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COMPTROLLER GENERAL OF THE UNITED STATES
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The Honorable Melvin Price, Chairman
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

Your letter of January 26, 1976, requested us to investigate thoroughly the Far East interisland airlift operation of the Military Airlift Command, comparing the cost of the Command operation with the cost of service provided by World Airways, Inc., in prior years.

The cost of the World Airways service in fiscal year 1975 was considerably less than the Command's total estimated costs for similar service in 1976. However, considering the training requirements satisfied by having the Command operate the interisland airlift, the military operation is cost effective.

BACKGROUND

The interisland airlift operates out of Yokota, Japan, and is the primary service between U.S. military activities in Japan, Korea, Taiwan, Okinawa, and the Philippines. Prior to July 1975 World Airways operated the service under a contract with the Command.

On July 1, 1975, the Command started operating the service in an effort to reduce overall costs. The Command's decision was influenced by a decline in user requirements and by available airlift capability generated by the need to fly to maintain its war readiness.

Under the Command the route structure was modified to provide for:

1. Decreasing frequent service to certain interisland airlift points.
2. Eliminating interisland airlift service to Thailand.

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3. Adding service to Iwakuni, Japan, and Cubi Point in the Philippines.

The Command is the single Department of Defense operating agency for airlift service. Its overall mission is to provide airlift necessary for wartime deployment. To fulfill this mission, the Command must maintain a constant state of readiness which will enable it to respond to all tasks the Joint Chiefs of Staff assign.

THE COMMAND OPERATION IS COST EFFECTIVE

We compared the cost of the service provided by World Airways in fiscal year 1975 with the cost of the Command operation in fiscal year 1976. To provide for the variance in route structure, we identified those segments of the interisland airlift service common to both the World Airways and the Command operations. We then computed the cost for an average mission on each segment to allow for the changes in frequency.

For fiscal year 1975 cost estimates, we computed the cost of World Airways airlift operation on the basis of the average amount paid by the Command for each route segment. Our estimate of the Command's cost for fiscal year 1976 included direct operating costs, system support costs, direct military pay (crew), indirect military pay (ground support), holiday/leave and retirement costs, depreciation of aircraft and mission support equipment, taxes, insurance, and interest on investment.

We found that the average cost to the Government of the missions World Airways operated was considerably less than the Command's cost. For example, we estimated that the average cost of a World Airways mission from Yokota to Clark Air Base (Philippines) by way of Kadena (Okinawa) and return to Yokota in fiscal year 1975 was \$12,163. This same mission by the Command in fiscal year 1976 cost an estimated \$27,024. Our estimates of average mission costs for the various routes follow.

<u>Route</u>	<u>World Airways FY 1975</u>	<u>The Command FY 1976</u>
Yokota--Kadena--Clark and return	\$12,163	\$27,024
Yokota--Fukuoka--Kadena-- Clark and return	13,100	30,716
Yokota--Kadena--Taipei--Clark and return	13,751	31,537
Yokota--Osan--Kunsen--Kwang Ju-- Taegu--Kadena and return	10,846	30,502
Yokota--Misawa and return	2,452	6,778
Yokota--Kushiro--Chitose--Yokota	4,000	10,589

Although World Airways was cost favorable on all the routes, the Command service was nevertheless cost effective when considering the training requirements satisfied by having the Command provide the service. This is quite evident when you compare the total cost of the 1976 Command operation with what it would have cost if World Airways had operated the service.

Under World Airways operation, the interisland airlift service in fiscal year 1976 would have cost the Government an estimated \$4.6 million. Our estimate of World Airways' cost for fiscal year 1976 was based on the prevailing Civil Aeronautics Board rates and statute miles and the average fuel surcharge levied the last 6 months of 1975. In addition, the Government would have incurred the cost of having the Command fly just to maintain its readiness.

Under the Command operation, the interisland airlift service cost about \$9.4 million in fiscal year 1976. However, about \$9 million in training costs was satisfied. Therefore, the incremental cost of having the Command operate the interisland airlift service was only about \$400,000, or about \$4.2 million less than it would have cost using World Airways. The \$9 million training cost represents the 3,197 hours flown by C-141 aircraft in the interisland airlift operation multiplied by the cost for each flying hour. These were hours the aircraft would have flown for training purposes under the Command

flying hour program if they had not been used in the interisland airlift operation.

Very simply, the cost of maintaining the Command's readiness will be incurred regardless of who operates the airlift. If the Command can operate the airlift as a part of its training mission, obviously it will be less costly than employing a commercial airline.

The Command has established a flying hour program based on the minimum hours required to maintain its proficiency. We did not attempt to verify whether the program meets or exceeds the Command's training requirements. We did find that during the first 8 months of fiscal year 1976 the actual flying hours for the C-141's of the 22nd Air Force--including those flown to operate the interisland airlift service--totaled 105,689 against a program of 105,546 hours. At the end of the third quarter of each year, a projection is made to insure that the flying hour program is met. A Command official told us they could not overfly the annual program hours.

We recently issued a report to the Congress on the flying hour programs of the military services. (LCD-75-451 dated June 18, 1976.) This report describes the systems used by the military services to manage their flying hour program and it identifies opportunities for improving management of these programs.

THE COMMAND SERVICE
MET PERFORMANCE REQUIREMENTS

World Airways operated the interisland airlift missions at a high level of efficiency in fiscal year 1975, meeting flight schedules 96.1 percent of the time. This exceeded contract performance standards which demand that schedules be met 80 percent of the time if a carrier is to retain a contract and 85 percent of the time if a carrier is to be eligible for additional Command business.

In the first 6 months of fiscal year 1976, the Command met flight schedules 89.7 percent of the time. Although below the performance of World Airways, the Command's performance was well over the minimum contract requirements for commercial carriers.

At the direction of the Assistant Secretary of the Air Force (Installations and Logistics), the Command is

also implementing a program that includes scheduling flights at times more convenient for passengers and upgrading passenger accommodations on its aircraft.

CIVIL RESERVE AIR FLEET

The Civil Reserve Air Fleet program was initiated in 1952, to provide for using civilian aircraft to augment military airlift in emergencies or in national crises. Commercial aircraft are usually allocated to the Civil Reserve Air Fleet by an airline's offer in conjunction with contract bids for peacetime traffic.

In November 1975, the Subcommittee on Research and Development of the House Committee on Armed Services heard testimony from World Airways concerning the inter-island airlift service. It was World Airways' position that diverting cargo from commercial carriers to military aircraft could have an adverse effect on the Civil Reserve Air Fleet program.

In fiscal year 1975 World Airways allocated three B-727s to short-range international and domestic segments of the program. Effective June 1, 1976, the allocation was changed to two aircraft. The third aircraft was eliminated because World Airways leased it to a foreign carrier.

Command officials told us that in their opinion, the loss of the B-727 would not affect the Civil Reserve Air Fleet program because the critical need of the military is for long-range international equipment, especially cargo aircraft of the B-747 class.

COMMENTS OF WORLD AIRWAYS AND THE COMMAND

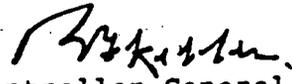
We briefed World Airways officials on the results of our review. Essentially, these officials agreed with our cost data, but they did not agree that the Command's training costs should be considered in our evaluation.

Command officials agreed with our cost data and handling of their training costs.

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We will be glad to discuss our findings with you or members of your Committee.

Sincerely yours,



ACTING Comptroller General
of the United States