years.

With that, the Chair now recognizes Dr. Graham.

Mr. GRAHAM. Thank you, Mr. Chairman.

I directed the Institute for Defense Analyses' review of the viability of the CRAF program. IDA's August 2008 report has been released by DOD and is available to the public. I am pleased to be joined today by two of my coauthors, retired General H.T. Johnson and Dr. Jerome Bracken. I will take a couple minutes to briefly highlight the main themes of the IDA report, many of which have been hit upon already today.

First, our main findings. Today, the CRAF program is robust and is meeting DOD's needs. U.S. airlines are providing between $2.5 billion and $3 billion of air services each year to DOD. These are mostly in support of Operation Enduring Freedom and Operation Iraqi Freedom. Through the CRAF teaming arrangements, the U.S. airlines today commit to provide over 650 long-haul aircraft if called upon to meet DOD's mobilization needs for a national emergency and a total commitment of over 1,000 aircraft, as you heard earlier.

Looking forward, DOD's continuing operational demands will contribute to a healthy program. But we have one concern that was identified in our report, which is the prospect of continued reductions in the fleets of the passenger charter airlines. Their commercial revenues are in long-term decline as the tour group business has migrated to the scheduled airlines. In contrast, the demand for the commercial cargo charter airlines is strong, so the cargo industry will not have difficulty in meeting DOD's future demands.

To address this evolving situation in the airline industry, the principal recommendation of the IDA study is to implement an assured supply approach in contracting for CRAF. The primary goals of this approach are to set expectations and to create airline commitments to meet DOD's demands in all circumstances.

USTRANSCOM needs to ask the airline industry to partner in meeting a range of both preplanned and probable needs through the normal charter contract. This would avoid too rapid a move to CRAF activation in the event of unplanned military operations short of all-out national emergencies. The CRAF participants need to be able to back up their obligations for assured supply. The approach should be flexible, but, to build a proper partnership, it may be desirable to establish separate passenger and cargo teams.

In return for these commitments from the airlines, DOD would adopt proven practices that would strengthen the government-industry partnership. First, multi-year contracts would allow both USTRANSCOM and its industry partners to plan, invest, and organize their operations in a more efficient manner. Currently, Congress permits such long-term contracts under performance-based logistics in selected areas. We believe this authority should be extended to include airlift.

Second, improvements in the sharing of planning information would help the airlines to make more efficient and effective investment decisions and help them to secure financing. Our report outlines a best practice approach that is in common commercial use.

We also have recommended suspending the rule that requires the airlines to obtain no more than 40 percent of their revenues from DOD. In our view, this rule has outlived its original intent, and it likely will not be enforceable on a routine basis as the commercial revenues of the passenger charter segment continue to shrink.

Our report outlines a number of other adjustments in the CRAF program designed to improve effectiveness and efficiency. These address CRAF rate-making procedures, actions to increase the monthly utilization rates for CRAF aircraft, the structure of the Air Medical Evacuation program, and the potential to substitute commercial aircraft for DOD airlift in current operations in order to preserve the life of DOD's fleet.

DOD possesses most of the policy and management levers it needs to act on our recommendations, but Congress would need to act to extend multi-year contracting authority to CRAF.

In summary, Mr. Chairman, as you have heard several times today, CRAF has been a terrific value for the American taxpayer and an effective partnership between government and industry. We believe that the assured supply contractual approach will help prepare both DOD and the airlines to keep the program viable for the foreseeable future.

Thank you very much.

Mr. COSTELLO. The Chair thanks you, Dr. Graham, for your testimony and now recognizes the distinguished Chairman of the Full Committee, Chairman Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman.

I regret that I have to pop in and out of the Committee hearing because of other Committee activity. I wanted to take this opportunity, though, to congratulate Fred Smith, President of FedEx, for the continued support of the Civil Reserve Air Fleet. Going back to my Chairmanship of the Aviation Subcommittee, FedEx was the most dependable and the broadest based participant in the Civil Reserve Air Fleet and had very constructive observations to make back in the 1980s and in 1991, after Gulf War I, when a number of recommendations were made by FedEx and other carriers, and you still are at it.

I wanted to comment on your request for more flexibility in the type of aircraft requested in peacetime for cargo movements. I think that is a good suggestion. There were limitations fixed in the three stages of call-up of Civil Reserve Air Fleet and in the peacetime operations that can be adjusted now. As the General noted in his testimony, civilian aircraft are stronger, have heavier lift capability, have longer range, more fuel efficiency today than they did 18-plus years ago.

You also made a suggestion of the use of simulators for military flight training. Simulators are widely used in the civilian fleet and are very cost-efficient, cost-effective, and I am sure we will have an opportunity to discuss that with General McNabb later.

A suggestion made by Dr. Graham just now that the provision limiting revenues for a carrier from CRAF to no more than 40 percent of the operation, that was initiated back in 1952 and subsequently to keep fly-by-nights out of the operation to ensure or prevent any carrier becoming totally dependent upon the Civil Reserve Air Fleet for its operations, and I would like to have your comment on that, Mr. Smith.

Mr. SMITH. On the 60/40 thing, Mr. Chairman? Our opinion on it is pretty straightforward. It is currently not being enforced. The impact is primarily on the passenger side of the house, so our view is it should either be enforced or eliminated.

I think, at the end of the day, the objective, as you mentioned a moment ago, is simply to ensure that the carrier that is providing services to the Department of Defense is on sound financial footing, and that could be accomplished in ways other than the 60/40 rule. So as long as the DOD can satisfy itself that the carriers are well funded, the equipment is modern and safe, it doesn't seem to us there is any particular reason for the 60/40 rule anymore, and, as I said, it is not being observed now.

Mr. OBERSTAR. As long as the carrier has its fitness certificate, fit, willing, and able, meets those three criteria, you would be comfortable with that provision being removed?

Mr. SMITH. Yes, sir, I would, because I think as long as the DOD has the ability to assess the quality of the carrier services for its mission, you know, they are using modern airplanes, not junk airplanes, and things of that nature, and they are on sound financial footing, that is the objective of the 60/40 rule. So that can be accomplished in a way other than the 60/40 rule.

Mr. OBERSTAR. Yes.

Mr. CORETZ. Mr. Oberstar, I would like to add that I agree with Mr. Smith. First of all, from a safety point of view, as General McNabb pointed out, not only are all the airlines sitting at this table required to meet FAA 121 standards from a regulatory point of view, but we are under further scrutiny and positive scrutiny direct by the DOD under the Civil Aeronautics Review Board.

Secondly, at least from a passenger charter industry, if the 60/40 rule were enforced, there would be no passenger charter industry. Twenty years ago, 10 years ago, the passenger charter segment was $1.5 billion annual revenue stream; today, that is under an estimated $200 million.

So I think the key is safety and that there are not the fly-by-night operations that you had brought up, and that is being very adequately enforced through regulatory compliance.

Mr. OBERSTAR. Thank you. Thank you. I want to thank all the panel and thank General McNabb for his testimony earlier. I have to run off to another Committee responsibility, but I just wanted to take this opportunity again to compliment Federal Express on their consistent support of the Civil Reserve Air Fleet and the contributions, which were very substantial in Gulf War I and II.

Thank you, Mr. Chairman.

Mr. COSTELLO. Thank you, Mr. Chairman. The Chair thanks Chairman Oberstar and now recognizes the gentleman from Arkansas, Mr. Boozman.

Mr. BOOZMAN. Thank you, Mr. Chairman.

And thank all of you all for being here.

Mr. Smith, do you see your level of CRAF participation continuing in the future?

Mr. SMITH. Yes, sir. I would see no reason that it would decline.

Mr. BOOZMAN. Okay.

Any of the rest of you guys want to comment in that regard? Yes, sir.

Mr. FLYNN. At Atlas Air, we certainly remain committed to CRAF, and, as I commented in my written remarks, the new aircraft that we will begin to take delivery of will also be committed to CRAF as we on-board them to the fleet.

Mr. BOOZMAN. Good. Yes, sir.

Mr. CORETZ. I would add from a passenger point of view, Omni Air International is fully committed to meeting the passenger requirements on a continuing basis with CRAF.

Mr. BAUER. And, of course, Evergreen. We have operated this program for many years and we continue to remain committed to the program.

Mr. BOOZMAN. Thank you, Mr. Bauer.

Mr. Zoeller, in your written statement you discuss several provisions of the FAA reauthorization bill that, if enacted, will be very costly for your member airlines. Can you tell me, if enacted, what impact the implementation of these provisions might have on the CRAF program?

Mr. ZOELLER. Well, I think it goes really to the charter industry, and many of the carriers here are already low-cost operators over all. So the challenges that would be presented by some of those provisions would make their operating costs such that not to say that they would go out of business, but I think they would have to look for other business opportunities besides beyond the CRAF program.

So when you are looking at sort of the entire context of issues that confront the charter industry today, those challenges that some of the provisions of reauthorization make it more challenging for the carriers to operate, so that cost structure just would make it more difficult for them to remain in business, I think. I think some of them could answer more specifically on that, but that is sort of the concern that our members have.

Mr. BOOZMAN. What do you think are some incentives we could do to perhaps have more modern aircraft usage in the CRAF program?

Mr. ZOELLER. Well, I think that is an issue that we have been working with General McNabb, and they are certainly aware in order to bring more aircraft, more efficient aircraft into the fleet, you have to have a higher utilization rate. I think a lot of credit has to be given to TRANSCOM and AMC, because they have been trying to reduce the block time for the carriers so that they can use the aircraft in other services.

So that is one of the issues I think that is what we are looking at. I think also certainly the assured business model will at least provide some level of guarantee of revenue for the carriers that they will be able to go, hopefully, when we have a capital market, to go to the capital market and be able to acquire some of the aircraft.

Mr. BOOZMAN. Mr. Graham, in conducting your study of the CRAF program, did you interview or talk to any of the air carriers participating in the CRAF program?

Mr. GRAHAM. This was our third or fourth study of the CRAF program. We have met with the carriers I guess throughout the time that we have conducted these studies. We did not meet with anyone during the course of this particular study. We briefed a meeting where all of the airlines participated at TRANSCOM in January of this year, after concluding this study, and we had met with a large group of carriers about 15 months before that.

Mr. BOOZMAN. Very good. At least one of the CRAF participants has expressed concern that a multi-year contract will be a disincentive for CRAF participation, rather than an incentive. What was IDA's reasons for believing that multi-year contracts would improve the program?

Mr. GRAHAM. If you look at the general DOD rationale for multi-year contracts, they are put in place when companies that are supplying services to the government are required to do their business efficiently and effectively to make investments that are specialized to the relationship with the government in providing services to the government. Looking forward in the CRAF program at the degree of commitment that some airlines are going to have to make to the government business, we think that rationale applies squarely in this case as well.

Mr. BOOZMAN. Okay. Thank you very much.

Thank you, Mr. Chairman.

Mr. COSTELLO. The Chair thanks the gentleman.

Mr. Smith, I want to join in Chairman Oberstar's comments about FedEx's commitment to the CRAF program; it is well known, well documented, and the program would not be as successful as it has been without the commitment of FedEx, as well as others, but in particular FedEx. So we thank you and we assume that your company will stay committed to the CRAF program in the future.

I only have a few questions just for the record, so we can clarify a few things for the record. In your testimony, you say that FedEx opposes a system where team members must commit a certain level of peacetime and surge flying. I wonder if you might explain why FedEx opposes that.

Mr. SMITH. Well, Mr. Chairman, we think that the current team concept works well for the DOD's requirements. Simply put, you know, if it ain't broken, don't fix it. The team concept has provided, over the years, a lot of flexibility on the part of the carriers to meet the DOD's needs, and the more you put rigidity into that process, the less flexible the system is going to be.

So we just don't concur with the idea that somehow this system is not meeting the needs of DOD, except to the extent, as has been brought out in the testimony, that aircraft that are primarily passenger charter airplanes only are declining. So with that one proviso there, we think that the teaming concept works well.

Mr. COSTELLO. Dr. Graham, in your testimony you suggest that CRAF teams should either specialize in either cargo or passenger. I wonder if you might elaborate on the record.

Mr. GRAHAM. To be very clear, our point is that the CRAF teams should be capable of meeting the commitments that they make for meeting the ups and downs in day-to-day business, and our point is that, in order to be able to back up those commitments, it may require the teams to specialize. We are not advocating that they specialize.

Mr. COSTELLO. Any other member on the panel want to comment? Yes, Mr. Coretz.

Mr. CORETZ. I would comment. It was brought out earlier by General McNabb about ATA and the failure of ATA, and the team structure proved that there was very little disruption in service. Certainly, when any airline fails, there is going to be some disruption, but the other team members stepped up to the plate to provide the immediate lift required by USTRANSCOM. In addition, FedEx actually paid for seats on scheduled traffic in order to ensure that that business that was committed through the team structure was actually flown. So I think that has quite well proven the value of the teams.

Mr. COSTELLO. Mr. Bauer?

Mr. BAUER. Evergreen, of course, is a member of the Alliance team, which makes up probably the largest participation of the legacy carriers, commercial passenger carriers. At the same time, we do a significant amount of the cargo flight. The team basically manages itself to balance that commitment both at the primary carriers and then having the secondary carriers to provide the lift in the call-ups.

Mr. COSTELLO. Dr. Graham, you indicate in your testimony that TRANSCOM should revise its charter service rate-making to level the playing field for modern and classic aircraft. I wonder if you might elaborate on that.

Mr. GRAHAM. Yes. We have looked at the rate-making formulas and practices at AMC and TRANSCOM, and without going into a lot of details, the situation is that it is possible to earn a much higher rate of return on an older aircraft in the program just because the way rates are calculated today.

In looking forward, we were trying to think of a way that would help to manage the transition from the current generation of aircraft that are in the CRAF program to a next generation of aircraft. If you consider the choices that an airline would have to make with an old aircraft today, they will come to a point where a major inspection will reveal problems—this is just a fact of life—that will require either a major investment in maintaining that aircraft, or trading in that aircraft for a more modern aircraft, or parking the aircraft that they have got and reducing the amount of capacity that they offer to the government.

We think the rate-making process should encourage a decision to modernize the aircraft, so the recommendations that we made specifically would have been to essentially allow the airlines to earn the same rate of return on a newer aircraft as they earn on the older aircraft, which would allow them, when they have to make the decision about the future of their offering to DOD to choose to provide modern capacity.

Mr. COSTELLO. To the point that Dr. Graham makes, Mr. Flynn, you indicate in your testimony that, if there was a greater commitment on behalf of TRANSCOM, that it would result in CRAF carriers' ability to seek and get financing to modernize their fleet on an assured business comment. Do you want to comment?

Mr. FLYNN. Yes, thank you, Mr. Chairman. That comment in our testimony essentially builds on what Dr. Graham said, that new aircraft, for example, a new 747-8, is going to cost somewhere around $180 million for one plane. Now, it will deliver to CRAF, for example, substantially lower fuel burn, as well as substantially more cargo capacity. But if an adequate level of return can't be generated on the aircraft, it is hard to commit it and make those kinds of investments.

Mr. COSTELLO. And the commitment that you are speaking of, that if TRANSCOM made more of a commitment, it is the same commitment Dr. Graham is talking about, rate-making to level the playing field?

Mr. FLYNN. Well, I think it is a couple of things. It is certainly rate-making to reflect the capital investment in the newer asset, but then combined with it would be some of the initiatives that General McNabb talked about earlier. In his written testimony he has talked about a pilot program running aircraft direct from the U.S. to Turkey and perhaps to Kuwait, and at the same time ensuring the maximum loadability of that aircraft.

The combination of rate-making that reflects the capital commitment and some of the simple supply chain innovations that General McNabb talked about will allow the carrier to earn a return, have good utilization on his aircraft, and, we believe, ultimately lower the cost to the taxpayer because TRANSCOM would achieve the lowest cost per pound to move freight from the United States to some operating theater overseas.

Mr. COSTELLO. I thank you.

I want to let our witnesses know today that there are a number of Members who could not be here because there are other hearings going on, a lot going on today on Capitol Hill. In fact, I have another markup going up right now that I will be going to in just a few minutes, so we are about to conclude. But I wonder if any of you would like to offer, in addition to your written testimony, your comments, any other comments that you would want to offer to us to put into the record concerning not only your testimony, but the testimony of the other witnesses.

I would turn to you, Mr. Smith, first.

Mr. SMITH. Well, Mr. Chairman, I think we have laid out our position about CRAF and our commitment to it. I mentioned that we do not have any intention of decreasing our commitment to the CRAF program. We have not made a decision yet as to whether we will put in the new long-range 777 airplanes that we have on order; we have 30 of them on order.

And I would be remiss, and I am sorry the Chairman isn't here, if I didn't express to this Committee again our strong opposition to the Railway Labor Act provision that concerns FedEx that was in the FAA reauthorization bill. We think it overturns over a century of knowledge. FedEx Express has always been under the Railway Labor Act; its ground operations exist only to service the air carriers.

The issue was litigated; the Ninth Circuit Court found that it was correctly configured. Alternatively, UPS, which has a very different genealogy, that issue was also litigated and firmly decided in the Second Circuit Court of Appeals, and it is an issue that, quite frankly, we feel is a major public policy issue and an issue that, if that is what the Congress wants to look at it, it ought to be subject to hearings and a separate piece of legislation where the public interest can be represented in terms of the customers that rely on these systems.

It is a very important issue to us and, as you may know, such a big issue that, when we exercise the option on our remaining 15 777s, those orders are conditional that FedEx Express remains a Railway Labor Act carrier, those orders are cancelled. And it isn't because there is any peak on our part in any way, shape or form, it is simply a reflection of the board of directors of FedEx understanding that the purpose of the Railway Labor Act is that a system has to be a hole, that it can't be subject to local labor disruptions. That is why it was passed in 1926, after 50 years of failed labor laws. So it is a huge issue to us and it will have an impact on our company if that passes.

Mr. COSTELLO. Well, I thank you and I am sure that we have had a lively debate on the issue in the Full Committee. I am sure, when we get to the floor, that that will be one of the issues that will be fully debated not only on the floor, but if we get into conference as well. If it is still in the bill in conference, it will be certainly a subject of lively debate.

The Chair now recognizes Mr. Coretz.

Mr. CORETZ. Thank you, Mr. Chairman. I would say that if you ask the average American what they knew about the CRAF program, they would wonder what you are talking about, and the reason is it works. It is a program that has been noncontroversial, a benefit to the taxpayer, and it is a really strong program that works in concert, as everybody has said across this table, in partnership with industry and government.

The two points I would like to stress is, A, we do applaud and commend the legislation that approves the assured business model. Our hope now is a continuation of dialog between government, USTRANSCOM, and industry to implement those dollars effectively and to implement those dollars where they best use and create effective lift capacity for USTRANSCOM. I think it is key to get that legislation or the issuance of those dollars appropriated correctly.

Secondly, as far as equipment that we talked about, I would just like to add a comment. In order to add new modern, efficient aircraft, it is a function of either a higher rate to pay for it or higher utilization. The current historic DOD utilization for a passenger airplane is eight hours a day. If the utilization were 12, 14 hours a day, we could justify newer equipment. However, we don't feel that we are in a position to change how our customer does business; they are unique, distinct, and their historical perspective or use of aircraft evolves around an eight-hour-a-day utilization model.

So, in summary, I would say to that point I think industry needs to determine when it is best to equip aircraft with a different generation or type.

Mr. COSTELLO. The Chair thanks you.

Mr. Bauer?

Mr. BAUER. I would like to thank the Committee for the opportunity, also thank TRANSCOM for the opportunity to provide the service; we appreciate it. Just to sum it up, I am going to steal from Mr. Smith. If it ain't broke, don't fix it.

Mr. COSTELLO. Mr. Flynn.

Mr. FLYNN. Thank you, Mr. Chairman. We appreciate the opportunity to be here today. I think I speak for all the witnesses here today: we think CRAF works very well. We appreciate your leadership and the leadership of General McNabb, and we think there are some incremental improvements that can be made which will ultimately result in a more efficient system for TRANSCOM and for the taxpayer. Thank you, sir.

Mr. COSTELLO. Mr. Zoeller?

Mr. ZOELLER. Thank you, Mr. Chairman. Just to follow up on the exchange earlier with some of the members and General McNabb about counter MANPADS, and I think there is still an interest on some of our members about exploring a feasibility study to see if such a program would work. As you know, Department of Homeland Security had a program and we think there is at least some interest on the part of our carriers to look at that to see if that could be applied in the CRAF environment that could provide an added level of safety to the missions and provide more opportunities for the carriers.

Mr. COSTELLO. Dr. Graham.

Mr. GRAHAM. I guess my final comment would be that the issues facing the CRAF program are on the table. I think there has been a commendable amount of communication between the government and industry on these issues and kind of a healthy exploration of options as to how to move forward.

Mr. COSTELLO. Well, the Chair thanks all of you for being here today, for offering your testimony and answering the questions. I am aware that a few Members will be submitting questions in writing that we would ask that we would submit to you and ask you to submit an answer in writing so we can share that for the record with the Members who have expressed an interest in certain issues.

Obviously, the CRAF program is working well. As General McNabb testified, there is always room for improvement, and that is his job and our job, all of us, to continue to seek improvements in the CRAF program and other programs that we have responsibility for. So we stand ready as a Subcommittee to work with TRANSCOM and to work with our private partners as well in making this program even more efficient and more successful in the future.

Again, we thank you for your testimony and we look forward to working with you in the future.

That concludes the hearing and the Subcommittee will stand adjourned.

[Whereupon, at 12:53 p.m., the Subcommittee was adjourned.]

STATEMENT OF
THE HONORABLE JERRY F. COSTELLO
SUBCOMMITTEE ON AVIATION
HEARING ON
"THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET PROGRAM"
MAY 13, 2009

- I welcome everyone to the Aviation Subcommittee hearing on the Economic Viability of the Civil Reserve Air Fleet or CRAF.

- President Truman established the CRAF program in 1951 to augment the Department of Defense's (DOD) airlift capability when there is a high demand for airlift. Under CRAF, U.S. carriers voluntarily pledge aircraft and crews to support the mobilization of troops and equipment for predetermined rates. In return, DOD offers several incentives including exclusive access to charter cargo and passenger airlift business - often called "peacetime business" - when CRAF is not formally activated.

- Currently, 34 U.S. carriers have committed almost 1100 aircraft to the program. During a major war, CRAF carriers are expected to meet approximately 93 percent of DOD's passenger and approximately 37 percent of DOD's cargo requirements. It is important that members of this Subcommittee are aware of the vital role that the air transportation industry plays in our national security.

- I would like to welcome General McNabb, the Commander of United States Transportation Command (US TRANSCOM) at Scott Air Force Base in my congressional district, who is responsible for managing the CRAF program. For over 50 years, the CRAF program has been an extremely successful government and industry partnership. The CRAF program meets the military's mobilization requirements while saving taxpayers billions of dollars by foregoing the costs of procuring an organic fleet to meet those requirements. US TRANSCOM, citing a 1994 RAND study, estimates that cumulative cost avoidance associated with the program is between $43 billion and $128 billion in 2009 dollars.

- General McNabb, I think that you will find bi-partisan support for the CRAF program in this Committee. In 2007, Chairman Oberstar, Ranking Members Mica and Petri and I sent a letter to Chairman Skelton and Ranking Member Hunter of the House Armed Services Committee in support of US TRANSCOM's "assured business" proposal. This proposal would authorize DOD to guarantee a higher minimum level of peacetime business for CRAF participants. In fiscal year (FY) 2009, we were successful in getting this "assured business authority" provision included in the annual Defense Authorization Act and it will be an effective incentive for air carriers to commit aircraft to the CRAF program.

- Last August, the Institute for Defense Analyses (IDA) published a report on the CRAF program in response to a FY 2008 National Defense Authorization Act requirement. While IDA concluded that CRAF is a vigorous program capable of meeting DOD's requirements, it also expressed concerns that as the operations in Middle East begin to decrease, it could adversely impact CRAF carriers. Passenger charter carriers, which have experienced a shrinking civilian commercial market, would be particularly vulnerable. I look forward to hearing from our witnesses what additional steps can be taken to strengthen this program.

- Chairman Oberstar, Ranking Member Mica, Ranking Member Petri and I are well aware of the importance of a well-equipped CRAF program. It is essential to supporting our national security interests and helping our aviation industry remain competitive globally. I am committed to working in a bi-partisan manner to improve and strengthen this already successful partnership to assure its future viability

- Before I recognize Mr. Petri for his opening statement, I ask unanimous consent to allow 2 weeks for all Members to revise and extend their remarks and to permit the submission of additional statements and materials by Members and witnesses. Without objection, so ordered.

STATEMENT – RANKING MEMBER MICA
SUBCOMMITTEE ON AVIATION
HEARING ON
"The Economic Viability of the Civil Reserve Air Fleet Program"
May 13, 2009, 10:00am, 2167 RHOB

I thank the Chairman for calling this important hearing today.

The Civil Reserve Air Fleet (CRAF) is a voluntary contractual program where commercial air carriers agree to augment military airlift during a crisis in exchange for peacetime defense business.

CRAF air carriers help the Department of Defense (DOD) to meet airlift demands. Since 9/11, the DOD's reliance on the CRAF carriers for peacetime airlift has greatly increased. Pre-9/11 CRAF contracts amounted to $440 million. In fiscal year 2008 alone, CRAF contracts exceeded $2.4 billion.

CRAF provides up to 300 civilian aircraft to augment 292 Air Force aircraft in a conflict. DOD anticipates CRAF moving more than 90% of passengers and almost 40% of cargo in a conflict.

The CRAF Program has been a very successful public-private partnership program, saving U.S. taxpayers hundreds of millions of dollars.

But, changes in the commercial airline industry are having an impact on the CRAF Program. The civilian market for charter passenger flights has decreased dramatically. At the same time, charter operators have become increasingly dependent on the CRAF Program for business. I believe this is an issue we need to explore further.

Additionally, we need to consider what the anticipated draw down of troops in Iraq and Afghanistan and the transition to a peacetime CRAF program will mean for the program and in particular the charter air carrier industry.

Finally, the National Air Carrier Association has indicated that there are several provisions in the FAA Reauthorization bill (H.R. 915) that if enacted will be very costly for their member airlines, most of whom are facing a very challenging operating environment. I am very concerned about how the implementation of these provisions might impact air carrier participation in the CRAF Program and the economic viability of the program going forward.

This is a good program and has served this country well since 1951. I look forward to hearing from today's witnesses on the status of the program in these changing and challenging times for the aviation industry. I also want to learn if the witnesses believe there are improvements we can make to the CRAF Program.

I thank the witnesses for appearing before the Subcommittee today and look forward to their testimony. Thank you.

Statement of Rep. Harry Mitchell
House Transportation and Infrastructure Committee
Subcommittee on Aviation
5/13/09

--Thank you Mr. Chairman.

--The Civil Reserve Air Fleet is not only critical to our national security, it is also cost effective.

--According to a 1994 RAND study, replacing Civil Reserve Air Fleet capability with military aircraft would have cost the Defense Department $1 to $3 billion annually for the past thirty years.

--I look forward to hearing from our witnesses today about how the Civil Reserve Air Fleet can meet the challenges that lie ahead.

--I yield back.

OPENING STATEMENT OF
THE HONORABLE JAMES L. OBERSTAR
SUBCOMMITTEE ON AVIATION
THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET PROGRAM
MAY 13, 2009

I want to thank Chairman Costello for calling today's hearing on "The Economic Viability of the Civil Reserve Air Fleet Program." The Civil Reserve Air Fleet (CRAF) program was established in 1951 by President Truman to augment the Department of Defense's (DOD) fleet of military transport aircraft during times of high demand for airlift services. Under CRAF, the nation's passenger and cargo airlines volunteer to provide stand-by commitments to support the mobilization of troops and equipment for predetermined rates in the event of a major military contingency. In return, DOD offers participating carriers valuable "peacetime" contracts, particularly DOD charter airlift contracts, when CRAF is not formally activated.

In 1987, President Reagan issued the National Airlift Policy, which declared that military and commercial resources are "equally important" and "interdependent" in meeting wartime airlift requirements. In part, this policy reads:

> The commercial air carrier industry will be relied upon to provide the airlift capability required beyond that available in the organic military airlift fleet. It is therefore the policy of the United States to recognize the interdependence of military and civilian airlift capabilities in meeting wartime airlift requirements, <u>and to protect those national security interests contained within the commercial air carrier industry</u>.

Mr. Chairman, today's hearing provides an important context to the work that we do here in the Aviation Subcommittee. During a major war, CRAF commercial carriers meet approximately 93 percent of DOD's passenger and approximately 37 percent of DOD's cargo requirements. Even today, in a so-called "peacetime" status, commercial airlines are responsible for meeting almost all of DOD's passenger airlift requirements. It is important for members of this Subcommittee to be cognizant of the vital national security interests contained within the commercial airline industry that we oversee and regulate. The American air transportation industry is an integral component of American airpower, and by extension, American national power.

I want to welcome General McNabb, the Commander of U.S. Transportation Command (US TRANSCOM). By all accounts, for over a half-century, CRAF has been an extremely successful partnership between government and industry to leverage industry resources, meet military requirements, and save American taxpayers money. A 1994 RAND study stated that replacing the CRAF capability with military aircraft would cost DOD between $1 billion to $3 billion annually. Based on this study, US TRANSCOM estimates that the cumulative cost avoidance by using commercial carriers in 2009 dollars is between $43 billion to $128 billion dollars.

General McNabb, I think that you will find that members of this Subcommittee are extremely supportive of the CRAF program. In 2007, the bipartisan leadership of this Committee wrote to the House Armed Services Committee in support of US TRANSCOM's request for "assured business" authority. With this authority, US TRANSCOM will be able to increase the guaranteed minimum amount of business that it provides each year to CRAF carriers so as to incentivize these carriers to continue participating in the program. We are pleased that this request was granted in the Fiscal Year (FY) 2009 National Defense Authorization Act, and we look forward to hearing from our witnesses if there are any other steps that can be taken to strengthen the CRAF program.

Mr. Chairman, within the last two years, the Congressional Budget Office, the Council for Logistics Research and the Institute for Defense Analyses have published reports on the CRAF program. The consensus has been that CRAF is a robust program capable of meeting the DOD's needs. However, some concerns have been raised about the status of the passenger charter industry, which provides the overwhelming majority of DOD's passenger airlift requirements. According to US TRANSCOM, in FY 2008, six passenger charter airlines provided 93 percent of DOD's passenger airlift and three of these provided 77 percent of the total.

At the same time, the civilian passenger charter market has shrunk considerably. According to the Bureau of Transportation Statistics, between 2003 and 2008, U.S. passenger charter airlines have reduced civilian commercial system capacity (as measured by available seat miles) by 47 percent and civilian revenue passenger traffic (as measured by revenue passenger miles) for these airlines has declined 50 percent. As the DOD prepares for the eventual draw down of military activities in the Middle East, there is a concern as to whether some of these carriers have become too dependent on CRAF business, making them vulnerable in a post-Iraq/Afghanistan environment. To its credit, US TRANSCOM is already taking steps to provide a "soft landing" for this industry post-Iraq/Afghanistan, and I look forward to hearing from our witnesses on this issue.

Thank you again, Mr. Chairman, for holding this hearing.

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Testimony of

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Before the
Committee of Transportation and Infrastructure's
U. S. House of Representatives

Regarding:
The Economic Viability of the Civil Reserve
Air Fleet (CRAF) Program

Wednesday, May 13, 2009

MR CHAIRMAN, MEMBERS OF THE COMMITTEE, ON BEHALF OF THE MEN AND WOMEN OF EVERGREEN INTERNATIONAL AIRLINES (EIA). I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE CIVIL RESERVE AIR FLEET (CRAF) AND THE ROLE EVERGREEN PLAYS IN CRAF PEACETIME AND CONTINGENCY OPERATIONS AND PLANS.

FOR OVER SIXTY YEARS THE PARTNERSHIP BETWEEN THE DEPARTMENTS OF TRANSPORTATION, DEFENSE AND THE US CIVILIAN AIR CARRIERS HAS CONSTANTLY ASSURED AIRLIFT SERVICES BEYOND THOSE AVAILABLE WITHIN THE FEDERAL GOVERNMENT TO MEET THE NATION'S MOBILITY NEEDS. UNDER ANNUAL CONTRACTS, CRAF PROVIDES THE CAPACITY, CAPABILITY, AND EXPERTISE OF THE CIVIL INDUSTRY TO AUGMENT MILITARY NEEDS. ALL CRAF CARRIERS ARE VOLUNTEERS THAT, IN RETURN FOR A SHARE OF PEACETIME AIRLIFT BUSINESS, COMMIT AIRCRAFT, CREWS, AND INFRASTRUCTURE TO MEET DEFENSE WARTIME AND CONTINGENCY REQUIREMENTS. THIS PRIVATE SECTOR COMMITMENT, INVOLVING BILLIONS OF DOLLARS IN HARDWARE, THOUSANDS OF CREWMEMBERS AND SUPPORTING PERSONNEL, AND BILLIONS MORE DOLLARS IN LIFE CYCLE COSTS IS MADE AVAILABLE ON CALL WITH NO COST TO THE GOVERNMENT UNTIL UTILIZED. THIS ALLOWS THE DEFENSE DEPARTMENT TO AVOID EQUIPPING, TRAINING AND MAINTAINING A HUGE FLEET OF PASSENGER, CARGO, AND AERO-MEDICAL EVACUATION RESOURCES, WHICH WOULD LARGELY BE STATIC AND CONSUME MULTI-BILLION DOLLAR PUBLIC SECTOR APPROPRIATIONS THAT ARE SORELY NEEDED FOR OTHER PURPOSES. CRAF ACTS AS A GUARANTEED AIRLIFT SAFETY NET, USED WHEN NEEDED IN TIMES OF PEACE AND RAPIDLY AVAILABLE WHEN CALLED INTO SERVICE.

IN THE HISTORY OF CRAF THERE HAVE BEEN THREE PARTIAL ACTIVATIONS, TWO DURING DESERT SHIELD/DESERT STORM IN 1990-1991, AND A THIRD AT THE ONSET OF OPERATION IRAQI FREEDOM IN 2003. IN EACH OF THESE ACTIVATIONS CRAF AIRCRAFT AND CREWS PROMPTLY AND FULLY MET DOD'S CONTINGENCY NEEDS.

STUDY AFTER STUDY HAS CONCLUDED THAT WITHOUT CRAF THE NATION'S MILITARY READINESS WOULD BE AT RISK, AS MILITARY PLANNERS COUNT ON CRAF FOR UP TO 90% OF TROOP DELIVERIES AND FULLY ONE THIRD OF PLANNED CARGO MOVEMENTS.

THE 1987 NATIONAL AIRLIFT POLICY ENCAPSULATES THE INTERDEPENDENCE OF MILITARY AND CIVILIAN AIRLIFT, ASSIGNING MILITARY AIRLIFT TO THOSE TASKS FOR WHICH CIVIL LIFT IS UNAVAILABLE OR INSUFFICIENT. CRAF IS ASSIGNED THOSE OTHER OPERATIONS THAT DO NOT REQUIRE THE SPECIALIZED LIFT CHARACTERISTICS OF MILITARY AIRLIFTERS.

TODAY, CRAF OPERATORS, WORKING UNDER CONTRACT TO U.S. TRANSCOM, ROUTINELY DELIVER PASSENGERS AND CARGO AROUND THE WORLD. SHOULD THE NEED ARISE FOR ANOTHER FULL OR PARTIAL ACTIVATION OF CRAF, ITS CARRIERS ARE CONTRACTUALLY COMMITTED TO MEET DEFENSE REQUIREMENTS AT A PRE-ARRANGED COST PER PASSENGER MILE OR CARGO-TON MILE. WITH CRAF CONTRACTS IN PLACE, THE DOD CAN NOT ONLY COUNT ON CIVIL AUGMENTATION, BUT WILL KNOW THE COSTS OF ANY SUCH ACTIVATION.

IN BRIEF, MR CHAIRMAN, CRAF REPRESENTS THE BEST OF A PUBLIC/PRIVATE PARTNERSHIP. IT IS A PARTNERSHIP TESTED IN TIMES OF CONTINGENCY AND EXERCISED DAILY THROUGH THE U.S. TRANSCOM CRAF CONTRACTING PROVISIONS, WHICH WE BELIEVE HAVE SERVED THE PROGRAM FOR MANY YEARS. ABRUPT CHANGES TO THESE PROVISIONS, INCLUDING ELIMINATING OR ALTERING TEAMING ARRANGEMENTS, WOULD HAVE SIGNIFICANT DOWNWARD AFFECT ON CRAF PARTICIPATION. EVERGREEN IS A MANAGER OF THE LARGEST TEAMING AGREEMENT INVOLVING ALMOST 50% OF THE CRAF AIRCRAFT AND WE WELL UNDERSTAND OUR PARTNERS CONCERN FOR CHANGES AFFECTING THEIR PARTICIPATION.

IT MUST ALSO BE NOTED THAT MAINTAINING A VIBRANT CRAF IS DEPENDENT UPON A LEVEL OF PEACETIME AIRLIFT BUSINESS TO SUSTAIN CURRENT CRAF COMMITMENTS. IT IS THE ROBUST AND ASSURED LEVEL OF PEACETIME CONTRACT DOLLARS THAT ALLOW CRAF PARTICIPANTS TO OPERATE DAILY FOR THE DOD. REDUCING THAT LEVEL OF BUSINESS WOULD BE DETRIMENTAL TO CRAF PARTICIPATION, AND AS A RESULT, NATIONAL SECURITY WILL BE JEOPARDIZED. WE APPLAUD CONGRESS FOR PASSING THE ASSURED BUSINESS LEGISLATION AFFECTING CRAF CONTRACTING. HOWEVER, WE WOULD SUGGEST IT SHOULD BE EXTENDED BEYOND PASSENGER OPERATIONS AND INCLUDE CARGO AS WELL.

FOR ITS PART, EVERGREEN IS PROUD OF THE FACT THAT IT HAS BEEN A CRAF CARRIER SINCE ITS INCEPTION. YEAR AFTER YEAR, EVERGREEN HAS OPERATED PEACETIME CARGO MISSIONS FOR DOD AND HAS BEEN AT THE FOREFRONT OF MISSIONS OPERATED DURING CRAF ACTIVATION. TODAY EVERGREEN OPERATES A FLEET OF CLASSIC B-747 CARGO AIRCRAFT. TO BETTER RESPOND TO DOD NEEDS WE ARE ASSESSING THE COST/BENEFIT OF FLEET ENHANCEMENT TO MORE MODERN 747'S, WHICH OFFER INCREASED PAYLOADS AT SIGNIFICANTLY LESS COST, ESPECIALLY IN TERMS OF FUEL. WE ARE COGNIZANT OF THE NATION'S CONTINUED DEPENDENCE ON FOREIGN PROVIDED FOSSIL FUEL AND HOPE THROUGH THESE EFFORTS TO DO OUR PART FOR THE STRATEGIC AND ENVIRONMENTAL BENEFITS THAT WILL ACCRUE.

WHILE WE ARE EAGER TO PROCEED ON OUR RE-CAPITALIZATION PLAN, THE NATION'S CURRENT ECONOMIC PLIGHT HAS THWARTED OUR ATTEMPTS TO OBTAIN SUITABLE CREDIT AND TERMS TO SATISFY THIS EFFORT. WE ARE IN SEARCH OF A BOLD NEW LEADERSHIP APPROACH, WHICH WOULD AFFORD EVERGREEN, AND ANY OTHER CRAF CARRIER, THE OPPORTUNITY TO UPGRADE OUR AIRLIFT FLEET. THE OBAMA ADMINISTRATION AND CONGRESS HAVE RECOGNIZED THE IMPORTANCE OF MEASURES TO STIMULATE THE ECONOMY.

PROVIDING SUCH A STIMULUS TO THE CRAF CARRIERS MAKES GOOD SENSE FOR ALL OF THE REASONS ABOVE, AS WELL AS STIMULATING EMPLOYMENT IN THE MANUFACTURE AND RE-MANUFACTURE OF COMMERCIAL AIRCRAFT TIED TO THE CRAF.

EVERGREEN LOOKS TO YOUR LEADERSHIP, MR CHAIRMAN, TO ASSIST THE US COMMERCIAL AIR CARRIER INDUSTRY TO REAP THE MANY BENEFITS ASSOCIATED WITH INCORPORATING MODERN AIRCRAFT INTO THEIR FLEETS. WE WOULD BE PLEASED TO WORK WITH YOU AND THE COMMITTEE TO CREATE AND IMPLEMENT ANY SORT OF INCENTIVE OR STIMULUS PROGRAM. IT MAKES GOOD SENSE FOR THE INDUSTRY AND FOR OUR NATION.

THANK YOU MR CHAIRMAN FOR YOUR ATTENTION TO THESE REMARKS AND I AM PREPARED TO ANSWER ANY QUESTIONS YOU OR THE COMMITTEE MEMBERS HAVE.

TESTIMONY

OF

ROBERT K. CORETZ

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STATEMENT OF
ROBERT K. CORETZ
CHAIRMAN
OMNI AIR INTERNATIONAL, INC.
BEFORE THE
HOUSE AVIATION SUBCOMMITTEE
"THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIRFLEET PROGRAM"
MAY 13, 2009

As Chairman of Omni Air International, Inc. (Omni), a United States Federal Aviation Administration certificated Part 121 passenger charter airline based in Tulsa, Oklahoma, it is my distinct privilege to appear before this House Aviation Subcommittee to discuss "The Economic Viability of the Civil Reserve Air Fleet Program".

Providing passenger air charter service is the core competency of our airline, hence, my comments will be focused on the passenger charter segment of the industry and its relevance to the CRAF program. Omni has been an approved CRAF carrier since 1998. Since that time Omni has been an active and significant participant providing passenger operations to the Department of Defense (DoD). It is important to note that the passenger charter segment of the industry and its support of CRAF are unique and distinct. Therefore, while I believe the points contained in this testimony are fully applicable to the passenger charter segment, the exact same issues do not necessarily directly correlate to those issues in other airlift sectors such as the charter freight segment. Each airline sector within CRAF needs to be independently evaluated based on its own unique circumstances.

From January 2003 through September 2008, Omni, along with other charter and scheduled passenger airlines, safely transported over 2.8 million troops in support of DoD operations in Iraq. During the period of September 2001 through September 2008, US passenger airlines transported an additional 735,000 military personnel in support of DoD operations in

Afghanistan. With the most recent CRAF activation in 2003, and only the second activation of the CRAF program in its 57 year history, commercial passenger airlines transported over 254,000 troops in support of Operation Iraqi Freedom. Throughout the four and one-half month period of activation in 2003, commercial passenger airlines operated 1,625 missions with 51 aircraft. Notably, and importantly, of the three time periods just described, passenger charter airlines including Omni Air International, World Airways, North American Airlines, ATA, Ryan International Airlines and Miami Air provided nearly 90% of all lift requirements. Legacy scheduled airlines including Continental, Delta, Northwest, American Airlines and United Airlines provided the remaining 10% minority of the required military transportation.

Why this disproportionate amount of business between the charter carriers versus the scheduled carriers? The substantial majority of USTRANSCOM passenger demand requires mission flexibility. This airlift is being met daily by the charter carriers.
In fact, the vast majority of DoD missions are booked within a three-week operating window. Charter airlines are "in the business" of providing on demand lift based on the customer's schedule, not the airline's schedule. While scheduled airlines provide an important and meaningful role within CRAF, mostly focused on the war time Stage III requirement, the fact remains that large scheduled airline operating systems are rigid and do not successfully allow for the elasticity required to meet routine DoD operating demand. The charter carriers step forward everyday to meet DoD airlift needs. The charter carriers are those the nation regularly counts on for mobility and readiness no matter what the contingency or mobilization requirement. Omni is proud to be among this elite group of airlines.

Maintaining a continued strong, viable and robust CRAF requires a national focus on those elements that optimize commercial fleet participation along with best value for the government. The charter carriers are now, as we speak, providing the majority if not all of the augmentation

DoD needs to support our troops in Afghanistan, Iraq and other military efforts around the world.

In any national crisis, the charter carriers are the first responders to USTRANSCOM with a "Can Do" philosophy to get the job done. An example in recent time is that of the mass evacuation of US citizens needing to return home from Lebanon after the eruption of war in the region. Charter airlines immediately played a critical role in the evacuation.

An intimate understanding is needed from the unique perspective of charter passenger airlines and their role supporting USTRANSCOM in order to fully understand the charter airlines value within the CRAF program.

Specifically addressing the topic of today's hearing, "The Economic Viability of the CRAF Program", I believe there are four fundamental issues that need to be carefully considered:

MINIMUM ANNUAL PURCHASE

The passenger charter airline industry, which supports the daily mission critical needs of USTRANSCOM, commends Congress for passing the 2009 National Defense Authorization Act. Passage of this bill was a necessary step allowing the Secretary of Defense the authority to improve predictability of DoD charter requirements. A key component of this legislation allows for a minimum annual purchase for carriers participating in the CRAF program. To meet peacetime contingency needs, as well as wartime preparedness, it is crucial that the execution of this program be pragmatic, effective and efficient.

In order to achieve a healthy, viable, and sustainable CRAF it is essential that future funding is not only allowed, but appropriated, and assured business be directed appropriately to the sector of the airline industry that has repeatedly proven its ability to provide the pipeline of transportation required in support of the majority of USTRANSCOM operations. To do otherwise would be reckless and not consistent with our national commitment of readiness.

As previously stated, the routine contingency operations of the DoD for the transportation of its troops require airlines that are always flexible and can provide on demand lift as necessitated ultimately by the USTRANSCOM customer. Implementing an effective assured business model should focus on charter airlines. One only needs to look at the statistic that charter airlines provide over 90% of all commercial USTRANSCOM airlift to derive that it is the charter carrier who provide the lion's share of capability to respond on short notice. It is the charter carrier who is always fully prepared to go anywhere at any time to meet USTRANSCOM demand. It is the charter carrier who attracts the scheduled carriers to participate in CRAF by paying commissions to scheduled airlines, incentivizing them to join teaming arrangements. Additionally, the charter carrier acts as an important buffer to the scheduled carriers participating in CRAF who typically do not desire to operate USTRANSCOM peacetime contingency or wartime business due to the disruption of their scheduled systems, low daily DoD utilization, rigid operating structures and unattractive revenue rates for their cost structures.

To maximize the benefit of assured business dollars, the priority of appropriated funding needs to be placed on having the most aircraft tails available at the least possible cost to USTRANSCOM. The best way to achieve this is through a model I call the "Fire Truck Model". In order for a firehouse to be successful, it must always have a predetermined number of fire trucks at the ready. In order for USTRANSCOM to be successful, it must always have charter aircraft at the ready, i.e., assured readiness.

Aircraft costs contain both fixed and variable components. For example, fixed components include airplane purchase or lease costs, insurance, crews and some aspects of maintenance. Variable components include fuel and oil, catering and ground handling.

For purposes of illustration, I offer the following example of the "Fire Truck Model":

> *Assume a wide body aircraft generates $40 million of total annual revenue. Let's further assume that 40% of this revenue is incurred from fixed costs and 60% as a result of variable costs. Next, let's assume that DoD determines that for upcoming years that in order to meet historical contingency demand it believes that there will be a required steady state of 25 Wide Body Equivalent (WBE) aircraft necessary and "at the ready" to meet anticipated contingency airlift. If minimum assured business were to guarantee 25 WBE at a cost of total annual fixed and variable expense of $40 million each, the total annual commitment for these 25 aircraft would equate to $1 billion dollars. However, USTRANSCOM does not know how many hours they may actually use the total aircraft fleet in advance of its commitment. Under the example thus far, DoD would be guaranteeing variable costs that may or may not ever be flown. Our proposal under the "Fire Truck Model" achieves the goal of paying for assured readiness at the least possible cost, works as follows;*
>
> (i) *USTRANSCOM determines 25 WBE aircraft are required to maintain readiness,*
>
> (ii) *utilize minimum assured dollars to guarantee only the FIXED costs of the operation,*
>
> (iii) *do not guarantee but pay the variable rate only when aircraft fly. Under this scenario, the same 25 WBE aircraft can be "at the ready" for a $400 million dollar commitment versus a $1 billion commitment. This concept would assure mobility at the least possible cost.*

This "Fire Truck" methodology optimizes assured business funds to achieve maximum readiness at the best value to USTRANSCOM.

Focusing the minimum annual purchase on the charter sector will ensure a viable CRAF program that optimizes the readiness and daily mobility required by the DoD. Without assured business directed to charter airlines, DoD would risk a substantial reduction in available assets to meet the daily demand required by USTRANSCOM. Specifically, if assured business funding is not directed to the sector of the industry that provides nearly all of the USTRANSCOM airlift to the DoD then charter airlines would be forced to reduce capacity due to uncertainty of demand. This is a strong risk in an environment anticipating downward trends due to the forecasted reduction in military forces worldwide. As charter airlines are the "backbone" of national mobility, readiness, peacetime contingency and wartime troop movements, I urge decision makers involved in implementation of minimum annual purchase to confer with the charter sector of the airline industry in this process. The previous attempt to implement "Long Term Expansion" and supplant typical contingency operations with a more rigid advance scheduling methodology was not successful due to the impracticality of the DoD to always predict exact dates of airlift requirements months in advance.

With respect to awarding USTRANSCOM business, careful consideration should be given to adopting a competitive approach to contracting in place of the current Uniform Rates and Rules based on mobilization value points (MVP). It is our strong opinion that competitive bidding in lieu of the Uniform Rates and Rules methodology would severely impair the long term economic viability of the CRAF program. Current rates are based on CRAF carrier's historical costs over a two-year period, weight averaged into a single Uniform Rate per seat-mile. USTRANSCOM's objective in establishing these rates is "...to have a pool of accurate cost data that fairly represents the cost of providing DoD charter service" [Notice of Proposed Fiscal Year 2010 (FY10) Uniform Rates and Rules for International Service]. Introducing a competitive rate structure would have a negative effect by creating price instability leading to drastic destabilization of qualified CRAF operators.

RECOMMENDATION:

Minimum Annual Purchase should; a) focus appropriated funding directly to the passenger charter airlines who bring the warfighter to the fight, b) assure optimum readiness, at least cost and best value, through the "Fire Truck Model", c) utilize Uniform Rates and Rule's.

MULTIYEAR CONTRACTING

The current CRAF contracting process awards business on an annual basis. Airlines, however, make long term commitments and substantial investments not only in equipment but in training, technical support and personnel. Airlines spend millions of dollars on each aircraft performing heavy maintenance including airframe and engine overhaul costs which cannot be recaptured on an annual basis. These investments require long term financial commitments by the airline in order to secure adequate financing. Multiyear contracting would be beneficial to the DoD and further strengthen the health of the CRAF program. This concept would allow carriers to more adequately plan financial investments. Long term financial planning will yield savings that would ultimately pass through to the direct benefit of the government.

With the current annual contract award cycle and no guarantee of long term business, the industry has to speculate on what they perceive the future DoD demand will be. Under the current annual contracting methodology the DoD is taking substantial risk that the commercial sector appropriately predicts future demand.

Without multiyear contracting, the DoD may be in a position of inadequate readiness to meet airlift requirements. With the DoD and the airlines working collectively to forecast longer term demand, the risk of inadequate airlift capacity would be mitigated.

RECOMMENDATION:

Establish multiyear CRAF contracting with adequate funding to provide a baseline of mobility to meet USTRANSCOM historical contingency requirements

UTILIZATION AND FLEET MODERNIZATION

As a consequence of peacetime contingency or wartime schedule unpredictability, airlines supporting DoD business are challenged with operations achieving low annualized aircraft utilization. While all airlines would enjoy operating new modern aircraft, high capital costs for modern equipment coupled with low utilization USTRANSCOM operations would not be fiscally viable.

As with any business, airline cost structures have both a fixed and variable component. There is no question that modern aircraft provide efficiency particularly with respect to fuel savings. However, new aircraft also come with a high capital cost. Financial modeling of high capital cost aircraft yields a result that dictates high utilization in order to effectively amortize the capital cost of the aircraft. Industry experts would suggest that new aircraft require utilization rates in excess of 12 hours per day in order for the benefits of these assets to be economically viable.

Conversely, classic aircraft that may not be as fuel efficient as new aircraft, have significantly lower capital cost. In general, USTRANSCOM business generates average daily utilization of eight hours per day. Economic modeling of aircraft in low utilization programs dictates that new aircraft are not affordable for fiscally responsible airlines to successfully operate.

It would be nice if the DoD were able to plan the next war or plan in advance all of its year round peacetime contingency business; however, this is obviously illogical thinking. Over the past decade that Omni has been operating USTRANSCOM business, we have been successful by choosing the best, most reliable assets, at the most competitive price to meet our customers' demands. It should be up to the airline to choose what type of aircraft best suits the business as long as the operation is safe, reliable and comfortable for our military personnel. The current fleet of commercial passenger aircraft meets these requirements. However, if the DoD desires fleet modernization, a careful economic study would be required to examine high capital cost assets operating in a low utilization environment. The outcome will result in a significantly higher Uniform Rate in order to successfully deploy modern aircraft. Lastly, for airlines to make investments in fleet modernization there will have to be a substantial base of assured business and multiyear contracting for justification to make this shift.

It is incumbent upon the airline to discern and operate the most effective aircraft type that best matches the business under the current Uniform Rate. No passenger charter airline could afford to speculate on providing new aircraft for an eight hour daily utilization program with missions not known until only days or weeks in advance of the actual operation and no guarantee of what subsequent future long term business would be, particulary at the current uniform rate.

RECOMMENDATION:

Since its inception, DoD business has always been a low utilization program. It is beneficial to the government to allow airlines to determine what assets provide the best value.

If fleet modernization is desired, the DoD should be prepared to provide funding to allow airlines an assured business base, multiyear contracts and significantly higher Uniform Rates to pay for high capital cost aircraft operating in a low utilization environment.

60/40 RULE

The 60/40 rule for passenger charter airlines should be permanently abolished. This policy requires air carriers operating CRAF business to maintain 60% of their total business from commercial sources. It is a policy that has been consistently waived in recent times. While there was a time in aviation history that the 60/40 rule may have been meaningful, it is no longer advantageous to government or industry.

The 60/40 rule was implemented years ago partly because of safety concerns that charter carriers operating only DoD business may not have the same safety standards if not heavily regulated under the same rules as commercial customers.

Today, this is of no concern as charter carriers are certified in accordance with full compliance of FAA Part 121 regulations. Additionally, the Secretary of Defense requires the Commander of USTRANSCOM to approve supporting CRAF carriers through an extensive safety audit process (32 CFR 861).

Separately, It is not beneficial for the government to mandate what mix of business commercial passenger carriers should operate. It is beneficial for the government to allow airlines to make prudent business decisions based on sound business principles and fiscal responsibility to determine what business they should operate. The 60/40 rules did not save Rich International, Tower Air or ATA, all of which met the intent of this rule, from entering the airline graveyard.

The past decade in aviation history has irrevocably changed the complexion of the passenger charter industry. Prior to the economic downturn of the late 1990s, the charter industry was thriving and generating an estimated $1.5 billion of annual revenue. Until the early 2000 time frame, charter airlines provided full plane load aircraft contracting with tour operators. The fundamental market of the tour operators was to provide lift via full plane load capacity to specialized and unique niche leisure destinations that were mostly under served, if not served at all, by major US scheduled airlines. During times of worldwide economic growth, while tour operators were focused on leisure destinations, large scheduled airlines focused their route structure on demand generated primarily from the business traveler and secondarily from leisure markets. Seats sold to the business traveler resulted in an attractive high yield product while leisure travel resulted in low yield business.

As a result of factors including the economic downturn of the late 1990s, growth of low cost airlines, 9/11, SARS, exorbitant fuel costs and the current global economic meltdown, legacy scheduled air carriers began to re-think their business plans. The outcome was the advent of legacy scheduled carriers now aggressively competing for leisure travel. Previous core markets, largely served by tour operators, now became a target market for legacy and low cost scheduled airlines. With the benefit of hindsight, over the past decade, it is obvious that tour operators began migrating away from committing to full plane load charters in favor of committing to book blocks of seats on scheduled airlines now aggressively serving what once were, historically, markets only served by charter airlines. The net result over the course of the past 10 years has been a dramatic shift in the domestic passenger charter markets that has shrunk from a vibrant $1.5 billion annual revenue stream to the current relatively small market of approximately $200 million of annual charter business.

The resulting impact and the dynamic change in the tour operator market described above makes it impracticable, if not impossible, to achieve a mix of 60% commercial and 40% government business. Additionally, we are not familiar with other sectors within the defense industry where such a rule is imposed.

RECOMMENDATION:

Permanently abolish the 60/40 rule for CRAF passenger carriers. This rule does not enhance safety nor encourage airlines to act fiscally responsible. It is advantageous to the government to allow airlines to make prudent business decisions with respect to their customer base as opposed to mandating business that may be economically disadvantageous. DoD and commercial business are cyclical and airlines will adjust their business through prudent business decisions rather than unrealistic government mandate.

CONCLUDING REMARKS

The past success of the CRAF government program and industry partnership will evolve to a new level of success, with the benefit of hindsight, only by understanding the current challenges and taking appropriate action.

In summary, such specific actions must include:

1. Minimum Annual Purchase which a) focuses appropriated funding directly to the passenger charter airlines who brings the warfighter to the fight, b) assures optimum readiness, at least cost and best value, through the "Fire Truck Model", c) utilizes Uniform Rates and Rules.
2. Understand USTRANSCOM's utilization requirement. This becomes the economic driver dictating best value assets to provide passenger airlift to USTRANSCOM. Such assets should be selected by industry through responsible economic modeling.
3. CRAF can be further stabilized by providing multiyear contracting. This provides predictability to airlines, ultimately benefitting DoD with stability and cost savings which come through long term planning.
4. The 60/40 rule is antiquated and should be permanently abolished. It is advantageous to the government to allow airlines to exercise fiscal responsibility in determining their customer base. An arbitrary business mix requirement is detrimental to the government causing destabilization of airlines.
5. Congress and USTRANSCOM decision makers should collaborate with the passenger charter industry for successful implementation of any changes in CRAF policy.

Incontrovertibly, since its inception in 1952, the CRAF program has proven to be a successful government and industry partnership. The CRAF program has repeatedly demonstrated its significant economic value to the American taxpayer. If the U.S. Government were to invest in a fleet of aircraft equal to the capacity brought to the current CRAF program from the civil aviation sector, such asset investments would exceed $200 billion. In addition to the cost of the assets, the annual expense to the government to appropriately staff and maintain an operation at the equivalent size of the current Civil Reserve Air Fleet would be additional tens of billions of dollars. Providing access to a large number of commercial aircraft "at the ready" for USTRANSCOM, while at the same time greatly reducing the need for the DoD to invest in and maintain large numbers of organic military airlift assets, exemplifies a true win/win partnership.

In closing, CRAF enjoys an enviable proven track record. USTRANSCOM is an exceptional customer with unique requirements. While CRAF remains strong and viable there certainly is room for modification to assure its future health and success. Such improvements can only be achieved by spending dollars wisely that appropriately align with the customer's need of flexible mobility. The economic viability of the CRAF program can be maintained by thoughtful implementation of the specific actions including recommendations in this testimony. We urge those involved in future decision making of CRAF policy to seek continued guidance from its partners in the passenger charter industry.

STATEMENT OF

WILLIAM J. FLYNN

PRESIDENT AND CHIEF EXECUTIVE OFFICER

ATLAS AIR WORLDWIDE HOLDINGS, INC.

BEFORE THE

SUBCOMMITTEE ON AVIATION

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

May 13, 2009

THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET (CRAF) PROGRAM

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STATEMENT OF
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PRESIDENT AND CHIEF EXECUTIVE OFFICER
ATLAS AIR WORLDWIDE HOLDINGS, INC
BEFORE THE
SUBCOMMITTEE ON AVIATION
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ON
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MAY 13, 2009

Good Morning Chairman Costello, Congressman Petri and Members of the Committee.

I am Bill Flynn, President and Chief Executive Officer of Atlas Air Worldwide Holdings (AAWW), Inc., parent company for Atlas Air and Polar Air Cargo. On behalf of the 1,500 men and women of Atlas, I want to thank you and the committee for the opportunity to participate in this hearing and share the Atlas perspective on the present value and future economic viability of the CRAF Program.

Introduction

The strength of our company begins with our people. Of the 1,500 employees of Atlas, 900 of those are pilots and aircrew...of those, 324 have prior military aviation experience, and 34 currently serve as members of the Air National Guard and Air Force Reserve. Atlas (or AAWW) operates the world's largest fleet of Boeing 747 freighter aircraft and is a proud and committed participant in our nation's Civil Reserve Air Fleet (CRAF) Program. Our fleet consists of 29 Boeing 747 freighter aircraft. 21 of these aircraft are modern purpose-built Boeing 747-400Fs, the most technologically advanced and efficient nose-loading freighter flying today. We are a launch customer for Boeing's newest 747-8F freighter and expect first deliveries in the fourth quarter of 2010. We currently have 12 Boeing 747-8Fs on order (approximately $2.0B value) and options for an additional 14 aircraft. These aircraft will replace the balance of our retiring 747-200 Classic fleet and represent a significant modernization effort to support our commercial business base. We intend to commit these modern 21st century freighters to the CRAF, consistent with the direction given by the Congress in the 2009 National Defense Authorization Act. The 747-8F will be a game-changer for the air freight industry and will meet or exceed the requirements of our major commercial customer base. The 747-8F offers our customers even lower unit cost than the B747-400F with more volume, more payload, more range...and uses less fuel. Both of these variants are equipped with nose and side-loading doors which provide significant outsized cargo loading capabilities while reducing ground time.

I would like to point out to the committee that Atlas conducts its own in-house training for our pilots and crew. The excellent quality of this training resulted in the award of training contracts from the U.S. Air Force for the pilots and crew of Air Force One and the E-4B Airborne Command and Control Wing at Omaha, Nebraska.

Atlas provides the global airfreight industry with unmatched technology and innovative solutions that enable our customers to drive profitable growth. Atlas is one of the few American-flagged carriers that other foreign airlines contract for outsized and heavy airlift requirements. These customers include British Airways, Emirates, Qantas and DHL Express, to name a few. We have extensive global experience and our business model supports the global trade routes on six of the seven continents. In 2008, AAWW operated over 19,000 flights, serving 316 destinations in 110 countries.

We are a publicly traded company and are listed on the NASDAQ (AAWW). Our annual revenues in FY 2008 were $1.6B. CRAF represents 25 percent of our annual revenues. Commercially, we provide high end express service in the movement of technology and consumer goods, construction and infrastructure equipment, high-end fashion goods, perishable foods, fruits and vegetables, livestock, and pharmaceuticals.

For the past decade, Atlas has provided the Department of Defense through the United States Transportation Command (TRANSCOM) and the Air Mobility Command (AMC) wide-body international long haul cargo aircraft. Atlas has and is today, flying logistic resupply and sustainment missions in support of our troops in Iraq and Afghanistan. We consistently exceed the stringent departure and service reliability standards set by AMC (92% on time and 99.8% completion vs the AMC standards of 85% and 85% respectively), a testament to the quality and commitment of our people coupled with our agile global support network. Atlas also has a reputation for responding to short-notice AMC mission tasking. In 2008, we supported over 60% of AMC's short-notice add-on CRAF missions and received AMC's highest performance ratings.

Background

The CRAF program was established in 1951 by President Harry Truman as a voluntary contractual program implemented through Presidential Directive. It was later supported through enactment of the Fly America Act, 49 USC Sec 40118. Since 1951, the CRAF carriers have played an integral and supporting role in every major contingency, crisis and war. And the DoD has formally incorporated CRAF capabilities into its war plans. As you know, 93% of the nation's ability to move its troops long distances in support of our national interests resides in the CRAF and approximately 40% of the long range air cargo movement depends on the CRAF cargo carriers. I commend this committee for their support of CRAF and your recognition of the vital role it plays in our national defense strategy.

The CRAF Program is the benchmark for how government and industry can work effectively together to support U.S. national security interests around the globe. The Civil Reserve Air Fleet augments, supports and enhances the organic mobility airlift and aeromedical evacuation capabilities of DoD. Because the program is voluntary, it comes at great savings to the taxpayer. Both Atlas and Polar Air are Part 121 certificated airlines, and with FAA oversight we operate at the highest levels of safety and compliance. The United States Transportation Command and the Air Mobility Command do an excellent job managing the CRAF Program. They also oversee and inspect the carrier's operational, maintenance, safety and security programs guaranteeing the highest quality safety and support for our men and women in uniform.

State of the Industry

Since 9-11, the commercial aviation industry has faced difficult and challenging times and has undergone significant realignment. The record setting fuel prices last year and global recession permanently changed our industry and resulted in a number of carriers going out of business. Others permanently grounded or mothballed all or portions of their fleets due to the economic non-viability of the assets. The 747-Classic aircraft and the DC-10 are reaching their economic sunset. To illustrate this point, in 2003 Atlas had over 30 747-Classic aircraft--today we have returned from lease, sold or grounded all but 7 of those aircraft. The decline of global trade has exacerbated the industry's decline. Today, barriers to new airline entrants have risen. Credit markets have realigned and, as expected, a company must have a viable commercial business model and strong balance sheet to access credit. Realigned operating economics will cause more carriers with aged fleet dependency to reduce their fleets or go out of business. The global recession has resulted in reduced commercial requirements; this has created extremely difficult conditions for carriers with older equipment and those overly dependent on government business. The CRAF foundation and past way of doing business may not stand the global economic stress test.

For 58 years CRAF has served our nation well. During that time, Congress has provided judicious oversight of the program, directing DoD to conduct studies and reports on the effectiveness and continuing value of the program. Last year the Congress directed the Institute for Defense Analysis (IDA) to assess CRAF's future viability in a post Iraq-Afghanistan world. In addition, the U.S. Air Force and the Air Mobility Command requested the Center for Logistics Research to report on CRAF commercial practices and assess the value it has provided. I am pleased to see that both studies reaffirmed CRAF's continued importance and its integral value to our national defense. I would also like to note that IDA conducted a more exhaustive CRAF study, published in 2003, that made several outstanding recommendations that should be adopted to improve CRAF efficiency and effectiveness.

Future Viability of CRAF Recommendations:

I have the following comments and recommendations that relate to the future economic viability of the CRAF Program that I would like to share with the committee today.

1. Assured Business. Atlas applauds the Congress for enacting legislation that approves assured business and peacetime incentives for U.S.-flagged CRAF carriers that appeared in the 2009 National Defense Authorization Act (NDAA). Assured peacetime business attracts and incentivizes CRAF volunteer participation. Peacetime business is the carriers' greatest incentive to participate in CRAF. This assured business improves CRAF revenue base and incentivizes modernization. Allocating business to CRAF carriers is prudent management whereby the most efficient and cost effective assets are properly allocated for the right mission. While we commend the "assured business" language and commitment, we note that it specifically mentions CRAF passenger carriers. I believe the intent was to include both CRAF cargo and passenger carriers and suggest the language be amended to reflect both groups. As I stated earlier, DoD currently counts on CRAF for approximately 40% of its cargo lift requirements.

2. **Organic-Commercial Readiness**. Commercial fleets have been effectively and efficiently integrated into DoD and Combatant Commander plans, concepts of operations and employment, producing unmatched mobility capability for U.S. forces responding to crisis and contingencies around the globe. The organic fleets of cargo aircraft, C-5, C-17 and C-130, are trained and equipped to go into harm's way and perform combat related missions when tasked allowing the CRAF carriers to augment the organic fleet and support many other critical missions. We have all heard the concerns of Commanders, to include General McNabb, that the organic fleets are experiencing unprecedented wear and tear resulting from the additional flying hours required to prosecute two wars. This is taking a toll on our organic fleets' readiness today and ability to surge in the future. It has also generated additional cost to conduct maintenance and repair on these aircraft.

President Ronald Reagan realized the importance of maintaining balanced readiness between our military organic fleet and our commercial CRAF carriers when he signed the 1987 National Airlift Policy. Today would be an ideal time to reaffirm this policy.

During peacetime, DoD requirements for passenger and/or cargo airlift augmentation shall be satisfied by the procurement of airlift from commercial air carriers participating in the CRAF program, to the extent that the DoD determines that such airlift is suitable and responsive to the military requirement. Consistent with the requirement to maintain the proficiency and operational readiness of organic military airlift, the DoD shall establish appropriate levels for peacetime cargo airlift augmentation in order to promote the effectiveness of the CRAF and provide training within the military airlift system.
NSDD 280 National Airlift Policy, June 1987

Lower organic fleet utilization will help maintain and extend the life of our organic fleets and preserve its surge capability. Commanders' concerns for aircrew readiness and wear and tear on our organic aircraft can be mitigated through greater investment in flight simulation for initial and recurring training. Modern high-fidelity aircraft and system simulators have saved millions of dollars in the commercial world. DoD should commit and invest in advanced simulation for all of their weapon systems and aircrew training, thereby reducing flying hours which will save millions of dollars in fuel costs alone. Today, AMC scheduling philosophy still reflects a cold war "business as usual" approach. If better business processes were adopted, DoD would forecast, plan and schedule the most efficient and effective aircraft for the task and be able to better utilize and incentivize its CRAF commercial operations at lower cost. In addition, organic aircraft can then be scheduled to replace foreign-flagged carriers who are performing a significant share of our outsized logistics airlift requirements.

Today, AMC schedules commercial aircraft through a "fixed buy" and "expansion buy" system. The 2003 IDA study recommended DoD commit to better forecasting and scheduling and develop a concept of employment that utilizes the most efficient aircraft for the long distance high-density cargo requirements for which they are best suited. The current "business as usual" approach and scheduling process must be reengineered consistent with the 2009 NDAA "assured business" language allocating a greater number of hours to CRAF carriers. Untold savings can be achieved by adopting best commercial practices. The Commander, US Transportation Command, has the authority to commit greater volumes of cargo to carriers who commit to the CRAF. A greater commitment by US Transportation Command would also result in CRAF carriers' ability to seek and get financing to modernize their fleets based on an assured business commitment.

3. <u>CRAF Imperative - Call To Action</u>

It is critical, in my view, that we preserve the CRAF capability and ensure its future viability. Success in this endeavor is essential to supporting our national security interests and also helping our aviation industry remain competitive globally while preserving and creating jobs aiding the national economic recovery. For the good of our economy and our national defense, we must continue to leverage this outstanding and proven government-industry partnership and ensure DoD's aging organic fleet of aircraft is ready to support future crisis, contingencies and even war. The harsh reality is that our existing CRAF fleets are aging and reaching their economic sunsets. Modern aircraft, like the B747-400F and the new 747-8F offer significant operating cost reductions and efficiencies. Those savings are passed along directly to the American taxpayer. America's aviation industry, one of the hallmarks of a strong U.S. national economy, produces modern aircraft that possess the following attributes:

- Lower Unit Costs
- Fuel Savings and Conservation
- Greater Payload and Range
- Cost Effectiveness...fewer stops
- Better Reliability
- Ready Global Access -- Minimum Navigation Performance
- Greater Diplomatic Flexibility – Ability to Overfly or Circumnavigate

- Green Values...Reduced Environmental Impacts (noise and carbon footprint)

Today companies with the most viable business models generally use their newest aircraft to support their commercial operations. USTRANSCOM and AMC will need to undertake significant business process changes to attract modern aircraft into CRAF. AMC needs to reengineer its system to achieve higher utilization of CRAF. Millions of dollars are being wasted because of planning and scheduling inefficiencies.

Conclusion:

Atlas is extremely proud of our relationship with DOD, and remains fully committed to working with United States Transportation Command, the Air Mobility Command and the other carriers to continue to provide unrivaled commercial capability to support our national security interests whenever called. We are committed to improving the current CRAF capabilities and will work with USTRANSCOM to improve their forecasting and scheduling practices consistent with industry best practices. By aligning our best in class supply chain practices we can achieve greater efficiency and effectiveness while reducing total cost to operate and save taxpayers millions of dollars.

Mr. Chairman, I appreciate the Committee's willingness to address this important issue and raise the level of awareness across the government. We are committed to modern aircraft solutions that drive commercial economic growth and development while standing ready to support the DoD through US Transportation Command should the nation call.

This concludes my remarks, and I will be happy to answer any questions the committee may have.

Summary of:

Civil Reserve Air Fleet: Economics and Strategy

IDA Paper P-4373 (August 2008)

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Hearing on the Economic Viability of the Civil Reserve Air Fleet Program

before the

Aviation Subcommittee of the Committee on Transportation and Infrastructure

U.S. House of Representatives

May 13, 2009

The Institute for Defense Analyses (IDA) was asked to review the economic health of the Civil Reserve Air Fleet (CRAF) program in view of likely trends in the national security environment as well as in the airline industry.[1] The study describes the current status of the Civil Reserve Air Fleet program, identifies the major areas for concern or potential improvement, and recommends a number of initiatives to address emerging issues. I will summarize a few key points today.

The CRAF Program and Status

CRAF is a voluntary program through which the Nation's airlines serve the military's routine passenger and cargo needs, and provide stand-by commitments to support mobilization. The CRAF program represents an effective partnership between DoD and industry. The availability of reliable civilian capacity greatly reduces the need to buy and maintain DoD aircraft for airlift. The continued success of the CRAF program is an essential underpinning of a cost-effective air mobility capability.

In the IDA study, we defined the "viability" of CRAF in terms of the program's ability to meet three classes of military needs: 1) the nation's mobilization requirements in support of major military operations, 2) the military's routine, planned day-to-day requirements, and 3) unexpected contingency requirements, such as might be associated with a humanitarian operation or a smaller contingency operation.

Today, the program is robust and is meeting DoD's needs. Since 2001, driven by the demands of Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF), the CRAF airlines have supported a nearly five-fold increase in DoD's day-to-day cargo and passenger airlift needs, at a cost to DoD of about $2.5 billion annually.

The mobilization commitments in the CRAF contract include 230 long-range cargo aircraft and 449 long-range passenger aircraft—a commitment that is almost twice the DoD's planned use of civil airlift in its largest global war plans. CRAF has been successfully mobilized twice in its history: once in support of Operation Desert Storm and again in 2003, in support of Operation Iraqi Freedom. (See the Attachment for Airline Commitments.)

Viability of CRAF

To evaluate the future viability of CRAF, the IDA study constructed hypothetical scenarios to capture trends in both the military and commercial markets affecting the CRAF program. The following scenarios highlight four major factors that will determine the future viability of CRAF.

- **Trends in major airline markets and U.S.-owned aircraft inventories:** There are over 1,000 long range international (LRI) aircraft in the U.S. passenger fleet, and over 500 LRI aircraft in the domestic cargo fleet. Both fleets are greatly in excess of currently planned DoD needs for these kinds of aircraft, and will remain so under plausible scenarios for the size of future U.S.-owned

[1] This study was mandated by Congress in the FY08 DoD Authorization Act (Sec. 356, Independent Assessment of Civil Reserve Air Fleet Viability; Conference Report 110-477, pp. 73, 886).

aircraft fleets. Consequently, the issue facing the CRAF program is not whether there is enough total U.S. capacity to meet DoD's mobilization requirements, but how to obtain that capacity in the most efficient and least disruptive manner possible.

- **The DoD business base:** The total DoD revenues flowing to the program are a key determinant of the viability of the CRAF program, as these revenues underwrite the formation of the CRAF teams. We postulated a planning case for 2012 that assumed DoD's annual payments for both passenger and cargo charter airline services were 50 percent lower than 2006 levels, due to declines in OEF and OIF demands. This would result in annual CRAF revenues of about $1.2 billion in 2012. At this level, revenues would still be more than twice the revenues that sustained the CRAF program at the beginning of this decade, prior to OEF and OIF. Thus, though the amount of annual DoD spending on CRAF merits careful watching, we do not forsee a problem sustaining the health of the CRAF program in the near term.
- **Commercial markets for the CRAF charter passenger airlines:** An area where there is a potential concern is the limited numbers of charter passenger aircraft. The commercial passenger charter segment has been in long-term decline, as tour-group business has shifted to scheduled airlines. DoD already accounts for more than half of the business for the charter passenger segment, and in the scenario postulated in the IDA study, the inventory of charter passenger aircraft could shrink by as much as one-third as DoD demand falls. If this happened, there would be a risk that the passenger charter fleet would eventually become too small to meet peak demands resulting from the normal variability in DoD's day-to-day activities. It would be unweildy to address such cases with frequent mobilizations, so we believe the CRAF program will need to work out a voluntary, contractual approach to meet future DoD needs for passenger aircraft, using both the charter and scheduled passenger airline fleets. This situation requires careful monitoring and planning and may require the formation of separate passenger teams to ensure actual CRAF capabilities are adequate to fulfill the contractual CRAF commitments.
- **Commercial markets for the CRAF charter cargo airlines:** The charter cargo segment does not pose the same risks, because DoD uses only about one-third of the industry's capacity today.

In summary, expected DoD use of CRAF aircraft should keep the program healthy for the foreseeable future. However, things can change rapidly in the passenger industry and trends should be monitored carefully.

Recommendations

The recommendations offered in the IDA report are designed to address the potential risks to passenger service due to the decline of the commercial charter passenger aircraft fleet described previously, and to improve the efficiency and effectiveness of the program.

Principal Recommendation. Our principal recommendation is to implement an "assured supply" approach in contracting for CRAF.

The underlying rationale for the "assured supply" approach is described below.

- The main goal is to create new contractual provisions that would establish expectations and commitments to meet DoD needs in all circumstances. Along with peacetime and mobilization requirements, USTRANSCOM would ask the airline industry to partner in meeting a range of potential surge requirements through the normal charter contract, so as to avoid too rapid a move to CRAF activation in the event of an unexpected, relatively minor, military contingency. CRAF participants would need to back up their obligations for "assured supply." It would be up to the teams to figure out how best to meet these contractual commitments.
- In return for these commitments, DoD would adopt proven management practices that would strengthen the government-industry partnership.
    - First, multi-year contracts would allow both USTRANSCOM and its industry partners to plan, invest, and organize their operations in a more efficient fashion. Congress permits this under the Performance Based Logistics (PBL) program in selected areas. Extending these authorities to include airlift would provide DoD with the ability to strengthen the partnership with key CRAF participants.
    - Second, the sharing of relevant DoD planning information with the airline industry would enable suppliers to make efficient and effective investment decisions. This is consistent with commercial practice in other industries. Such assurances, done prudently, can improve confidence in DoD's planning information and enhance its value for airline planning and investment decisions, and should help with the financing of needed capacity.

The features of the "assured supply" approach also address other efficiency and investment incentives. The two most important of these are:

- USTRANSCOM should foster the efficient utilization of airlift. For a variety of reasons, DoD's cargo charters obtain average utilization rates of 195 hours per month per aircraft, as compared with 360 hours per month average utilization in commercial cargo operations. Similarly, DoD's passenger charter airlines achieve average utilization rates of 204 hours per month per aircraft, as compared with an average of 295 hours per month for commercial passenger operations. Lower utilization rates lead directly to higher costs. In addition, lower utilization rates make it more economical to use older aircraft, whose high hourly operating costs are more than offset by low capital costs. If higher utilization rates could be obtained, carriers would have improved incentives to use more modern aircraft that cost less to operate and whose higher capital costs could be spread over a larger number of flight hours. There are good reasons why DoD cannot achieve commercial utilization rates, but there is still room for improvement.
- DoD should revise its charter service ratemaking to level the playing field for modern and classic aircraft. Under the current rate setting approach, airlines can earn the greatest rates of return on the older, fully depreciated "classic" aircraft. So, most of the service is being provided with aircraft in the FAA's aging aircraft program. Over time, DoD needs to set rates that will allow for the gradual transition to the employment of more modern aircraft. The IDA report proposes establishing separate rate classes for modern and classic aircraft as one way to achieve this.

60/40 Rule. DoD's current policy is to require that every airline obtain no more than 40 percent of their revenues from DoD business. This is known as the "60/40 rule." The IDA report recommends suspending the 60/40 rule, both because it has outlived its original intent and because it likely will not be enforceable as the commercial passenger charter segment shrinks.
The theory behind the 60/40 rule is that carriers with a majority of their revenues generated from the commercial market are more efficient and safer. One of the key initial motivations, in the 1960s, was a concern that "non-existent" ("fly-by-night") firms with no aircraft could win a government contract, then use the contract to obtain aircraft and start flying. Today, however, DoD has simple and effective mechanisms to ensure that only qualified airlines bid on DoD contracts.[2] At present, the Department is waiving this rule whenever necessary to meet contingency requirements.

As a fact-of-life, the effect of enforcing this rule could be to put carriers out of business and force USTRANSCOM to scramble to fill in the void left by the departing airlines.[3] Given the historically high current DoD demands on CRAF, the granting of waivers to this rule is sensible and necessary to permit the carriers to devote their fleets to meeting DoD's needs. As discussed earlier, with a shrinking commercial charter market, it may not be possible for every passenger charter carrier to meet the 60/40 rule, even as DoD draws down forces in Iraq and Afghanistan.

Other Recommendations. We also recommend that DoD reconsider the structure of the Aeromedical Evacuation program and the balance of the employment of commercial and organic airlift in support of current operations.

Concluding Remarks

DoD possesses a number of policy and management levers that can be used to shape the available supply of airlift support from the civil sector, but congressional support will be needed, especially to implement the needed authorities for multi-year contracting.

We believe that the "assured supply" approach will sustain the CRAF program through the challenges that may arise over the next several years. But, we have learned that the situation changes rapidly in this field, so it will be important to continue to monitor developments. In particular, if DoD demands fall substantially faster and deeper than we have foreseen, consideration of more radical models for CRAF, including greater reliance on broad market competition, should also be considered and reevaluated.

[2] With respect to safety, charter airlines are required to maintain their aircraft to the same FAA safety standards as scheduled airlines. No distinction is made in the FAA safety regulations between carriers flying scheduled passengers, commercial charter passengers or CRAF passengers. The DoD has directed the Commander of USTRANSCOM to ensure the safety of air carriers supporting DoD (32CFR861).

[3] On the cargo side, DoD aggregate revenues in 2006 represented 30 percent of the market for the cargo charter airlines. On the passenger side, DoD revenues accounted for 55 percent of the total revenues across all of the passenger charter markets. Hence, in the aggregate the passenger segment was not meeting the 60/40 rule. In 2006, three airlines—World, Omni, and Evergreen—each had commercial revenues that were 40 percent or less of total business—well below the target under the 60/40 rule. (In the case of North American, the ratio is violated but the difference is quite narrow: commercial business was 58 percent of revenues versus the 60 percent target.)

Attachment: Airline Capacity and Commitments to CRAF

Charter Airline Capacity

Table 1 shows that in 2006 there were 100 long range international (LRI) aircraft owned by the cargo charter carriers. CRAF demand was the equivalent of the full-time employment of 28 cargo aircraft. Thus the ratio of total available aircraft to the number actually required, in 2006, was 3.6 to 1. In the planning scenario examined, the cargo charter aircraft fleet is expected to grow to 108 aircraft by the year 2012. (This indicates that for the charter cargo sector, the hypothesized 50 percent decline in CRAF demand from 2006 to 2012 is more than offset by projected increases in commercial demand.)

Table 1. Charter Airline Capacity to Meet CRAF Surge Requirements

				2006		2012	
Charter Segment	Steady-State (Peacetime) Activity (1/2 of 2006)	Additional LRI Aircraft Required for Surge	Target: Total LRI Aircraft Required for Surge	LRI Charter Aircraft in CRAF	Aircraft/ Target	LRI Charter Aircraft in CRAF	Aircraft/ Target
Cargo	14	14	28	100	3.6	108	3.9
Passenger	14.5	14.5	29	44	1.5	31	1.1

To provide a benchmark for evaluating the sufficiency of available charter capacity, we set a target at 2006 levels of DoD support for the charter airlines. The rationale is that if the industry has the capacity readily available to support this level of activity, then DoD can rest assured that the industry can support its needs across a wide range of possible future contingencies without requiring CRAF activation. For the cargo sector, in 2012 the ratio of total available aircraft (108) to the surge benchmark (28) is 3.9 to 1. In short, the capacity of the cargo charter market is nearly four times larger than the benchmark peacetime surge needs. This should give DoD significant confidence that sufficient charter cargo capacity is available.

For passenger charter carriers, in contrast, the ratio of available passenger charter aircraft (44) to the full-time equivalent number of aircraft needed for CRAF (29) was only 1.5 to 1 in 2006. In the planning scenario examined, the passenger charter aircraft inventory is projected to decline to 31 aircraft in 2012 (due to the projected decline in CRAF demand and weak commercial demand). The ratio of total available aircraft (31) to the surge target (29) falls to 1.1 to 1 in 2012.

The passenger charter industry is thus expected to possess a smaller fleet that will be marginal, and perhaps insufficient to meet the full range of DoD's peacetime contingency needs with a high degree of confidence. Unless DoD takes steps to secure the airlines' commitment to meet a range of future requirements, a future sudden surge, even a small one, may necessitate a CRAF activation of passenger aircraft.

Commitments for Mobilization

The airlines have committed 40.0 million ton miles per day (MTM/D) of long-range international cargo capacity to CRAF, comprised of 230 aircraft. This furnishes almost twice the capacity required to meet DoD's mobilization target for cargo. The airlines have committed 198.0 million passenger miles per day (MPM/D) of long-range international passenger capacity, comprised of 587 long-range aircraft, which furnishes almost twice the capacity required to meet the target for passengers.

Table 2. DoD Mobilization Targets and Commitments for CRAF

CRAF Segment	CRAF Mobilization Target	CRAF Capacity Committed	CRAF Capacity Committed/Mobilization Target
Cargo	20.5 MTM/D	40.0 MTM/D	1.95
Passenger	100 MPM/D	198.0 MPM/D	1.98

Statement of

General Duncan J. McNabb, USAF

Commander, United States Transportation Command

Before the

House Transportation and Infrastructure Committee, Aviation Subcommittee

On the Civil Reserve Air Fleet (CRAF)

13 May 2009

Introduction

The United States Transportation Command (USTRANSCOM) operates the integrated, networked end-to-end defense distribution system that delivers to the "right place," at the "right time," for the warfighter and at best value to the nation. As a supporting command, we execute military and commercial transportation, terminal management, aerial refueling and global patient movement through the Defense Transportation System (DTS) in a wide range of military and humanitarian operations. As a combatant command, we have operational warfighter requirements; as the Distribution Process Owner (DPO), we have business and logistics enterprise responsibilities.

USTRANSCOM leads a committed Total Force team of Active Duty, Guard, Reserve, Civilian, contractors and commercial partners. Together we provide the capacity to deliver logistics and distribution capability that supports the Joint Force Commanders' ability to project national and combat power in peace and war.

The Civil Reserve Air Fleet

One of the earliest, most unique and extremely successful partnerships between the Department of Defense (DOD) and commercial industry is the Civil Reserve Air Fleet (CRAF). Instituted by President Truman's Executive Order in 1951, participation in CRAF is a voluntary, contractual arrangement between DOD and U.S.-owned air carriers to transport DOD passengers, patients and cargo. In exchange for DOD peacetime airlift business, air carriers promise to provide aircraft and crews to augment DOD airlift during wartime contingencies or emergencies when requirements exceed the capability of our organic military aircraft fleet. CRAF significantly enhances our ability to succeed anywhere in the world by providing unmatched strategic lift—a capability no other Nation can provide.

CRAF Capability and Participants

Since its inception, CRAF carriers have participated in every military contingency involving the United States, either as volunteers or under activation. Although U.S. commercial air carriers operate voluntarily the majority of the time, CRAF has been activated twice in its history. The first was during Operations DESERT SHIELD/DESERT STORM in 1991, where CRAF carriers flew over 5,000 missions. Those missions accounted for more than 60 percent of passengers and 27 percent of air cargo in deployment and 84 percent of passengers and 40 percent of cargo in redeployment. The second activation occurred during the initial deployments for Operation IRAQI FREEDOM, where our carriers' performance was equally impressive.

Currently, 34 separate carriers participate in the program, committing almost 1,100 aircraft, including 40 Boeing 767 aircraft configurable for aeromedical evacuation. This commitment provides 40.6 million ton-miles/day (MTM/D) in bulk cargo capacity and nearly 200 million passenger miles/day (MPM/D) and exceeds the CRAF wartime requirements of 20.5 MTM/D and 100 MPM/D. We typically plan for CRAF carriers to move about 40 percent of our cargo and 90 percent of our passengers, during peacetime and war.

This program's design where commercial capacity augments the military organic fleet is extremely cost effective and a great value to the nation. In fact, a 1994 RAND study stated that, replacing the CRAF capability with military aircraft would have cost DOD between $1 billion to $3 billion annually. That cumulative cost avoidance in 2009 dollars is between $43 billion to $128 billion dollars. This is comparable to purchasing another 180 to 530 C-17s beyond the 205 we currently have programmed today. The tremendous capability CRAF provides to the Nation is unrivaled.

Regulatory Guidance

The legislative foundation for the CRAF program is provided by the Defense Production Act (DPA) of 1950 (50 U.S.C. App 2061), the Fly America Act (Title 49 USC 40118) and the Fly CRAF Act (Title 49 USC 41106). The Fly America and Fly CRAF Acts require the use of US carriers for government paid transport of personnel and goods and require DOD contracts for airlift be awarded to CRAF carriers, if available. Both acts support our CRAF participants and reflect the belief that a robust commercial air industry is vital for the Nation's defense. President Reagan reinforced this position in his 1987 National Security Decision Directive 280, which recognized the interdependence of military and civilian airlift capabilities in meeting wartime airlift requirements.

Finally, as required by Title 10, USC 2640, the Commercial Airlift Review Board (CARB) subjects CRAF carriers to regular reviews by DOD to ensure their business and maintenance practices allow our Nation's resources and warfighters to be transported as safely as possible. This is a cooperative effort with the Federal Aviation Administration (FAA), with which we share data on safety issues. We also work closely with the FAA to provide aviation war-risk insurance to CRAF carriers when commercial aviation insurance is not available under reasonable terms and conditions to fly DOD missions. The FAA program pursuant to Title 49 of the US Code chapter 443, reauthorized by this committee every few years, is a crucial element of the CRAF program and the committee's support for that vital program is greatly appreciated.

Incentives for Carriers

USTRANSCOM relies upon several contractual vehicles and authorities to incentivize commercial carrier participation. First, is the USTRANSCOM long range airlift service CRAF contract, which charters full planeload business and is awarded to carriers in proportion to aircraft commitment to the various stages of CRAF. The CRAF contract is expected to distribute over $2.5 billion in charter business in the current fiscal year. Additionally, carriers can participate in DOD's Worldwide Express program for shipment of cargo under 300 pounds and in air tenders for less than planeload, door to door service.

Another CRAF incentive is the General Services Administration's (GSA) government-wide official travel City Pairs contract, which is limited to CRAF members through our strategic partnership with GSA. This year, this contract is valued in excess of $2.4 billion and includes more than 5,500 GSA domestic and international city pair routes. Approximately $70 million per year of DOD business in the GSA Domestic Express contract is also reserved for CRAF carriers.

Finally, the FY09 National Defense Authorization Act provided USTRANSCOM the authority to guarantee higher minimum levels of peacetime business to CRAF participants than previously allowed by law to induce the air carrier to continue to commit aircraft to the program to meet wartime requirements. With this authority came the obligation to take steps to improve the predictability of DOD charter requirements; assure adequate capacity is available to meet steady-state, surge and mobilization requirements; and incentivize carriers to use newer, more fuel efficient and reliable aircraft to support DOD airlift requirements.

Making a Flagship Program Even Better

As required by the FY2008 DOD Authorization Act, USTRANSCOM teamed with the Institute for Defense Analysis (IDA) to examine the future viability of the CRAF program. The Independent Assessment of CRAF Viability study examined the level of increased use of commercial assets to fulfill DOD requirements, risks to the charter air carrier industry due to increased DOD operations, viability of the current program and 5-, 10- and 15-year out, perceived barriers to CRAF viability and ways to improve the program.

Study Results

The IDA study found that civil aviation capacity and CRAF commitments are sufficient to meet DOD's mobilization and peacetime requirements. However, given the changes in the airline charter passenger market, IDA cautioned that CRAF activation may be necessary to meet future DOD contingency requirements, an issue that we will carefully monitor in close coordination with our partners.

The study also suggested ways to improve the program—USTRANSCOM discussed each of these suggestions with our CRAF partners and is incorporating several of them into its FY10 contract. For example, improving aircraft utilization will make better use of assets and incentivize our carriers to bring more modern, efficient aircraft into the program. The airline business model is at its best when aircraft spend minimum time on the ground—we are implementing initiatives like concurrent servicing at Air Mobility Command bases to reduce ground times and keep CRAF aircraft airborne, spending less time on the ground and more time moving cargo. Additionally, we will conduct a test of an extended range, non-stop cargo channel from Dover AFB to Incirlik Air Base, Turkey. Eliminating en route stops, minimizing ground times and other improvements to increase velocity will allow us to take advantage of more modern, fuel efficient aircraft.

We are increasing the amount of forecast business in our contract which will provide a more stable, predictable operating environment to our partners. We are also revising the way we value carriers' commitment to the various CRAF stages. By increasing the award value for the first and second CRAF stages we more closely align our carriers' capacity to the stages most likely to be activated, thus more fairly compensating carriers for their business risk. USTRANSCOM will continue to evaluate the study recommendations to make this outstanding program even better.

Final Thoughts

USTRANSCOM relies heavily on our partners in commercial industry in times of national emergency and the CRAF program is a flagship example of this partnership. CRAF provides the nation with up to half of the nation's strategic airlift capability without the government having to purchase additional aircraft, pay personnel costs or fix and maintain the aircraft during peacetime, and has been providing that capability for over 50 years. Whether in Iraq, Afghanistan or any spot on the globe, CRAF gets our troops to the fight, sustains them while engaged, and bring them home. We are honored to stand beside our commercial partners these past five decades, and look forward to many more to come.

Testimony of Frederick W. Smith
Chairman, President, and CEO of FedEx Corporation
Before the House Subcommittee on Aviation on
"The Economic Viability of the Civil Reserve Air Fleet (CRAF) Program"
May 13, 2009
10:00am Rayburn House Office Building

Thank you Chairman Costello, Ranking Member Petri and members of this Subcommittee. I appreciate the opportunity to testify today about this important program. It is my honor to be before you, representing the more than 290,000 men and women working for FedEx companies. With a fleet of 670 aircraft, FedEx Express is the world's largest express transportation company, connecting customers in over 220 countries and territories around the world.

I. Background on CRAF program

At FedEx, we take our commitment to the Civilian Reserve Aircraft Fleet (CRAF) program as seriously as the one we make to our customers. While FedEx receives economic benefit from CRAF participation, our principal motive for participation is a deeply felt desire to provide support to our Armed Forces and a sense of obligation to our country. FedEx has a decades-long commitment to CRAF which has been evidenced in times of crisis or war. When the need for airlift has exceeded military resources, FedEx has answered the call and provided aircraft and crews. We believe the CRAF program and the many participating civilian air carriers serve our country well. We continue to support CRAF, and we believe the current structure will continue to best serve the country's needs for many years to come.

Working in concert with the U.S. Military, civilian air carriers are critical partners in the national defense. Twenty eight air carriers participate in CRAF by committing to provide more than 1000 civilian aircraft to various stages of conflict. These aircraft augment 288 Air Force aircraft and provide the country a broad array of aircraft during times of national emergencies. To illustrate the importance of the civilian airfleet during times of war, the Department of Defense (DoD) anticipates that the CRAF program will move more than 90% of passengers and almost 40% of cargo in a conflict.

The CRAF program participants also provide aircraft to meet peacetime requirements and surge capacity. This voluntary commitment of aircraft provides needed airlift without requiring the government to purchase and maintain additional aircraft. As an Institute for Defense Analysis (IDA) study concludes, this is a cost-effective complement to DoD's organic capacity. That being said, I believe that too little focus is placed on the benefits that CRAF provides in helping match military needs with civilian aircraft supply. As I will discuss later in my testimony, CRAF can provide even greater benefits by enhancing incentives for carriers to provide aircraft during peacetime and surge periods.

It is important the CRAF program remain strong and economically sound. In support of this desire to see CRAF succeed, allow me to provide some background on FedEx's history and experience with CRAF and then follow up with comments as to what we believe works in the CRAF program, and what we believe can be improved.

II. FedEx participation in CRAF

FedEx has been participating in the CRAF program since 1985. We commit more aircraft to the International Long-Range Cargo segment of the CRAF program than any other carrier. For the U.S. Government's Fiscal Year 2009, FedEx committed 78 wide-body freighter aircraft, or 100% of the eligible aircraft in our fleet, to the CRAF program. If you evaluate at which stage FedEx aircraft would be called-up, this commitment represents 19% of the total aircraft allocated to Stage I, 30% of Stage II and 34% of Stage III. During the first activation of the CRAF in Operations Desert Shield and Desert Storm, FedEx moved over a third of the immense amount of cargo that was transported on commercial aircraft. History shows FedEx plays a significant role in moving cargo for our nation in times of conflict.

As a CRAF participant, in return for pledging aircraft to meet DoD requirements, FedEx has the opportunity to fly military cargo during peacetime and surge periods. The opportunity for peacetime business is awarded to FedEx and other participants in proportion to the amount of airlift capacity the carriers commit to the CRAF program. In other words, carriers that commit more and larger aircraft in times of a call up receive more and greater peacetime opportunities for business.

While FedEx does not perform missions on the same scale as some of the smaller charter carriers, FedEx does provide a significant amount of peacetime and surge support to the DoD. As an example, during this fiscal year, FedEx has flown approximately 13 to 14 missions per month, delivering vital materials for our military operations around the world. These operations represent a small percentage of our teams' CRAF entitlement flying. The rest of the missions awarded to the FedEx team are performed by our team members.

FedEx also participates significantly in the Worldwide Express cargo program. The Worldwide Express cargo program is designed to move the most sensitive, high value, and time definite military cargo. While CRAF participation is required for this program (a team must have 15% or more of freighter fleet committed in order to qualify for express traffic), the CRAF entitlement points are not used in assigning this business.

The benefits that air carriers receive through participating in CRAF come in the form of "points" awarded to teams of CRAF participants, a concept that has been in place since 1992. FedEx currently leads one of the three Contractor Team Arrangements (CTA). Charter airlines such as Omni, Gemini, North American, Evergreen, Polar, Astar and Atlas are aligned with major scheduled airlines and integrated cargo carriers such as United, American, USAir, Delta, Northwest, Alaska, UPS and FedEx.

The team concept works well. Charter carriers traditionally have fewer aircraft than are needed by the military in case of a call-up. But during peacetime, their business model is focused and dependant upon military and commercial charter missions. The larger scheduled airlines find themselves in the opposite position. The mainline carriers have more aircraft to commit to be called-up in times of war, but it can be difficult for them to take advantage of the peacetime flying because their aircraft are committed to scheduled routes. Consequently, the charter airlines benefit from the team because they receive more peacetime flying than they would otherwise be entitled based on the number of planes they commit to the CRAF program. The scheduled airlines receive commissions paid by the charter members which help offset the risk the large carriers take by pledging their aircraft in CRAF. The DoD benefits because the team concept encourages more carriers and more aircraft into the program. Without teams, the larger mainline carriers would have less incentive to participate in the program and the DoD would have a shortage of aircraft committed to the program.

Teaming arrangements have both efficiency and administrative advantages for the AMC. It provides the AMC a broad range of aircraft from which to choose. It allows the Air Mobility Command (AMC) to coordinate missions through a single point of contact, the respective team leader. Team leaders, such as FedEx, bear the primary administrative responsibility for coordinating between the AMC and the team members. Team leaders also coordinate among the team members, handle the teams' administrative tasks (such as processing invoices), and provide managerial responsibilities.

Teaming arrangements provide economic benefits to all carriers, including the larger, network carriers. For example, FedEx as a team leader receives administrative fees for leading the team. In addition, FedEx, as well as the other team members, collects a percentage of mission revenue paid into each team pool. In return, a team leader like FedEx may commit the largest number of aircraft and assumes the risk that goes with committing aircraft and managing a team.

While the team concept is not perfect, FedEx continues to support it. We believe the team system is flexible, is dynamic and provides flexibility for both the military and the carriers. The points earned from committing aircraft to the CRAF program can be sold to members of other teams. Carriers are at liberty to switch teams or form new ones. Team compositions have changed over the years, and the vitality of the team concept has never negatively impacted the long-term viability of the CRAF program. Even when carriers have entered bankruptcy and/or ceased operation, there has not been a negative impact on the viability of the CRAF program.

The durability of this team concept is particularly important in these difficult, economic times. As we continue to face the toughest economic times in recent history, the bankruptcy or unfortunate demise of a weaker carrier is a possibility. As in the past, the CRAF teams and their individual carriers will work together to minimize the impact and will continue to meet the airlift demands of the military.

In summary, FedEx is proud of the contributions it has made to the CRAF program. The DoD receives high quality, cost effective airlift. Because of CRAF, the military is not forced to maintain excess aircraft during peacetime. We also believe the team concept plays an important part in CRAF. We and our team members take pride that CRAF has always accomplished its goal of having sufficient aircraft available in the program to meet military needs in times of crisis.

III. Suggestions for the future of CRAF

While the CRAF program continues to work well, I believe that there are aspects of the program that can be improved. I would like to touch on three important aspects of the CRAF program under scrutiny by experts and commentators. One area, the team concept, we believe should be preserved. The second area, additional mandatory requirements on carrier participants, should be avoided. And the final area, increased flexibility in the size and use of cargo aircraft, we believe can be improved.

First, FedEx remains committed to the team concept. Some commentators recommend discontinuing the teaming concept in the CRAF program or requiring that the teams be required to specialize in all cargo or passenger operations. We disagree. Wholesale rejection of the team concept is not warranted and would be detrimental to fundamental CRAF goals. Teaming arrangements promote flexibility in utilizing mobilization points, and allow the carriers to complement each other's unique capabilities. Teams provide the DoD a large and flexible pool of aircraft. Without teams, the larger carriers would have less economic incentive to commit their aircraft to the program. The smaller charter operators would lose out on valuable peacetime and surge flying opportunities and the loss of that revenue could severally threaten the continued viability of those carriers. Finally, the DoD would lose the valuable administrative and managerial benefits that come from dealing with only three teams rather than the alternative; dealing with dozens of individual carriers.

Second, FedEx opposes a system where team members must commit to certain levels of peacetime and surge flying. IDA has recommended that CRAF adopt an "Assured Supply Model". Under this Model, team members must contractually commit to a certain amount of peacetime business. In return, the DoD provides a guaranteed annual minimum level of business. The Assured Supply Model seeks a commitment from the team members that they must fly peacetime missions. I believe this suggestion will force many mainline carriers to reconsider the costs of participating in CRAF. It will reduce the flexibility of the teams, hinder teams from identifying the best and most appropriate aircraft for peacetime missions, and negatively impact the economics of the program to carriers. The current, voluntary model of awarding peacetime flying works. If it isn't broken, it doesn't need to be fixed.

Third, FedEx believes the DoD has historically over-relied on 747 freighter aircraft when awarding peacetime flying. Less than half of all the cargo aircraft in CRAF are 747's. While a recent policy change has improved allocations to smaller wide-body aircraft, the 747s still get at least 80% of the cargo traffic. Using smaller, wide-body aircraft will provide more peacetime business to a greater share of program participants while providing considerable cost savings for the DoD. It is our understanding that currently 747 aircraft often have less than full payloads. To further compound the problem, the DoD pays the same rate for all 747 versions, from -100s to -400s. So, carriers are incented to use their least efficient 747's for CRAF missions and save their more fuel-efficient models for commercial assignments. This makes it difficult for the DoD to match payload levels with the costs it is paying.

There are few operational problems with using smaller aircraft in appropriate situations. If the DoD implemented best practices in stacking and loading patterns many of the payloads being transported could be carried on smaller more fuel efficient MD-11s/10s. We believe the DoD should use a wider range of cargo aircraft. This will result in greater flying opportunities for carriers and more efficient movement of DoD freight.

I would like to raise two final points before I take questions. A concern frequently raised is whether a particular carrier can meet its commitment to provide their dedicated lift to the DoD. In other words, are some airlines operationally or financially unable to meet their obligations? And, can we enhance the team concept to provide additional, cost effective flying opportunities for teams, which in turn will create greater incentives for individual carriers to seek and accept peacetime flying?

ATA Airlines is the example often cited as a single air carrier that was unable to meet its CRAF obligations. As everyone knows, ATA, a former member of the FedEx team abruptly ceased operations last year. As a result, a short term void in available passenger lift caused some limited delays in the transportation of some troops. In that situation, the problem was not caused by an over reliance on one carrier, or even the team concept, but, instead, it was symptomatic of the decreasing availability of charter passenger capacity. To the extent capacity is available in the market, the team concept actually cushions the impact of situations like this, since it has ready and available other team members prepared to take the place of the exiting carrier. The teams also work with one another in covering routes. Neither the elimination of the team concept nor the creation of specialized all cargo or all passenger teams would have solved the short term problem of inadequate lift in the market that existed at the time.

And, regarding the enhancement of the team concept to provide additional, cost effective flying opportunities for teams, I do believe we can improve the opportunities for carriers to fly peacetime business, which will encourage more commitment to the CRAF program. This can be done by finding ways to better use the military/civilian air fleet mix during peacetime. This requires focusing each sector on operational changes that will encourage increased use of simulator training in the military and more use of civilian lift. Allow me to explain.

The DoD is challenged to maintain the correct balance between commercial and organic military flying for cargo operations during peacetime. On one hand, the DoD needs to take advantage of the cost effectiveness of the commercial aircraft which also provides the necessary incentives for carriers to pledge those aircraft. On the other hand, it must fly its organic fleet enough to keep the military crews at an acceptable state of readiness for its military fleet.

Commercial cargo aircraft are significantly more cost effective than military cargo aircraft in many respects. Military aircraft must be outfitted to meet a variety of missions under a variety of circumstances. They weigh significantly more than a commercial equivalent would weigh, making their cost per pound transported significantly higher. They are also equipped with military features not required in commercial aircraft, and then cost commensurately more. The C-17 is the most obvious example with its ability to utilize short, austere airfields, perform tactical airlift in combat environments, conduct equipment and paratrooper airdrop missions, move outsized cargo and transport troops. It is a marvelous aircraft that meets demanding mission requirements, but it is a lot more aircraft than is required to simply move cargo from point A to point B, which is what is needed during peacetime. Crew costs are also higher. Because of the nature of its operations, the military must dedicate significantly more manpower to aircraft operations, as personnel rotate out of the squadron to other duties approximately every three years, resulting in significantly higher costs than a commercial entity would experience or tolerate.

The most significant manpower cost is associated with pilots. Whereas a commercial entity matches the number of pilots to the number of aircraft that are physically operated, the military matches pilots to wartime requirements given the number of aircraft available for wartime scenarios. During peacetime, these pilots must be trained and kept current, even if there are not missions required of the aircraft. Worse yet, as opposed to pilots with a commercial entity, military pilots rotate to other duties and are numerically replaced by other pilots. And still worse, as opposed to commercial airlines, the military absorbs the entire cost of taking young men and women and giving them the extensive initial training that turns them into aviators. Much the same argument applies to maintenance technicians.

Obviously, the military needs to maintain crew readiness for these planes; however the Institute for Defense Analyses recently found that military organic aircraft are being used well beyond the minimum levels required to meet flying hour requirements. The military could benefit by placing as much emphasis as possible on training in simulators in the same vein as is done in commercial airlines. This would save fuel, money, maintenance and ultimately aircraft life.

IV. Summary

FedEx continues to participate in an effective, efficient CRAF program because it benefits our citizens and our country. The program has proven to be resilient and to work in times of crisis. We continue to support the team concept, but we would like to see more flexibility from the CRAF in the types of aircraft requested in peacetime for cargo movements. We do not believe additional requirements imposed on carriers will improve the program, but we do see opportunities to improve efficiency by utilizing more commercial airlift, by not using military aircraft in unproductive ways, and by an increased use of simulators for military flight training.

Thank you for allowing me to speak to you today, and I look forward to your questions.

TESTIMONY

of

THOMAS E. ZOELLER

National Air Carrier Association
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STATEMENT OF
THOMAS E. ZOELLER
PRESIDENT AND CEO
NATIONAL AIR CARRIER ASSOCIATION
BEFORE THE
HOUSE AVIATION SUBCOMMITTEE
"THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIRFLEET PROGRAM"
MAY 13, 2009

Mr. Chairman, Mr. Petri and Members of the Committee:

On behalf of the National Air Carrier Association (NACA), I appreciate this opportunity to appear before you this morning to offer our member airlines' views on the economic viability of the Civil Reserve Airfleet Program (CRAF).

NACA, founded in 1962, represents 10 air carriers, certificated by the Federal Aviation Administration under Part 121 of the Code of Federal Regulations, to operate as commercial airlines. Our carriers represent a diverse and unique part of the commercial aviation market, offering low-cost commercial passenger service, charter passenger, and charter and ACMI cargo operations. Together, our carriers generated several billions of dollars in revenues in 2008. Our carriers employ thousands of employees, and operate global operations, flying from the smallest cities in the United States to some of the remotest destinations around the globe.[1]

All of our NACA carrier members are engaged, or soon will be qualified to be engaged, in CRAF operations, providing regular passenger and cargo air lift for U.S. Transportation Command (USTRANSCOM).

We applaud the Subcommittee for calling this hearing today, because the issue of the economic viability of the charter airline industry, indeed of the entire commercial aviation industry, is something that should be of universal concern. As you have heard in

[1] NACA carriers include: Allegiant Airlines, Atlas Air Worldwide Holdings, Miami Air International, North American Airlines, Omni Air International, Pace Airlines, Ryan Air International, Southern Air, USA3000 Airlines, and World Airways.

the testimony from USTRANSCOM, this has been an issue of concern for them in ensuring that the U.S. has viable commercial charter operators. NACA and our member carriers have supported the initiatives undertaken by General McNabb, as well as those of his immediate predecessor, General Norton Schwartz, in convening important studies to examine the overall health of the airline charter industry, as well as the policies and procedures of the military charter program.

At the outset, it is important to note that the CRAF program is a model partnership between the Federal government and private industry that has worked well since it was started over 50 years ago. The program has been nurtured and refined over the last half decade, and is today more robust than ever. The CRAF partnership is a business-based, voluntary contractual relationship which provides a productive peacetime incentive for the carriers. The Department of Defense (DoD) has complete flexibility in the program, and particularly in the activation of CRAF in times of national security emergencies. As you know, there are three stages of CRAF activation, in which passenger and cargo airline operators can be activated separately or together. Once CRAF has been activated, the DoD has the flexibility to be very specific in the types of aircraft that need to be activated. Throughout the years, the number of U.S. troops overseas has determined the transportation requirements for USTRANSCOM. As a result, that level of incentives has fluctuated. Logistics policies and program continue to change which, in the end, are intended to improve support to the combat commanders.

Although there has been an intense focus over the last several years on military operations in Iraq and Afghanistan, which will include the buildup of U.S. forces in Afghanistan, USTRANSCOM leadership has started to focus on the transition to a peacetime CRAF program and what that will mean for the charter carrier industry. To prepare for that transition, USTRANSCOM advocated for legislative changes to authorize a minimum annual purchase requirement for charter air carriers. The Congress concurred with the passage of the Defense Authorization Act for FY09, which, in part, provides the Secretary of Defense with the necessary authority to take steps necessary to improve the predictability of DoD charter requirements; to strengthen the CRAF fleet participation to assure adequate capacity; and, to provide incentives for commercial passenger carriers to obtain more efficient and reliable aircraft. See, 10 U.S.C. §9515(a). NACA has been a strong proponent of this initiative and we are grateful to the Congress for providing this authority. We believe that this is the right approach in preparing the CRAF program for the post-Iraq environment. As USTRANSCOM begins to consider how best to implement this provision, our concern is that the minimum or assured buy must be set at the right level of value to ensure the appropriate subscription of carriers in the CRAF program. The total value of the assured buy must be sufficient to provide incentives for upgrading aircraft, improving efficiency and improved defense mobilization value.

Prior to the passage of the assured buy language, the Congress was equally concerned about the future of the CRAF program when it directed a study of the program by the Institute for Defense Analyses in the FY08 Defense Department Authorization Act, Public Law 110-181, (IDA Study). General Schwartz also contracted for an independent study of the CRAF program, with the Council for Logistics Research providing an analysis in July of 2008 (CLR Study). Neither study concluded that the CRAF program was seriously flawed. In fact, the IDA Study concluded that the strategy of dependency on the commercial aviation industry "has served the nation well, and can continue to do so in the coming years." IDA Study at p. ES-2. While both studies made a number of recommendations, some of which are in direct conflict, the recommendations do not require legislative action. We believe that these are administrative matters which can and should be left to USTRANSCOM to determine, with appropriate input from the carriers. As an association, we have met with both General Schwartz and General McNabb and have pledged our full support to work collaboratively to ensure that this partnership remains successful for both the Federal government and the carriers.

As the Subcommittee is aware, we have been faced with one of the most challenging times for the entire U.S. aviation industry. Last year's fuel crisis resulted in an unprecedented number of airlines filing for bankruptcy protection, resulting in the liquidation of several carriers. That crisis dramatically affected our association, which as early as September 2007 had 16 part 121 operators. Today, we have 10 members. Regrettably, a number of those carriers will not return to commercial air service. Together with the global recession, this is a very timely hearing to consider the economic viability of the commercial airline charter segment. And we believe that there are a number of areas which the Congress should focus on to ensure that our industry remains healthy and vibrant.

There are a number of reasons why we have seen a decline in the number of commercial charter operators in the United States. Increased competition resulting from airline deregulation and the liberalization of air service between the United States and foreign countries has contributed to the decline in wholesale airline charter operations. Increased domestic competition together with excess domestic airline seat capacity have resulted in making regularly scheduled airlines as cost-effective to tour operators as a wholesale aircraft charter. With the liberalization of airline services between the United States and other foreign countries, consumers are no longer faced with limited options and high airfares, which made international charters attractive to the leisure traveler. It should be noted that this is a similar pattern we are beginning to see develop in Europe. Under a heavily regulated regime, charter airlines flourished and prospered because they were used essentially to further a government's desire to develop tourism at various resorts in markets that were restricted, so as not to undermine the national flag carrier. As Europe moves into a more deregulated airline industry and reduces the restriction on flights into countries, the role once played by charter airlines is becoming more and more dominated by low cost carriers.

Today, our NACA member airlines remain some of the most profitable air carriers in the U.S. airline industry. Our carrier members are able to effectively compete for air transportation business by maintaining low cost structures and effective aircraft utilization rates. And while they have been successful in creating new charter business opportunities, through CRAF and other government charters, as well as private sector charter, we do believe that their profitability, indeed their future survival, is being threatened on a number of fronts.

First, there is a growing demand from other countries for a greater liberalization of U.S. laws and policies that are designed to protect and nurture a vibrant U.S. airline industry. Secondly, we believe that some Department of Transportation (DOT) policies are effectively undermining competition; and third, that some legislative proposals will further weaken the ability of U.S. charter airlines to maintain a low cost structure.

INTERNATIONAL ISSUES

Last March, the U.S. and the European Union (EU) heralded the implementation of an Open Skies agreement. This much sought after liberalization of European rules and restrictions that prevented U.S. carriers from competing directly in EU countries has provided a number of new opportunities for air service between the U.S. and the EU. As you know, when the U.S. and EU agreed to the open skies agreement, the agreement contemplated a second round of negotiations to address several unresolved issues. A second round of negotiations has already commenced, and U.S. and EU officials will be meeting again this June in Brussels. It has been made clear within the context of initial negotiations and the exchange of correspondence that the EU is extremely interested in a further liberalization of U.S. laws and regulations, some of which, if enacted, would be devastating to the U.S. airline industry and to the charter industry in particular.

Seventh Freedom Rights

For many years, the DOT has permitted foreign air carriers charter authority to fly U.S. passengers from the U.S to third country destinations. While some restrictions and transparencies have been put into place recently, the practice is still extremely harmful to the viability of U.S. charter carriers. U.S. scheduled carriers are protected from such seventh freedom flights as these operations are not permissible on a scheduled basis. This is not the case for charter operations. A majority of foreign carriers operating these flights pair with U.S. tour operators or indirect air carriers in the winter months to run vacation programs from northern U.S. cities to various destinations in the Caribbean for an extended period of time, in some cases up to four months without ever returning to their homeland during that time period. The primary reason tour operators use foreign carriers is price. At the height of the U.S. vacation market in the winter, many countries around the world experience a lull in passenger vacation flights. These circumstances do not hold true in the U.S. Therefore, many foreign carriers have an excess capacity of aircraft and are willing to offer them to U.S. tour operators "at cost" to simply meet the lease payments on the aircraft. U.S. carriers simply cannot meet this competitive advantage. This translates into lost business for U.S. carriers and a threat to the long term viability of charter carrier participation in the U.S. CRAF.

The Federal government has long had a policy of prohibiting foreign carriers from operating scheduled "seventh freedom" passenger flights, and of refusing to include such permission in any bilateral agreements – even "open skies" agreements. The DOT's practice under Part 212 of routinely allowing Seventh freedom passenger flights to be operated into and out of the United States as long as they are designated as "charter" flights seems to be directly at odds with this long-standing policy.

In February 2006, the DOT issued a final rule, which was based on a petition for rulemaking initiated by NACA. That rule requires: (1) clarification of the definition of "fifth freedom charter" by adding definitions of "sixth- and seventh-freedom charters" in §212.2; (2) modification of the DOT Form 4540 (Foreign Air Carrier Application for Statement of Authorization) by requiring updated reciprocity statements by foreign air carriers seeking a statement of authorization under Part 212; and (3) a requirement that foreign air carriers apply for a statement of authorization under Part 212 to include historical data relative to the applicant's U.S-home country operations.

The definitional amendments to Part 212 clarifies that sixth-freedom charter means a charter flight carrying traffic that originates and terminates in a country other than the country of the foreign air carrier's home country, provided the flight operates via the home country of the foreign air carrier; and that seventh-freedom charter means a charter flight carrying traffic that originates and terminates in a country other than the foreign air carrier's home country, where the flight does not have a prior, intermediate, or subsequent stop in the foreign air carrier's home country.

The revision of OST Form 4540 requires that, at the time of application for fifth-freedom charter authorization, the applicant foreign air carrier must present certification from its homeland government (or cite certification previously submitted to the Department that is dated within the previous 90-day period), that indicates that the carrier's homeland grants to U.S. carriers a privilege similar to that requested by the applicant. The revision also requires applicant carriers to indicate on the application the number of third- and fourth-freedom flights the carrier has operated in the previous 12 month period.

While these changes were important, and long overdue, regulatory reforms needed in the charter industry, NACA still believes this action did not go far enough. The U.S. charter industry is of the opinion that it is not sound policy to allow such relatively unrestrained charter "seventh freedom" operations to continue to take place. Even with these changes, seventh freedom charter operations are still routinely permitted by DOT. The Department has total discretion in deciding what criteria it will utilize for granting such permission as they are considered to be extra-bilateral.

This issue is taking on renewed importance with U.S. /EU second stage negotiations which are underway. The EU has proposed to formally adopt seventh freedom passenger rights in any new agreement reached between the two sides. Acceptance of this proposal would formally enshrine the right for EU carriers to fly as much seventh freedom traffic as they want.

We strongly believe that adoption of any seventh freedom traffic within the context of a second Open Skies agreement with the EU will result in the destruction of the U.S. charter industry. First, there is no significant market in the EU for U.S. carriers to fly. Many EU residents use the extensive rail system in Europe to take their holidays in the summer months. Also, with the advent of low-cost carriers like the Ireland-based Ryanair for example, the charter market is even less viable than in past years. However, in the U.S., many residents take their vacations in winter months to southern cities or a

Caribbean destination which usually requires flights. EU carriers are attractive to tour operators because their costs generally run less than U.S. charter carriers as our winter season is their static period and they are able to offer aircraft for a reduced price since they would likely get little if any use in Europe during these slow months. Secondly, there is also a significant difference in the cost of the U.S. regulatory burden in comparison to most foreign carriers. In general, Federal Aviation Administration (FAA) oversight of a foreign air carrier is limited to an assessment of the foreign country's ability to regulate its air carrier under the laws of the country of registration and the Standards of the various annexes of the International Civil Aviation Organization (ICAO). Even the ICAO Recommended Practices may be waived by the nation of aircraft and air carrier registry. The only authority the FAA has over a foreign aircraft is to ensure that the crewmembers have valid pilot certificates and the aircraft has an apparent valid airworthiness certificate. FAA may perform ramp inspections, but may not perform in-flight cockpit checks.

Unless the foreign air carrier elects to register its aircraft in the United States, the FAA has no control over the airworthiness of that aircraft. Thus, many of the safety and airworthiness directives required of U.S. air carriers are not required of foreign operators. For example, 14 CFR 129 specifically excludes a foreign aircraft from the maintenance programs and minimum equipment list requirements for U.S.-registered aircraft (14 CFR 129, § 129.14) and the requirements for digital flight data recorders (14 CFR 129, § 129.20). Some cockpit voice recorder requirements are covered under ICAO's recommended practices, but these may not be up to FAA regulatory standards for U.S. registered aircraft. Additionally, many nations of the world do not require cargo compartment smoke detection and protection, a safety feature thought to be of utmost concern in the U.S. All of these are costly programs for U.S. carriers, and where competitors do not have to comply, there is an uneven field of competition.

Moreover, there is seldom a day when the FAA does not issue an airworthiness directive (AD) that is mandatory for U.S. registered aircraft, but optional, at best, for foreign registered aircraft. Furthermore, the FAA is currently deep into a program of surveillance and regulation of U.S. air carriers that goes far beyond regulatory compliance; embraces the concepts of ISO 9000; and requires U.S. carriers – but not foreign carriers - to conform to the FAA's views of best industry practices.

In our view, Congress must express its strong opposition to the Obama Administration concerning any acceptance of passenger Seventh Freedom rights in the U.S. /EU aviation negotiations – or any bilateral or multilateral talks.

Fly America

The Fly America Act, 49 U.S.C. § 40118, passed in 1958, requires that any contract for air transportation of passengers or property by any U.S. government agency for which payment is made by the United States or for which payment is made from any funds appropriated for any U.S. agency shall be provided by U.S. air carriers.

Fly America is a key element in national defense, as the United States is dependent upon airlift provided by U.S. commercial air carriers for more than 90 percent of the passenger airlift; and more than 40 percent of the cargo airlift for any deployment, sustainment or redeployment of U.S. forces in a national defense contingency.

In the Fly America Act, the nation acknowledges the strategic importance of regular, long-term support for the U.S. air carrier industry without any additional appropriation. Fly America does not require any agency to expend funds with U.S. air carriers unless that agency, directly or indirectly, has an air transportation requirement. However, if a Federal agency needs to transport its people or property, it must first give a U.S. air carrier the opportunity. The law provides alternatives to agencies where a U.S. air carrier cannot reasonably meet the agency's mission.

Our current national security strategy depends upon U.S. air carriers support to the CRAF for more than 90 percent of the nations wartime troop air transportation and approximately 40 percent of its long-range military cargo capability. If the DoD had to own and operate the equivalent airlift within its organic forces, it would cost the Federal government hundreds of billions of dollars in life-cycle costs for aircraft, aircrews and command and control infrastructure. Fly America assures national security airlift from commercial air carriers as a simple byproduct of peacetime government agency transportation requirements.

DOT POLICIES AND INTREPRETATIONS

While the DOT and the State Department have consistently refused to allow broad seventh freedom rights for foreign air carriers, recent legal interpretations by the DOT's counsel's office have caused considerable concern for our carrier members.

Federal law prohibits cabotage, except for very specific exemptions. See, 49 U.S.C. §§40109(g) and 41703(c). Yet, in an October 2008 legal opinion, the DOT concluded that a proposed series of charter flights by Air Canada to provide the National Hockey League's Boston Bruins through the 2008-2009 NHL season did not constitute illegal cabotage.

The proposed charter included 73 flights, 48 of which were over U.S. domestic segments. During an eight week period between November 1, 2008 and January 17, 2009, Air Canada proposed to conduct 18 consecutive domestic flights, and over a five-week period from February 12 to March 15, 2009, another 13 consecutive domestic flights. However, the DOT concluded that this did not constitute cabotage "provided that no local traffic of any kind is carried between U.S. points. . . ." Letter of Donald H. Horn, Assistant General Counsel for International Law, U.S. Department of Transportation, dated October 6, 2008.

By letter dated March 16, 2009, signed by NACA, along with the Air Line Pilots Association, the Association of Flight Attendants and the Air Transport Association, we asked DOT Secretary LaHood to reconsider this legal determination. We argue that this interpretation is completely at odds with both the prohibition of domestic traffic by foreign carriers by Federal law and long-standing precedents by the DOT and its predecessor agency, the Civil Aeronautics Board. Foreign air carriers are only permitted to hold permits which authorize them to engage in foreign air transportation. In our collective view, the Air Canada operation cannot be reasonably deemed to be foreign air transportation. A copy of our letter to Secretary LaHood is included with our testimony.

LEGISLATIVE CONSIDERATIONS

Counter-MANPADS Pilot Program for CRAF Carriers

Today, a number of our carriers are already flying CRAF cargo missions into places like Afghanistan. While USTRANSCOM acknowledges that it would never use a civilian aircraft to fly a DoD mission into a dangerous situation, we are increasingly concerned about the instability of the environment in places like Afghanistan. The ease by which terrorists or other militant groups can obtain dangerous weapons systems, like shoulder-fired missiles or MANPADS, leads us to be concerned that even in areas that are deemed safe, there remains a dangerous propensity for the use of MANPADS against a U.S. flag carrier. To that end, a number of our carrier members have been interested in expanding a recently concluded Department of Homeland Security pilot program on counter-MANPAD technology. We believe that there is a need and an interest in developing a similar pilot program within USTRANSCOM, to examine the feasibility and practicality of providing U.S. civilian aircraft operating DoD missions to be equipped with a counter-manpad technology.

The key to this pilot program would be a portable system, consistent with similar systems already installed on DoD aircraft. With a portable system, the CRAF aircraft would not have to be equipped with the C-MANPAD pod for the entire flight. CRAF aircraft would make a scheduled stop at which point DoD personnel install the system and the aircraft continues its flight to the termination point. At the termination point, DoD could remove the pod, or the pod could be removed at a predetermined transit stop as part of the return leg to the U.S. Portable system allows both DoD and CRAF carriers to make determinations about the potential risk for a flight and make that decision at the appropriate point in time. This allows for greater fleet utilization. As a DoD program, the U.S. government controls the technology, thus reducing the administrative burdens for licenses under Federal import/export technology laws. We believe that this program would be modest in size, for a cost of approximately $20 million. At this level, USTRANSCOM would be equipped with a suitable number of portable systems to prove the concept.

FAA Reauthorization

As part 121 carriers operating within the National Airspace System, NACA carriers face the same challenges as our major airline counterparts in navigating through an increasingly outdated air navigation system. We share the concerns of this subcommittee that a long-term FAA reauthorization legislation is long overdue. We applaud the efforts of the subcommittee in passing a comprehensive reauthorization bill designed to promote the rapid development and implementation of the Next Generation Air Transportation System. However, there are several provisions included in H.R. 915, the FAA Reauthorization Act of 2009 that are of concern to our member carriers.

Section 303: Inspection of Foreign Repair Stations

Section 303 of the House bill would require the Administrator of the FAA to certify that each foreign repair station certified by the FAA under part 145 of title 14 of the Code of Federal Regulations has been inspected within the last two years, and that certification requirements for these foreign repair stations must include testing for alcohol and controlled substances. We are concerned that this language, without any modification, will effectively close access to foreign repair stations for our member airlines. Moreover, at a time when our economy is shedding a record number of jobs on a daily basis, the unintended consequence of this language will result in the loss of jobs in the United States.

We are convinced that if this language were adopted into law, it would lead to retaliatory actions by the European Community, raising costs for repair stations, putting customer relations at risk, and placing these stations at a competitive disadvantage in a very difficult economy.

As you know, our industry is committed to safety and ensuring that all our aircraft are maintained and repaired in safe and secure facilities. Industry facilities are constantly inspected – by the FAA, foreign aviation authorities, and our air carriers. Requiring twice-annual inspections of stations we know to be safe does not increase safety and is at odds with the risk-based system FAA is moving to for repair station oversight. This provision also risks many other areas of significant aviation safety activity such as flight training, simulators and certification. Moreover, foreign repair station certificates do not last indefinitely. Rather, they are subject to, and these stations must pay for, FAA renewal every one to two years.

Recent conversations with European officials suggest that if this language were adopted, Europe would engage in retaliatory actions, requiring at a minimum, having twice-annual inspections of U.S.-based, EASA certificated repair stations. This would effectively increase the certification costs for these repair stations from $960 to $32,100 per station per year. As a result, we fear that U.S.-based repair stations will lose their EASA certifications. EASA will not have sufficient staffing levels to visit each of the 1,200 U.S.-based repair facilities (compared to only 425 FAA certificated repair stations in Europe) twice per year, so, if the Europeans abide by language identical to that in Section 303, many U.S. facilities would lose their EASA certificates. Stations unable to be reviewed by EASA personnel would no longer be able to work on European-registered aircraft and components hurting stations with customers who require both U.S. and EASA certification.

For our carriers, this would be a devastating blow. A number of our carriers operate as charter operators throughout the world, including a significant amount of passenger and cargo charters for the U.S. military through the CRAF. A significant number of these CRAF operations are international flights, bringing U.S. military personnel to and from the major theatres of combat operations and, on occasion, our members' aircraft require maintenance and repair while overseas. The loss of the use of a foreign repair station would essentially eliminate the ability of our carriers to safely operate in a competitive, global environment.

Section 307: OSHA Standards for Flight Attendants on Board Aircraft

This section requires the FAA to promulgate new regulations that relate to issues in the cabin environment and the nature of the work performed by flight attendants. The Administrator would be required to consult with the Administrator of the Occupational Safety and Health Administration in the development of these new rules. While this section provides that the FAA must make safety paramount in the development of these regulations, we are concerned that this section creates an entire new bureaucracy of oversight, inspection and rulemaking that will directly conflict with the safe operation of an aircraft. Activities within the cabin of the aircraft are already heavily regulated by the FAA in a manner to promote the safe operation of the aircraft. This provision will only impose a further level of regulatory compliance that seems duplicative of current regulations. In our view, this provision is unnecessary and will likely impose additional costs on an airline industry, without a demonstrated meaningful benefit to the flight crew or the traveling passenger.

Section 310: Noncertificated maintenance providers

Section 310 of the bill mandates that within three years the FAA issue regulations requiring that all "covered maintenance work" on aircraft used to provide air transportation under 14 CFR part 121 be performed by: an individual employed by the air carrier, employed by another part 121 carrier, employed by a part 145 repair station, or a contract maintenance worker working under "direct supervision" of the part 145 repair station or part 121 carrier.

We are concerned that this provision fails to recognize that use of "non-certificated" entities is a pivotal aspect of the maintenance industry. For example, under this section, the use of an original equipment manufacturer (OEM) to perform work on a component would not be allowed, thus eliminating the possibility to use OEM key functions that are not available from other sources. As written, this section would prohibit our airline members from using anything other than individuals employed by a part 121 air carrier, part 145 repair stations or employed by a company that provides contract maintenance workers to a part 121 or part 145 entity. A number of our airline members use companies that do not have either one of these certificates but do have certificated individuals, usually an A&P certificate. For many of our members that operate as supplemental air carriers, they frequently need to use local personnel when aircraft are in need of repair, since these carriers routinely operate into locations where the carrier does not maintain a corporate infrastructure.

At these locations, our carriers use the services of local FAA or other government employees who work for an air carrier or a local repair station and moonlight. Except at foreign locations where drug and alcohol testing are prohibited by local law, these individuals are hired as "contract employees" and placed onto the carrier's drug abatement program. If enacted, this provision has the potential to ground carriers' aircraft for several days until the carrier can send its own maintenance personnel, or contract with an air carrier that uses the airport, or a local part 145 repair station. However, it must be noted that many of our member carriers are operating into regions of the world that are not routinely served by scheduled carriers and do not have a part 145 repair station that can perform the necessary maintenance on the particular aircraft type. As a result, such a prohibition could lead to a lengthy delay of an aircraft into commercial service, thus incurring a severe financial loss to the air carrier.

Section 311: Aircraft Rescue and Firefighting Standards

This section would mandate that the FAA initiate a rulemaking proceeding to harmonize FAA rules on aircraft rescue and firefighting (ARFF) rules with standards developed by the National Fire Protection Association (NFPA). We are deeply concerned that this section has the potential to increase operational costs for airports, which in turn, will increase the costs for airlines to operate at these airports. As a result, higher operating costs at smaller airports will result in the reduction or elimination of low cost air service to these small communities.

It is important to note that NFPA standards are developed by a private association. While the NFPA attempts to bring together segments of the regulated industry, the panels which develop the ARFF standards are not comprised of a balanced representation of firefighters, airlines, airports, and other industry leaders. NFPA standards are not developed like Federal regulations. There is no requirement for notice and comment by the regulated community and the standards which are developed are not subject to any form of cost-benefit analysis.

While Section 311 provides that the FAA is not required to adopt the NFPA standards in total, it would require the FAA to submit a justification to the Office of Management and Budget (OMB) explaining its reasoning if it chose not to adopt any part of those standards. The result, intended or not, is that the legislation would strong-arm the FAA into adopting the NFPA standards in their entirety. It is unclear whether a cost-benefit analysis would be sufficient for the FAA to rely upon in its justification to the OMB. It should be noted that even recommendations from the National Transportation Safety Board are not afforded this type of express rulemaking.

The NFPA standards, if adopted by the FAA, would require changing the method of indexing aircraft using an airport to the number of ARFF staffing. Today, the indexing of airport ARFF standards is based on the average size of commercial passenger aircraft using the airport over the course of a year. The NFPA would require that index to be modified so that staffing would be required to meet the needs of the largest type of aircraft that uses that airport, regardless of frequency. For many of the medium-hub and smaller airports, they would have to have ARFF staffing and equipment to meet the largest type of aircraft to use that airport, even if that aircraft only used that airport once.

As you know, while the Airport Improvement Program provides almost the full cost for ARFF equipment, it does not provide any resources for ARFF staffing. That is an operational cost of the airport which, in turn, is calculated into the operating rate-base of the airport. As a result, the costs for ARFF staffing standards will be passed on directly to the air carriers. These have the potential for significantly increasing airport fees which, in turn, will jeopardize air service to our nation's smaller airports and communities.

We should note that the FAA had convened an aviation rulemaking advisory committee to examine ARFF standards and practices. The advisory group prepared a draft proposal for amending the current ARFF regulations. We would encourage the Committee to include language in the legislation which would direct the FAA to issue that proposal as a notice of proposed rulemaking, and allow that proposal to be subject to the same legal and regulatory review process as any other aviation safety rulemaking.

Mr. Chairman, we appreciate the opportunity that you have provided to NACA to share our views and concerns regarding the future of the CRAF program and the overall economic viability of our charter airline industry. We look forward to working with you on these issues. I would be happy to answer any questions that you and the members of the subcommittee may have.

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NACA alpa afa AIR TRANSPORT ASSOCIATION

March 16, 2009

VIA FACSIMILE AND U.S. MAIL

The Honorable Raymond LaHood
Secretary
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Dear Mr. Secretary:

This is to express our concern about an opinion -- dated October 6, 2008 -- given by the Department to Air Canada, stating that a series of charter flights Air Canada was proposing to provide to the Boston Bruins hockey team between September 22, 2008 and April 12, 2009 would not constitute illegal cabotage. The Department's opinion letter is attached hereto. We believe that the Air Canada operation does constitute prohibited cabotage and that the Department should inform Air Canada and other foreign carriers that such operations will not be permitted in the future.

The charter includes 73 flights. Forty-eight of these are over U.S. domestic segments. During one eight-week period between November 1, 2008 and January 17, 2009, there were to be 18 consecutive domestic flights and over another five week period from February 12 and March 15, 2009, there were to be 13 consecutive domestic flights. See schedule attached to opinion letter. The opinion letter, however, states that these flights "would not constitute prohibited cabotage . . . provided that no local traffic of any kind is carried between U.S. points . . . ."

This interpretation is completely at odds with both the prohibition on the carriage of domestic traffic by foreign carriers in the aviation statutes and longstanding Department and Civil Aeronautics precedent. Foreign air carriers are only permitted to hold permits authorizing them to engage in foreign air transportation -- i.e., the transportation of passengers between U.S. and foreign points. The major portion of the Air Canada operation here can not reasonably be deemed to be foreign air transportation. Prior cases allowing foreign airlines to fly <u>foreign</u> sports teams into the U.S. and then to a handful of stopover points on a journey into and out of the U.S., simply do not provide an adequate basis for permitting a months-long series of intra-U.S. flights for a U.S.-originating group.

The Honorable Raymond LaHood
March 16, 2009
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DOT's opinion is also at odds with the realities of a season-long charter for a sports team. It is highly likely, in fact almost certain, that over the course of the season different individuals will be travelling on different domestic segments. Injuries and illnesses will occur, players will be added to or dropped off the team, support staff and press personnel will make some, but not all the flights. Because these flight manifest changes are likely, the Department's contrary assumption is unreasonable and cannot support the interpretation to permit the extensive charter operation at issue here.

Several U.S. airlines have informed us that Air Canada is planning to bid on other U.S. sports team charter this year. The Department should inform Air Canada, and any other foreign carrier seeking to conduct similar charters, that the Department has reconsidered its October 6 opinion and that it views operations such as the one conducted by Air Canada for the Boston Bruins to constitute prohibited cabotage. The United States has long reserved domestic air transport for U.S air carriers and their employees and it is essential that it continue to remain consistent on this important policy issue.

Sincerely,

James C. May

James May
President
Air Transport Association

Thomas E. Zoeller

Thomas Zoeller
President
National Air Carrier Association

John H. Prater

John Prater
President
Air Line Pilots Association

Patricia A. Friend

Patricia Friend
President
Association of Flight Attendants

Attachment
cc: The Honorable Janet Napolitano
Secretary
Department of Homeland Security

U.S.Department of Transportation
Office of the Secretary of Transportation

ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL LAW

1200 New Jersey Avenue, S.E.
Washington, D.C. 20590

October 6, 2008

Ms. Anita M. Mosner
Holland & Knight LLP
2099 Pennsylvania Avenue, NW
Washington, DC 20006

Dear Ms Mosner:

You asked for our opinion concerning a charter program that Air Canada proposes to conduct during the 2008-2009 National Hockey League season, carrying the Boston Bruins hockey team. You provided the dates and routings of the flights involved, which are attached to this letter. The charter program includes both transborder and intra-U.S. flight segments.

You stated that the U.S. Customs and Border Protection Service has challenged Air Canada when it has operated flights between U.S. points, even when those flights have been part of a program which has involved transporter service, and you asked us to advise you whether the flights Air Canada proposes to operate for the Boston Bruins are permissible and authorized by the Department.

It is our view that, if operated in the manner set forth in the flight schedule that you provided, Air Canada holds the necessary authority in its currently-effective foreign air carrier permit (Order 2008-9-23, Docket DOT-OST-2007-28768) to conduct the operations. Specifically, it is our view that the operations would *not* constitute prohibited cabotage under the provisions of 49 U.S.C. 41703(c), provided that no local traffic of any kind is carried between U.S. points, *i.e.*, that Air Canada carries no one on the flights that it has not carried, or will not carry, into or out of the United States under the contract.

If you have any questions concerning this matter, please contact Mr. George Wellington at (202) 366-2391. I hope you will find this information useful.

Sincerely,

Donald H. Horn
Assistant General Counsel
For International Law

Attachment

Attachment

ITINERARY FOR 2008-2009 AC PRE and REGULAR SEASON CHARTER SERVICES

FLIGHT #	DATE	FROM	DEP	TO	ARR	REMARKS
AC7031	22-Sep	BED	1230	YHZ	1445	A319
AC7032	26-Sep	YHZ	1300	BED	1345	A319
AC7033	26-Sep	BED	1430	DTW	1635	A319
AC7031	26-Sep	DTW	2330	BED	0120	A319
AC7031	1-Oct	YUL	2330	BED	0035	
AC7032	5-Oct	BED	1300	IAD	1420	
AC7031	5-Oct	IAD	2100	BED	2220	
AC7032	7-Oct	BED	1400	DEN	1630	48 Paxs
AC7031	9-Oct	DEN	2359	MSP	0249	
AC7032	11-Oct	MSP	2330	BED	0315	
AC7031	14-Oct	BED	1500	YUL	1605	
AC7032	15-Oct	YUL	2330	BED	0035	
AC7031	17-Oct	BED	1500	YOW	1610	
AC7032	18-Oct	YOW	2300	BED	0015	
AC7031	20-Oct	BED	2300	BUF	0015	
AC7032	21-Oct	BUF	2300	BED	0015	
AC7031	26-Oct	BED	1300	YEG	1610	Weight Restricted
AC7032	27-Oct	YEG	2300	YVR	2335	
AC7031	28-Oct	YVR	2300	YYC	0125	
AC7032	30-Oct	YYC	2300	BED	0530	
AC7031	11-Nov	BED	1430	MDW	1605	
AC7032	12-Nov	MDW	2330	BED	0235	
AC7031	14-Nov	BED	1500	EWR	1600	
AC7032	15-Nov	EWR	2300	YYZ	0030	
AC7031	17-Nov	YYZ	2330	BED	0055	
AC7032	21-Nov	BED	2300	YUL	0005	
AC7031	22-Nov	YUL	2300	BED	0005	
AC7032	25-Nov	BED	1500	BUF	1620	
AC7031	26-Nov	BUF	2300	BED	0015	
AC7032	3-Dec	BED	1300	TPA	1610	
AC7031	4-Dec	TPA	2330	FLL	0025	
AC7032	6-Dec	FLL	2300	BED	0205	
AC7031	9-Dec	BED	1400	IAD	1525	
AC7032	10-Dec	IAD	2300	ATL	0045	
AC7031	12-Dec	ATL	2330	BED	0155	
AC7032	20-Dec	BED	1700	STL	1855	
AC7031	21-Dec	STL	2100	EWR	2359	
AC7032	23-Dec	EWR	2300	BED	0005	
AC7031	26-Dec	BED	1400	RDU	1550	
AC7032	27-Dec	RDU	2300	ATL	0020	
AC7031	28-Dec	ATL	2100	PIT	2235	
AC7032	30-Dec	PIT	2330	BED	0055	
AC7031	14-Jan	BED	1500	FRG	1600	
AC7032	15-Jan	FRG	2300	IAD	2359	
AC7031	17-Jan	IAD	2300	BED	0020	
AC7032	20-Jan	BED	1400	YYZ	1540	

FLIGHT #	DATE	FROM	DEP	TO	ARR	REMARKS
AC7031	21-Jan	YYZ	2330	BED	0055	
AC7032	31-Jan	BED	1700	YUL	1805	
AC7031	1-Feb	YUL	1800	BED	1905	
AC7032	3-Feb	BED	1500	PHL	1605	
AC7031	4-Feb	PHL	2300	YOW	0030	
AC7032	5-Feb	YOW	2330	BED	0045	
AC7031	12-Feb	BED	1400	EWR	1455	
AC7032	13-Feb	EWR	2300	BNA	0030	
AC7031	14-Feb	BNA	2300	BED	0215	
AC7032	16-Feb	BED	1400	RDU	1550	
AC7031	17-Feb	RDU	2300	BED	0040	
AC7032	20-Feb	BED	1300	FLL	1625	
AC7031	21-Feb	FLL	2300	TPA	0005	
AC7032	22-Feb	TPA	2100	BED	2350	
AC7031	7-Mar	BED	1700	EWR	1755	
AC7032	8-Mar	EWR	1900	CMH	2040	A319
AC7031	10-Mar	CMH	2300	BED	0040	
AC7032	14-Mar	BED	1700	PIT	1830	
AC7031	15-Mar	PIT	1900	BED	2025	
AC7032	27-Mar	BED	1400	YYZ	1530	
AC7031	28-Mar	YYZ	2300	PHL	0015	
AC7032	29-Mar	PHL	2300	BED	0010	
AC7031	6-Apr	BED	1400	YOW	1505	
AC7032	7-Apr	YOW	2330	BED	0045	
AC7031	10-Apr	BED	1500	BUF	1615	
AC7032	11-Apr	BUF	2000	FRG	2110	
AC7031	12-Apr	FRG	2100	BED	2150	

WRITTEN SUBMISSION OF

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

TO THE

SUBCOMMITTEE ON AVIATION

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

MAY 13, 2009

"THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET (CRAF) PROGRAM"

Air Line Pilots Association, International
1625 Massachusetts Avenue, NW
Washington, DC 20036
(202) 797-4033

SUBMISSION OF
AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

TO THE
SUBCOMMITTEE ON AVIATION

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

UNITED STATES HOUSE OF REPRESENTATIVES

"THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET (CRAF) PROGRAM"

WASHINGTON, DC
MAY 13, 2009

The following statement relating to Civil Reserve Air Fleet (CRAF) operations is submitted on behalf of the 54,000 professional pilots who fly for 36 airlines and are represented by the Air Line Pilots Association (ALPA).

Our initial comment is that the people who planned and developed the CRAF concept should be commended for their foresight and ability to visualize potential problems. From the line pilot's vantage point, the overall effort went amazingly well considering the scope of the action and the fact that Desert Shield was the first deployment of U.S. Forces that required CRAF Stage I and II. All told, the CRAF carriers flew 5,188 missions from the US and Europe to the Arabian Peninsula. The CRAF accounted for 21% of the missions, 64% of the passengers, and 27% of the cargo during deployment. During the redeployment, CRAF carriers carried 84% of the passengers and 40% or the cargo returning to the US. [1]

The second activation of the CRAF was post-9/11 during the lead-up to Operation Iraqi Freedom. On February 8, 2003, the USTC Commander General John W. Handy called CRAF Stage I. At the time of activation, the Stage I fleet consisted of 31 wide-body cargo aircraft and 47 passenger aircraft from 22 various airlines. Only the passenger aircraft were activated. These aircraft, along with the CRAF volunteers already operating missions, were needed to close the forces necessary for the beginning of hostilities. From February 8 through June 2, CRAF carriers flew more than 1,625 missions, moving 254,143 troops around the world. The majority of those missions were to the Middle East[2]

This does not mean, however, that some problem areas do not continue to exist or that operational improvements are not necessary. Any initiative of this magnitude will surface requirements for change in both procedures and operational effectiveness. These must be evaluated on an individual basis and revised when needed.

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[1] CRAF Study report Air Mobility Command, July 30, 2008. **Air Force Technical and Analytical Support (AFTAS)**

[2] CRAF Study report Air Mobility Command, July 30, 2008. **Air Force Technical and Analytical Support (AFTAS)**

As in the activation during Desert Shield and Desert Storm, the activation for Operation Iraqi Freedom (OIF) was successful but not without issues. During OIF, the preponderance of issues were operational delays at en route bases, refueling and offloading, and delays due to the non-receipt of diplomatic clearances. Carriers have requested additional involvement in pre-activation planning to work these issues. The main issue was the Tanker Airlift Control Center's (TACC's) ability to rapidly incorporate the added capability of activation, in this case 47 passenger aircraft.

Shortly after being advised of the CRAF activation, ALPA established a communications link with its pilot group at each affected airline. The purpose of this link was to provide members immediate access to the association's principal officers and staff. This action enabled our members to obtain advice on problems they were encountering and at the same time, alerted our offices in the Washington area of issues that may need either coordination with, or clarification from other involved agencies and associations in the Washington area. This communications channel was used extensively during the initial phases of CRAF activation and continues to provide our members needed support.

Our specific comments and recommendations relating to CRAF operations are:

1. <u>Flight Time/Duty Time:</u> Previously, the U.S. Air Force Military Airlift Command (MAC) now the Air Mobility Command (AMC) requested the FAA to grant an exemption, on a case-by-case basis, to CRAF carriers to extend the flight and duty limitations of Federal Aviation Regulation (FAR) Part 121 to 150 hours in 30 days and 330 hours in 90 days. Under the regulations, (14 CFR Part 121, Subpart S), a pilot is limited to either 100 hours flying or in the case of a crew of two pilots and one additional airmen120 hours duty aloft in 30 consecutive days or 300 hours duty aloft during any 90 consecutive days.

   In response to the MAC request, the FAA has granted specific relief to air carriers that allow crewmembers to fly or to perform duty aloft for 150 hours in 30 consecutive days. This deviation extends only to those flight crewmembers that are scheduled to serve on all-cargo flights conducted under Department of Defense contract in support of the Middle East crisis. The FAA did not feel it prudent to permit relief from the 300 hour requirement.

   We do not feel that present circumstances, or any future Stage I activation, warrants such relief, and are strongly opposed to the granting of this deviation from 14 CFR Part 121, Subpart S. The biological/physiological differences between senior airline pilots who fly CRAF aircraft and pilots operating military transports are obvious. Civil flight crews operating to these relaxed standards may become subject to extreme levels of fatigue, and safety margins will be reduced to compromising levels.

   The question of the sufficiency of airlift support must be applied not only to Steady-state peacetime CRAF participation but also to the industry's ability to support a range of DoD contingency operations that entail a surge in airlift demand. The overall sufficiency of U.S. aircraft capacity to meet DoD mobilization needs is not in question. U.S. passenger airlines and cargo integrators have inventories of overseas capable aircraft that are quite large relative to DoD's mobilization targets. The CRAF fleet in its entirety has adequate resources of both personnel and equipment which should be used to prevent one operator from requiring their crewmembers to exceed generally accepted safe operating practices and flight time restrictions. An equal distribution of the workload among activated carriers is essential. Such factors as availability of personnel and equipment on all operators who have CRAF contract obligations should be reviewed before any request for exemption to FAR requirements in considered. Under no circumstances should the inability of a few operators to live up to their CRAF obligations be the basis for granting exemptions to minimum safety standards established through the FARs.

2. Availability of Emergency Equipment: Military crews operating in an area of possible chemical/biological warfare are provided the protective equipment needed to reduce the life threatening hazards associated with these elements. This equipment generally includes a gas mask, a charcoal undergarment, rubber gloves and some type of foot protection to reduce aircraft contamination. CRAF crews using the same airports were not provided any protective gear. While the military authorities may be able to determine when an attack using such weapons is possible, nothing is sure in such an environment and therefore crews should have the same protective equipment available. We recommend that a type of "fly-away kit" be assembled and maintained by the Air Force and placed at strategic staging locations within the United States. The kits could then be issued to CRAF aircraft as they depart for their area of operations whenever it may be. To store such equipment earmarked for CRAF crews at locations in the hostile area may reduce or complicate access by CRAF crews. Such equipment should accompany them wherever they are activated and be available on a world-wide basis.

3. Hazardous Material Carriage: Another of our concerns surrounding the CRAF program deals with the carriage of hazardous materials. When CRAF was activated, DOT Exemption (DOT-E 9232) was issued and resulted in the transportation of hazardous materials via aircraft. Under normal circumstances, such hazardous materials are prohibited from being carried onboard civil aircraft. The DOT Exemption, however, authorizes the carriage of items which are normally carried by the surface mode, e.g., motor vehicle. The carriage of some such substances on civil aircraft increases the potential for a major incident or accident to exist, and poses a risk and exposure to the flightcrews to hazardous materials which are not normally encountered during airline operations.

   Although a major incident has not occurred, we would like to see this exemption removed at the earliest practical time. This then would require the carriage of normally prohibited hazardous materials either by military aircraft or aircraft under military contract, and not CRAF aircraft.

4. Load Coordination/Ground Time: At the onset of CRAF activation, some problems relating to load coordination were experienced. Load availability and the amount to be transported were issues for discussion and resulted in excessive ground time. This problem diminished as day-to-day experience was gained and does not appear to be a factor at this time.

5. Passenger Relief: We were advised that in some cases, troops that were aboard CRAF aircraft for extended periods of time were not permitted by local authorities at foreign refueling stops to depart the aircraft. In one case, local police kept a full load of troops on a B747 for approximately six hours while ground maintenance was being accomplished. Such a policy should be unacceptable and challenged by the State Department.

6. Ownership and Control: According to the U.S. Transportation Command, during a period of national mobilization CRAF could meet up to 90% of DOD's passenger and 35% of DOD's cargo requirements. Recognizing the critical nature of civil fleet support for U.S. national security needs, the Institute for Defense Analysis has put forth a series of incentive

and business practice recommendations to support an "assured supply model" for CRAF aircraft. ALPA believes that immediate and assured supply of civil aircraft in time of national challenge will best be guaranteed by carriers that are under the actual control of U.S. citizens. Accordingly, ALPA supports retaining or enhancing the laws that ensure that the ownership and control of U.S. air carriers eligible to participate in CRAF remain in the hands of U.S. citizens.

As a final comment, we again would like to salute the Air Mobility Command for the dedication and professionalism they demonstrated in making this CRAF activation work. The CRAF program is in good shape, but there are a number of issues that should be addressed to insure the safety of the program and to improve effectiveness and efficiency. As we stated earlier, however, there are always lessons to be learned from a program of this magnitude. Therefore, we strongly encourage the Department of Defense to convene a meeting of all parties involved in the CRAF activation and operations, for the purpose of exchanging views on how the concept can be improved. ALPA would be most willing to participate in such a meeting. Our role in such a meeting would be to share the information we have gained through the communications network set up to monitor CRAF operations conducted by operators whose pilots are represented by ALPA.

Thank you for the opportunity to submit our views and experience with the CRAF program.

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UNITED STATES TRANSPORTATION COMMAND
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

29 May 09

The Honorable James L. Oberstar
United States House of Representatives
2365 Rayburn House Office Building
Washington DC 20515-2308

Dear Chairman Oberstar

Thank you for the opportunity to appear before the Aviation Subcommittee of the House Transportation and Infrastructure Committee to discuss the viability of the Civil Reserve Air Fleet (CRAF).

During my testimony, you asked how many 747s and 767s were committed to CRAF. I offer the following in response: There are 140 Boeing 747s committed to CRAF Stage III. Of these, 68 are the legacy 100, 200, and 300 series (66 in cargo service and 2 in passenger service) and 72 are the more modern 400 series (26 in cargo and 46 in passenger service). Additionally, there are 231 Boeing 767s (23 in cargo, 204 in passenger, and 4 in aeromedical service), as well as 101 Boeing 777s (all in passenger service) committed to CRAF Stage III.

I trust this information addresses your concerns, and I would be happy to discuss further with you. Should you have any additional questions, please do not hesitate to contact my Legislative Affairs Office at (618) 229-1886.

Sincerely

DUNCAN J. McNABB
General, USAF
Commander

cc:
OCJCS/LA
The Honorable Jerry F. Costello
The Honorable Thomas E. Petri