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REMARKS OF THE DEPUTY SECRETARY OF TRANSPORTATION, DARRELL M. TRENT, BEFORE THE NDTA MILITARY AIRLIFT COMMITTEE, OCTOBER 28, 1981

I am delighted to be here and to have a part in these proceedings. Secretary Lewis is keenly aware of the importance of our transportation system to the nation's defense readiness, and of the necessity to take defense needs into account in all of our policies and programs.

Before turning to the subject at hand, I want to thank the military services for making air traffic controllers available to our civil air traffic control system. This is one area where the cooperation between the military and civilian departments of government has demonstrated the wisdom of maintaining a close working relationship. The Civil Reserve Air Fleet is another.

Under the executive order governing U.S. emergency preparedness (Emergency Preparedness Functions, Ex. Order 11490), the Secretary of Transportation is responsible for allocating the "total" civil transportation capacity to meet "essential" civil and military needs.

In a defense oriented emergency, the Secretary allocates specific civil aircraft, identified by tail number, to the CRAF fleet and to the War Air Service Program --responsible for managing essential civil air service during an emergency.

Currently, the Civil Aeronautics Board has the job of reassigning aircraft among carriers whose fleets have been depleted during the emergency by CRAF assignment. After sunset, this responsibility will be transferred to the Secretary of Transportation. In other words, the Secretary will have the sole responsibility, during a time of emergency, to balance civil and military aircraft fleet needs.

Given the scope of this responsibility, I consider this conference to be well-timed and clearly needed. President Reagan is committed to a strengthened U.S. defense posture, and that will not be complete without the assured preparedness of our airlift capability. We cannot begin too soon, probe too deeply or work too hard to see that our mutual goals for the defense readiness of the nation's air fleet are met.

Our first step, in my view, is to determine where our civil airlift needs are congruent and where they are independent. We know, for example, that under emergency circumstances, the nation's civil air fleet can provide 50 percent or more of our total military airlift capacity. What we don't know is whether market forces will assure the continued availability of airlift capacity to the extent that defense needs may dictate. We cannot say with certainty that future market place demands will yield the kinds of aircraft, in numbers, range, or capacity adequate to meet military needs even under highly optimistic CRAF assumptions.

Second, we must distinguish between passenger and cargo airlift capabilities.

The U.S. civil air fleet currently has impressive passenger-carrying credentials. Last year U.S. air carriers flew 254 billion passenger miles. There seems little question of our ability to move large numbers of personnel in an emergency environment with the present fleet.

Our concern for the most part centers on our ability to support defense cargo lift requirements. Civil air fleet capacity to support the organic capability of the Military Airlift Command is limited to supplementing existing C5A and C140 capability with respect to the movement of general cargo and oversize cargo. Military "outsize" requirements must be met by MAC organic capability.

Let's look for a moment at the numbers we're talking about.

The U.S. flag air carrier fleet consists of about 2,500 aircraft. Of these, 412 are allocated to the Civil Reserve Air Fleet -- predominantly the long-range aircraft and preferably the wide-body configuration most useful in providing military airlift support. Of these, 110 are long-range international cargo aircraft - all the aircraft in the civil air carrier fleet that meet Air Force suitability requirements.

The shortage in cargo airlift is not a new situation; it has been around a long time. Budget constrictions continue to inhibit the necessary large capital commitments needed to fill the gap through new aircraft acquisitions. As a result, new avenues have had to be explored. Our NATO Alliance members have been approached, for example, and we are presently and successfully engaged in working out the details to utilize some of their long range international-capable aircraft capacity. The Department of Transportation has actively participated in those critical civilian NATO Committee aspects of the effort. I am particularly pleased at the results that have been achieved, since the Head of the U.S. Delegation as well as the Chairman of the NATO Civil Aviation Planning Committee where the program initiated and the procedural work was accomplished, are representatives of our Department. However, the deficit we face will not be eliminated by the introduction of NATO aircraft alone.

A second avenue is the aircraft enhancement program recently entered into by the Department of Defense. Basically, this program includes stretching the C-141, extending the life span of the C-5 and, important to the airline industry, modifying existing and new production air carrier wide-body passenger aircraft.

Under this program, in addition to the regular CRAF airlift program, Congress has funded a CRAF enhancement program which will pay the costs of modification of wide-body aircraft (retro-fit and production line) with wide cargo doors and strengthened flooring. The program will also reimburse carriers for the weight penalty suffered based on the 16-year operating life. Operating costs may be reviewed annually and adjusted up or down; of particular importance is that, through this annual adjustment feature, variable operating costs such as fluctuating fuel costs can be accommodated. Subsequent to modification, the aircraft will be allocated by DOT to the CRAF program. For retrofitted aircraft, the enhancement program funds will pay for downtime for the modification as well as the revenue loss impact of the downtime. Excess fuel burn (as a result of the heavier operating weight) will also be compensated.

Interestingly, a few years ago, when capacity was tight, DOD issued a request for proposal for wide-body aircraft to be dedicated to the enhancement program, but U.S. airlines offered only three airplanes. By contrast in April 1981, DOD issued another request for proposal, and the airlines responded by offering a total of 104 aircraft: 84 DC-10s and 20 747s. DOD is currently evaluating the proposals. However, it is my understanding that the current funding proposal will permit the modification of approximately six DC-10 aircraft or their 747 equivalent each year through 1987 at a program cost of approximately \$660 million. Because of the poor response to the earlier "request" Congress had been reluctant to obligate funds for the program. With the more positive response in April, Congress may be willing to obligate a portion of the funds beginning this year.

As I said earlier, we have been fortunate in the past that the growth in civil aviation capacity to meet market demand has been consistent with the growth in military airlift capacity requirements. That may continue to be the case, especially as President Reagan's economic recovery program takes hold, but we must also recognize that while the United States has tremendous aircraft manufacturing capacity, many of the products of that capacity are not moving into the hands of the U.S. flag carriers. At the present most of the U.S. built aircraft are going to foreign airlines. Aircraft on order at this time, with deliveries scheduled out through the mid-eighties, do not include any 747s; only 3 DC 10s and 21 L1011s for U.S. flag carriers. Thus, the long term prospects for the vital civil segment of emergency and war-time military airlift capacity are by no means assured.

In my view, a family of actions are required to enhance the civil airfleet's ability to support defense needs. All of these actions will require the closest coordination of DOD and DOT policies and programs, along with a clear understanding of the economic and institutional factors affecting private sector market decisions.

First, with respect to civil sector new purchases, the investment plans of the U.S. flag fleet must be continuously reviewed and evaluated for their defense capability implications. CRAF-related modifications of new equipment as well as existing equipment will have to be continuously promoted. The several programs attempted since the mid-70's to enhance CRAF airlift capacity have not all been successful. Far more serious consideration must now be given to the kinds of incentives needed to further stimulate participation in the program and to ensure the economic viability of modified aircraft.

Second, with respect to military purchases of organic airlift capacity, better communications are needed between MAC and the private sector. The knowledge of prospective private shipper needs, and the nature of the future private shipper market will be extremely useful to MAC aircraft design efforts. Only through coordinated design efforts can the necessary economies of scale be achieved that will assure reasonable costs for new increments of capacity in both civil and military sectors.

Third, the Military Airlift Command must do more to communicate the procedures and treatment of civil aircraft in emergency conditions if we are to provide assurance to the private sector that the call-up of civil aircraft will be properly measured and equitable. The civil system is clearly concerned regarding its ability to meet those domestic private sector needs that will be of national economic importance during emergency conditions.

Fourth, we must strike a balance between the readiness training of MAC organic capability in moving peacetime cargo with the parallel need to support readiness of the civil fleet in carrying military cargo. Not only will greater carriage of military cargo by the civil fleet in peacetime assure its readiness to support national defense needs under emergency conditions, it will also provide a necessary stable flow of revenue to help sustain the economic health of that portion of the civil air industry crucial to defense needs.

I might add that as far as the financial viability of individual international carriers is concerned, I do not believe that the financial viability of any one carrier, or its ability to finance new investment, appreciably affects the capability of the U.S. commercial fleet as a whole to the detriment of potential military needs.

Of course, U.S. flag carriers will not burden themselves financially by undertaking massive investment in wide-body aircraft to meet an undefined military need. To the extent that commercial considerations indicate a need for investment in wide-body aircraft, then the carriers will respond. However, the international market has become diversified and promises to become even more diverse in future years. In past years two U.S. carriers provided the majority of international lift. Today, in contrast, there are a large number of carriers serving international points, from not few, but from many gateways. In some cases, international service provided by a traditional and financially ailing carrier has been replaced by a new or more financially secure carrier.

Nevertheless, it is still the U.S. international air carriers that for the most part represent the kinds of capabilities needed by the military in emergency conditions, including aircraft with appropriate and suitable capacity and range characteristics, and crews familiar with transoceanic and foreign operations. Thus, the U.S. civil fleet's ability to support National Defense needs remains closely tied to the long-term health of U.S. international airlines.

Finally, let me say just a word about two milestone events in U.S. aviation -- one past, one pending.

Legislation deregulating the air transport industry was signed into law three years ago this month. While the reviews have been mixed, the evidence strongly suggests that deregulation has been a success. The industry has not been without its problems, but the leaders of most U.S. airlines say that their problems would have been greater without freedom from economic regulation.

The event pending is the sunset of the CAB. The Airline Deregulation Act of 1978 set a seven-year transition period. We believe that is too long. We favor an early CAB sunset and have proposed legislation accordingly.

The Administration bill is simple, direct, and consistent with a deregulatory philosophy. One of our problems, however, is that some members of the aviation community, while advocating removing government involvement, still want the security of certain government regulations. We are concerned that, in some instances, the authority to regulate will lead inevitably to regulation. We do not want tariffs to be filed with the government that will neither be reviewed by the DOT nor read by passengers. This function can be handled by a trade association or a commercial entity if it is deemed to be needed by the industry. We do not want to mandate joint fares which we believe can be negotiated. We do not want the authority to prevent airlines from aggressively competing by offering a variety of discount fares to different groups. We do not want to subsidize airlines except where necessary to provide essential air service. Our bottom line is that we do not want regulations in this industry for which we have seen no clear need.

I conclude where I began -- with a sense of real appreciation for the support of the National Defense Transportation Association and the cooperation of the Department of Defense in meeting our defense airlift responsibilities. The subject at hand is one that is all too easy to neglect in times of peace. However, it is one we dare not ignore, for in the event of a national emergency it requires rapid response, ample capacity and superior capability.

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