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AIRLIFT PROCUREMENT

Major General William T. Thurman, USAF

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Reviewed by: Colonel Thomas C. Keach, USAF

Date: 11 January 1961

INDUSTRIAL COLLEGE OF THE ARMED FORCES
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8 December 1960

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Reporter: Ralph W. Bennett

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ADM. PATRICK: Good morning, gentlemen. The subject of airlift procurement is most timely, for it is one of the most widely discussed subjects in the military today.

In order that we may better understand the problems surrounding the subject, our speaker will cover the new procurement concept that will encourage civilian industry to provide an airlift capability which will come closer to satisfying military requirements than has been possible in the past.

To discuss this subject, I am indeed pleased to introduce to the class Major General William T. Thurman, Assistant for Production Programing, Headquarters of the United States Air Force.

General Thurman, it's a great pleasure to have you with us again.

GEN. THURMAN: I would appreciate it, Admiral, if you would answer one question for me before I start. The last time I spoke to the Industrial College was in the old place over there. That room was somewhat smaller than this one. But it looks to me like there are only about a fourth the number of people here who were there before. Is it because the word about my last talk got out, or is it because of the size of the room?

ADM. PATRICK: I'll tell you, sir, we have 149 this year, compared with 143 last year; and next year we may even have 163.

GEN. THURMAN: Then I hope it's the size of the room, but it sure doesn't look that way.

Gentlemen, I am not sure that I will completely fulfill the statement made by the Admiral. I'll come somewhere close to it, I hope. But I'd like to emphasize at the very outset of my discussion that it will be devoted to the procurement of overseas airlift. In other words, airlift will be treated as the commodity which we purchase. I necessarily must touch on the transportation aspect of the matter. And it is obvious that the controversial question, What is the proper role of MATS in the scheme of things? is involved. So is the Civil Aeronautics Board. But I wish to deal primarily with how we buy airlift, rather than what is bought or why we need it. I neither am an expert on transportation, nor on MATS' role vis-a-vis the commercial airlines, nor on the Civil Aeronautics Board. And with an eye to the discussion period to follow, I would rather tell you this than to demonstrate it then.

Further, it is not my purpose to attempt to sell any particular point of view. To the extent possible, I intend confining my remarks to facts and undisputed implications.

My reasons for choosing this subject are two-fold. It is important, because it affects our budget, it affects our force structure, and it affects the airline industry. Secondly, I think it is interesting from an academic standpoint, both because it presents a completed cycle of procurement methods, and because it represents the most clear-cut collision of two obviously valid national objectives with which I have come in contact

in my years in the procurement business. I have seen many conflicts of objectives in procurement, but I don't think I ever saw two objectives that were so valid in conflict with each other as we have here.

One more thing by way of preface: In case it is not clear to everyone, MATS is a single manager for airlift for all three services. It operates through an industrial fund, and each service buys its airlift from MATS at prices fixed by the industrial fund.

Since MATS' costs affect the prices charged each of the services, each of us is directly affected by anything which increases MATS' costs.

Now, in order to provide a backdrop for the recent unpleasant situation, it is necessary to make a brief review of history.

Before the Second World War the Armed Services had little or no air transport capability or requirement for airlift. When we were able to justify air travel out of our meager funds, we simply purchased a ticket from a commercial airline. In the years following Pearl Harbor it became obvious that maximum use would have to be made of the planes, men, and facilities of the civil airlines. The Government bought all available commercial four-engine aircraft in the hands of aircraft manufacturers at the time, and turned them over to the commercial airlines, scheduled and nonscheduled, to be operated and maintained by them on a cost-plus-fixed-fee basis. In a real sense, this was not procurement of airlift, but, rather, the purchase of management, aircrew, and maintenance services, to be provided in accordance with directions of the Air Force.

Immediately following World War II, military requirements for civil airlift dwindled to almost nothing. The airlines were busily trying to re-establish and improve on their prewar position. Such airlift as we required was procured from scheduled airlines at unilaterally prescribed rates by the scheduled carriers. In other words, whatever was bought, we bought on their terms.

The only substantial exception to this was in connection with the Berlin airlift. Commercial carriers were called upon to augment MATS between the U. S. and Frankfurt to keep the German shuttle going. Other than the fact that the airlines by that time had their own equipment, we reverted to the CPFF--cost-plus-a-fixed-fee--type of operation used in World War II.

Then the Korean conflict came along, and here is where our real story begins. With the experience we had gained in the Berlin airlift not too long before, our people felt that we could buy airlift on a negotiated price basis rather than on an operations and cost reimbursement maintenance basis.

But we had greater requirements than the scheduled airlines could supply. So the Department of Defense went to the Civil Aeronautics Board and asked that they invoke an exception provision in the Aviation Act of 1938 which would permit us to make contracts with the nonscheduled carriers as well as the scheduled. The Civil Aeronautics Board, the CAB, went along with this and agreed to make annual blanket waivers.

In a letter to the Secretary of Defense dated 24 June 1960 the present chairman stated the following as the reason for the Board's action at that time: "The necessary exemptions were therefore granted, based on national defense requirements, that is, the emergency in Korea and the insufficient capacity of the carriers regularly certificated over specific routes to fulfill requirements." I will come back to this statement later.

I think it is significant that we did not revert to the World War II-Berlin airlift pattern of buying operation and maintenance under a CPPFF arrangement. For the first time in history, so far as I can find, we sat down with the carriers and agreed to a mutually acceptable rate. It was not by any means an ideal procurement situation. We went out to the entire industry, scheduled and nonscheduled, with what amounted to a statement of our requirements. Individual companies came back with a proposal of what each could or would handle; and we negotiated a contract with each company accordingly, taking care of our requirements in a kind of cut-and-paste fashion.

Further, we didn't make straight fixed-price contracts, but used a redetermination clause which kept the pricing situation flexible. But here we were buying airlift; and although we were still in a seller's market, the services were exercising some voice in the price to be paid.

After the end of hostilities, the airlines began buying larger and more modern airplanes; and as their capacity increased, we began shifting over into a buyer's market. The first evidence of this, perhaps, is

when we dropped the price-redetermination clauses and bought airlift on a straight fixed-price basis early in that period.

As industry capacity and relations to service requirements increased, competition became keen. The services began to specify what they wanted, instead of asking the airlines what they would like to sell us. We entered into a period of competitive negotiation. And finally, in 1957, we were able to go to what is considered by many to be the ultimate in procurement methods, namely, advertised contracts. We advertised our requirements in packages that we knew could be handled by existing capacity, and, subject to verification of ability to operate, made awards on a straight low-price basis for the most part.

During all of this period the CAB was granting exemptions on a more or less routine basis to whoever turned out to be the winner of a MATS contract without reference to whether he was scheduled or not scheduled, and without reference to the price. From a purely procurement standpoint, this was fine. Costs came tumbling down. Any time that price can be the paramount factor, the life of the procurement type is relatively easy. Here was a classic example of the services doing exactly what a number of congressional committees were clamoring for--take procurement out of negotiation and put it into advertising.

On the other hand, additional things were happening during the latter part of this period. As airlift contracts went for lower and lower prices, the scheduled airlines got less and less business. Passenger jets appeared on the horizon for the scheduled carriers, and it was

apparent that high-density traffic would be necessary to make them economical.

Congressional committees other than those concerned with advertising began to become concerned over whether MATS was putting enough of its requirements out to the commercial airlines. Appropriation restrictions began to appear, designed to force MATS to buy airlift rather than utilize its own aircraft. Grave discussion occurred about the need of the industry to modernize with jet aircraft; and how could they do it if MATS flew people and cargo in Air Force planes instead of flying them commercially?

As a result of Presidential directive, the Department of Defense produced a study called "The Role of MATS in Peace and War." In the discussion portion of the study it was pointed out that MATS' procurement practices did not contribute to the growth of the industry, as desired by the Defense Department, and expressed a fear that continuation of those practices would have disastrous economic effects on the airline industry. Considerable discussion was included on the importance of the airlines acquiring modern turbine-powered, uncompromised cargo airlift.

It also included discussion of the wisdom of MATS buying cargo and passenger airlift on a common-carriage basis at published tariff rates.

Among the conclusions expressed by the study are the following:

"The MATS versus commercial airlift utilization disagreement

stems from adherence to normal procurement policies and practices in obtaining commercial augmentation airlift, as well as MATS' operation over routes parallel to those of commercial carriers. This problem involves CAB policy and small business considerations, as well as Defense Department procurement practices. Current airlift procurement policies and practices are not accomplishing the desired result in promoting a healthy growth of United States-overseas commercial cargo airlift capability. With congressional approval if necessary, they should be better adapted to reflect the long-term interests of the Department of Defense in commercial airlift capability and provide the continuity and stability required for effective and economic^{al} support of the military forces."

As a result of the study, nine courses of action were approved by the President. Those impinging on procurement fell into two categories. The first dealt with volume to be procured from commercial airlines and contemplated a reduction in MATS' scheduled operations consistent with assured commercial airlift at reasonable cost. It also provided guidance that as modern cargo aircraft became available, MATS should put more airlift out to commercial airlines.

The second category dealt with criteria governing procurement of airlift. These included: 1, limitation of participants to air carriers as defined in the Federal Aviation Act; 2, movement of more traffic at tariff rates rather than as a result of competitive bidding; 3,

increase of contract period to a longer time than the one year in vogue at that time; and, 4, preferences to be accorded to carriers who are committed to the Civil Reserve Air Fleet or CRAF program whose facilities are most advantageous to the emergency needs of the Department of Defense, and "who are demonstrating a willingness and ability to acquire uncompromised cargo aircraft."

The CRAF program, incidentally, is a program under which civil aircraft are earmarked and equipped in peacetime, to be actually turned over to the military in time of war.

We should note three things about these particular approved courses of action: 1, the emphasis on cargo aircraft; 2, the reference to tariff rates rather than competitive bidding; and, 3, the reference to reasonable costs.

To implement this, the Air Force came up with a plan to divide its procurement into three categories. This is not what is to be procured, but how. Schedule A was movement of passengers and cargo on regularly scheduled commercial flights by individual tickets or way bills. Dependents, personnel on CBY, military mail, and small packages were indicated for movement in this category. It was expected that passenger service would be provided by jet aircraft, with standards of service equal to civil economy class. Cargo service would be provided with the most modern cargo aircraft available, and move on way bills between military ports of embarkation in the U. S. and military bases outside the U. S. It was envisioned that a substantial proportion of our

requirements would be put out in this category. Negotiation necessarily would be confined to scheduled carriers. This category, of course, was addressed to that portion of the study which dealt with an increase of movement at published tariff rates.

Category B involved movement of passengers and cargo in plane-load lots between military ports of embarkation in the U. S. and military bases in overseas areas. In awarding contracts in this category, it was considered that preferential consideration would be given to carriers offering expansion capabilities in time of emergency. For passenger transportation, preference would be given to the use of jet aircraft. For cargo, preference would be given to the use of aircraft with an over-fly capability.

Contracts could be let for one to three years. Exercise of renewal options would consider whether the contractor had taken positive steps to equip with modern turbine-powered aircraft. This category could include scheduled and nonscheduled carriers, and would amount to a substantial proportion of the package also. This, of course, was addressed to the preferences set out in the study, and contemplated competitive bidding subject to these preferences.

The third and last category, C, was to be a set-aside for movement of passengers and cargo by carriers classified as small business. This would be analogous to the second category, and would take up the balance of the procurement package. This was not dealt with in the Defense Department study, but was a compliance with small business

policies expressed in recent appropriation acts.

By the time this position had been arrived at, we had reached the end of the last fiscal year. Meanwhile, two things had been transpiring which affected the competitive aspects of airlift procurement.

A limitation was inserted in the 1961 appropriation act which limited award of MATS airlift contracts to participants in the CRAF program, thus further restricting the field of potential bidders over the limitations contained in the Defense Department study.

The second protagonist was the Civil Aeronautics Board. In his letter to the Secretary of Defense dated 24 June 1960, to which I adverted earlier, the Chairman of the Board pointed out that the original decision to grant exemptions was occasioned by the fact that the certificated airlines operated in the Pacific at that time did not have the capacity to meet the tremendous increase in military airlift requirements. He went on to say that times had changed and the certificated carriers now had plenty of capacity, and put the Secretary of Defense on notice that the days of automatic grants of exemptions were over.

Although this letter made no specific reference to statutory authority, it seems obvious that the CAB was acting, among perhaps other things, under the statement of congressional policy contained in the Aviation Act, which provides: "In the exercise and performance of its powers and duties under this act, the Board shall consider the following, among other things, as being in the public interest and in accordance with the public convenience and necessity: A, the encouragement and devel-

ment of an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and the national defense."

This was the point in time when the issue which I mentioned at the beginning of my comments was clearly drawn. Events had been building toward such an issue for some time, as a result of congressional hearings, appropriation restrictions, and the Presidentially directed study. But when the CAB moved into the lists as the congressionally sanctioned champion of the health of the commercial airlines, it was apparent that two valid national objectives were colliding--the health of the airlines industry on the one hand, and traditional methods of competitive procurement on the other; and that the prize was a substantial slice of the appropriations of the Army, Navy, and Air Force.

On receipt of the Chairman's letter, previously mentioned, the Deputy Secretary of Defense wrote back and suggested that maybe we had better talk about this a little. So a meeting was held, as a result of which the Secretary of the Air Force wrote a letter to the Board pointing out that our entire three-category procurement plan was predicated on the assumption that fair and reasonable rates would be developed; and asked for amplification of CAB exemption policy.

After further correspondence, the Board advised the Secretary of Defense that: "Absent considerations not now apparent, it would not grant exemptions at rates less than 2.9 cents per passenger-mile on a plane-load basis"--the Category B type of situation.

In view of the fact that our then-current contracts were costing only 2.1 cents per passenger-mile, or roughly a third less than the 2.9, and the appropriation act, already signed by the President, carried money only for requirements which had been computed at the lower rate, this position produced some problems. Two things appear as worthy of note in connection with this exchange of correspondence:

First, although the Presidentially approved study clearly contemplated an increase of modern cargo aircraft as a goal, the CAB-established floor / was in terms of passengers, and therefore would seem to be aimed at encouraging increase of modern passenger aircraft. The CAB seems to have recognized this anomaly, and as of 9:30 this morning they released a letter to the Department of Defense in which they are setting out a floor for cargo rates. We haven't had time to analyze this; but, oddly enough, the floor on cargo rates is considerably below what we are presently paying. We don't understand that.

The second thing of importance, I think, is the emphasis in the first letter of the CAB in this series on the Korea time period lack of capacity of scheduled carriers and present-day adequate capacity of scheduled carriers, which seems to put the Board in the primary position of seeking to maintain the health of the scheduled carriers. The establishment of the floor at 2.9 seems to bolster this conclusion, when it was recognized that some nonscheduled carriers had made a profit at figures considerably lower than that.

Now let's move to another facet of the situation. During this same

time period, in early August, MATS had met with the scheduled carriers as a result of a request for a proposal under Category A--the individual ticket or way bill basis. Rates proposed by the carriers on that basis averaged more than 200 percent of the then average contract costs. With the amount available to the services already fixed by the appropriation act, it was obvious that we could ^{not} contract at that price for any large segment of our requirements. By that date it equally was obvious that we could not work out this three-category procurement plan before the then-existing contract expired on 30 September.

Accordingly, it was decided that MATS would abandon the three-category plan for a three-months period--October through December--and go out for bids on a modification of the basis used in the five-year contract, with the expectation that contracts for the remaining nine months of the contract year could be worked out under the three-category plan in time to put them into effect on 1 January 61.

As soon as the request for proposals on a negotiated basis went out, the Chairman of the CAB promptly notified the Secretary of Defense that his 2.9 figure would apply to that procurement also.

In due course the bids came in; and, notwithstanding the fact that the CAB position was known throughout industry, enough bids were received from nonscheduled carriers at figures substantially below 2.9 to fill virtually all our requirements for the period involved.

Further, it was apparent that the companies making the bids could make a profit at their bid rates. This put us on a spot. Laws applicable

to military procurement expressed the philosophy of making awards to the best dollar advantage of the procuring agency. As a matter of fact, the same appropriation act which limited bidders to the CRAF program contains this provision: "None of the funds appropriated in this Act shall be used except that, so far as practicable, all contracts shall be awarded on a competitive basis to the lowest responsible bidder." 1961 appropriation act.

The calendar had then reached August 20. MATS considered that a 45-day lead time before performance should begin was about a bedrock minimum needed by whoever should become successful bidders. We had only 40 days left at this point. Thousands of personnel already had received orders for movement in October. If we made award to the low bidders, who then went to the CAB award in hand asking for exemptions, and they were turned down by the Board, we would have been caught in an impossible time squeeze. If we ignored the low bid rates and made award at a 2.9 level, somebody certainly would go to the General Accounting Office, or call a congressional hearing, and that again would put us into an impossible time bind.

After a lot of head scratching on the part of a lot of people, it was decided to lay the facts on the table to CAB and ask if they really meant what they had said. This was done. And CAB came back and said: "Sure enough. We really mean it;" and regardless of whether you like it or don't like it, I think that you've got to recognize that in this particular climate of an awful lot of criticism of procurement for not making compet-

itive bidding a part of its process, it took a lot of courage on the part of CAB to take that position.

So MATS amended its request for proposal and in effect said: "Forget about the bids you've made. Come in tomorrow with new ones, and we won't consider a bid lower than 2.9. In addition to price, we will consider these additional factors:" Then they added a list of criteria which were consistent with the Presidentially approved report on MATS' role.

As was expected, the bids all came in at 2.9 or above--nearly all of them at 2.9--and the business was parceled out, not in accordance with the results of competition, but in accordance with the notions of various Government agencies as to what is good for the industry and for the Government. Since use of jet aircraft for passengers was the first criterion, the majority of the business went to the scheduled carriers. They received about 75 percent of this business, as compared with about 42 percent for the preceding year.

Except for an epilogue, this actually is the end of my factual narrative. The epilogue is the effect of the President's recent directive on the flow of gold. The restriction on dependent travel overseas has knocked the props out from under what we thought were our requirements. As a result, our efforts to work out the three-category procurement plan have come to a screeching halt; and as of today I don't know what will eventuate.

Now let me attempt to summarize my factual narrative and some of the procurement implications which can be drawn from it.

In the days when airlift was relatively rare, the services started out in a seller's market, took their places in the ticket line, and paid what they were told to pay. Except for war and national emergency, this situation basically continued into the mid fifties, when a buyer's market emerged.

True to economic law, and in accordance with statutory policy binding on the services, we were able to secure more and more price competition, until finally we were able to secure the airlift by advertising, considered by the Hebert Committee and others to be the quintessence of procurement methods.

Then suddenly, in this greatest of all buyer's markets, with more airplanes than there have ever been, we find ourselves from a buyer's standpoint right back where we started. We are buying airlift at the price we are told to pay. And this letter that I mentioned earlier covers pretty well the whole spectrum of types of airlift.

We've come a full circle. As a matter of fact, a man who is knowledgeable in the field, and in whose opinion I have profound respect, believes that the day is not too far away when we won't bother to solicit bids. He thinks we simply will parcel out the business on the basis of rates given us by the CAB and ideas of Government personnel as to what is good for the industry and for the Government.

All of this constitutes an impact on procurement methods, and also on what is available for procurement.

To the extent that we have to pay more for airlift than a competitive

market requires, dollars appropriated for the support of the Army, Navy, and Air Force are being intentionally spent for support of commercial airlines. I realize that there are many other considerations than procurement methods which enter into this picture. But I will let you draw your conclusions as they may appear to be warranted. I said this was a discussion of procurement methods.

Thank you very much, Admiral.

COL. PRODANOVICH: General Thurman is ready for your questions, gentlemen.

QUESTION: It appears that the Department of Defense not only has congressional direction, but ^{have} will/ congressional backing in a show down. What would be the result if we were to award the bids to the lowest bidder, ^{and} instruct the carrier to proceed in defiance of CAB's directives? They would get a court order to stop and have a show down, and it appears like we would have congressional backing. What would be your opinion would be the result?

GEN. THURMAN: You make an assumption that I'm not sure is valid, and that is that there would be congressional backing for such course of action as you have outlined. I think that we have to make a sharp distinction between what the situation is today, under the 1961 Appropriation Act, and what it will be after Congress comes into session and considers the 1962 Appropriation Act next year. And I might say that this is not a question of changing Administration. This is, I think, a question of whether Congress has really considered the question or hasn't considered

the question.

As of today, you have got two conflicting congressional pronouncements in terms of policy. Next year the Appropriations Committee certainly is going to have this question for consideration, because we propose, all three services, to put in the budget at the rate specified by CAB; and the question will be clearly before the Appropriations Committee and possibly other committees. So that they will have an opportunity then to either accept those rates or reject those rates.

But if we went through the course of action that you outline, then answer. Today I don't know what we have. We would do it, if we could possibly afford it, because it would create such a chaotic situation that I can't see that it would help anyone. It would help you or me, depending on how we felt about it. It would help our feelings. But I don't think it would contribute anything to the defense effort or the airlines.

QUESTION: In the factual narrative, General, that you gave us, I would be interested in knowing whether consideration was given to the feasibility of having SECDEF take this matter directly to the President for resolution.

GEN. THURMAN: I was afraid that question would come up, and I must necessarily answer it this way, and only this way, and I trust that you will forgive me: We had reason to believe that we knew what the answer would be. I trust you understand my position.

QUESTION: Are any of the foreign airlines getting any of our prime contracts or subcontracts? If so, how is this tied in with the flight of

gold?

GEN. THURMAN: Under the provisions of the Appropriations Act at the present time a foreign airline couldn't get on a direct contract basis, because ^{he} has to be a participant in CRAF and a foreign airline can't be a participant in CRAF. So as of now that couldn't be the case. It conceivably would on a subcontract basis, but as a practical matter I don't think it could happen.

QUESTION: General, this CRAF program--does it only apply to scheduled airlines?

GEN. THURMAN: No; it does not apply only to the scheduled airlines. It applies to both of them.

The restriction that appears in the Appropriation^{Act,} confining participants to the CRAF program came about as the result of the appearance of the Mendel Rivers Subcommittee before the Appropriations Subcommittee. And, while it was an appropriations restriction contained in the Appropriation Act, it was the result of the impetus of another committee of the House. But, specifically, CRAF includes scheduled and nonscheduled.

Incidentally, gentlemen, I have asked Colonel Alderson, who is our transportation expert, to sit with me today. So if I get off base on any of these answers, would you straighten me out?

QUESTION: General, you mentioned at the very beginning of your

talk that you were going to discuss offshore procurement. Does this also apply to domestic contracts with defense requirements?

GEN. THURMAN: You are talking about the floor that has been prescribed?

QUESTION: Yes.

GEN. THURMAN: No. It was applicable only to overseas air-lifts. I don't want to leave the implication that they can't do the other. They might be able to get that as well. But we were talking here only about overseas.

QUESTION: Can you give us any indication of the relative quality of service between the scheduled and nonscheduled with particular emphasis on safety?

GEN. THURMAN: I don't think we have had any experience that would lead us to conclude that there is any substantial difference between the two.

Colonel Alderson, would you like to comment on that?

COL. ALDERSON: No, sir. We don't consider that there is any, due to the fact that both adhere to our own contract specifications and to the regulations of the FAA. Consequently, if there were any, if one was not safe, we'll say, it would really be our responsibility to terminate the contract.

GEN. THURMAN: You've got to realize that you've got a slightly different situation in the nonsched operation not under contract with the Department of Defense and one which is under contract, because in the

first situation you've got a lot of rules and regulations that are applicable to the operation, but they are general rules in the first place. In the second place, they are supervised and enforced by personnel under FAA and to some extent under CAB. But when you've got a contract on top of that, you've got a lot more guidelines that are laid down, and there's no reason for any difference; and I think basically there isn't.

QUESTION: It looks as though you probably are going to be second-guessed by the GAO later. Are you asking them for a decision at this point?

GEN. THURMAN: No, sir. We probably aren't going to be second-guessed, and here's why we feel that way: This, of course, is something that we've thought about.

If you go out with a floor, as we did, you have specified one of the terms of the bidder to come in; and if he comes in in violation of that term, he's not a responsive bidder and you kick him out. Technically a person couldn't go to the GAO and complain about that, because he would have been in noncompliance with the bid.

We considered it would be possible that somebody would go to the GAO nonetheless, at that time on the ground that here the Department of Defense, or the Air Force acting for the Department of Defense, is obviously wasting taxpayers' money. They didn't do so. It's over the hump. I don't see how as a practical matter the GAO can get into the situation now unless they are asked to do so by a committee of Congress or a Congressman. That could happen. We don't expect it to.

QUESTION: I think we have had a short-fall each year, General, in the money that Congress has set aside or earmarked for civil airlift. Are we going to be able to spend the 80 million dollars this year? Or is the short-fall going to be greater than ever because of the dependents situation?

GEN. THURMAN: I haven't got the foggiest notion. Three things are involved. One is that we have a new Administration coming up. We may very well get a reversal of the policy that has been directed here.

Secondly, the amount of money -- CAB in this letter that they released this morning, in addition to putting a floor on cargo, I think they must have made an error. But they may not have. They may be wiser than I give them credit for. In addition to that, they have specified one-way trips. And they have also specified floors, and a lot of other things. So that by the time we get through, even with only some modification of the numbers of people to be moved, it may cost more money than there is available. When you consider the fact that ^{you} are upping your individual costs--on passengers only we are talking about now--by 33 1/3 percent, you shrink the number of people you can move with that money that much right quickly. So I think that the odds are that there will not be a short-fall. But it depends entirely on what the next Administration does on transportation of dependents, and that I don't know.

QUESTION: General, referring back to the price floor set by CAB, how much of a squeeze could you have put on CAB by taking the maximum in area possible/military aircraft and diverting the balance to civil

airlines?

GEN. THURMAN: I'll answer that question in somewhat the same way I answered this question a while ago. We had reason to believe that we couldn't get away with it.

QUESTION: How does the MATS experience in its own ^{airline} operation compare with these floors set? In other words, so that you could consider using MATS itself as a yardstick to measure whether you are really getting a good rate or not.

GEN. THURMAN: We have got all kinds of figures, and it depends on who you ask, and I don't believe any of them. You can't really compare the two, because you are comparing apples and oranges. I'm sure Colonel Alderson could give an answer to that, but whatever he gave, I wouldn't agree with.

You can look at it this way: You can say that the purpose of having the capital equipment represented by MATS' transport capability is to serve a wartime use. In order to have it effective for a wartime use, you have got to exercise it in peacetime. Therefore the only cost to the Federal Government in moving people in planes is at most ^{associated with it,} the fuel and lubricants and so forth and the maintenance, ^{with the hours} that you put in over and above a very ⁱⁿ⁻ definite minimum that the exercise would require. But we haven't got up to that minimum. So if you look at it from that standpoint, it costs nothing.

The other extreme is to capitalize all the costs that are associated, not only with the capital equipment of the airplanes, but the

capital equipment of maintenance and everything else, and the personnel cost and so forth. If you do that, you probably will arrive at the opposite extreme, where it costs a great deal more.

So it depends on who you are, where you sit, and who you are trying to convince of what as to what the answer to your question should be.

QUESTION: Sir, is my approximate arithmetic correct that this subsidy, so to speak, in the price differential is roughly one-third of 80 million?

GEN. THURMAN: No. To begin with, you've got a split between cargo and passengers. As I recall, the amount, which has varied for several years, in the Appropriation Act has been a lump sum without any split as between cargo and passengers. So that would immediately knock it down to a much lower figure. But to whatever figure it should be knocked, it would be an increase of a third over what would have been the case if we had been able to get the same kind of competitive responses that we got the previous year; and there's no reason to think we couldn't .

QUESTION: General, could you discuss the situation with respect to airlifting a strategic army corps? How long would it take to lift an entire corps? How much of it could be lifted immediately, using military and civil aircraft?

GEN. THURMAN: No. I can't discuss it. You remember I said this is a procurement discussion. You would have to have more precise figures than I've got on my desk to discuss it.

QUESTION: General, did I understand you correctly as saying that one of the objectives of this report is modernization of the airlift capacity? If so, isn't that directive of the CAB consistent with their trying to modernize the civil air fleet?

GEN. THURMAN: Is your question, Are the two consistent or is one inconsistent with the other? I'm not quite sure what your question is.

QUESTION: What I'm saying is that my thought is is that guidelines seem to me to support what they are doing.

GEN. THURMAN: I think you can argue to that effect; yes.

You've got a couple of other questions involved, however. One of them is who you are trying to modernize, and the other is, What is the source of--I won't call it a subsidy, because I'm not sure that that's technically the word for it--let's call it encouragement.

We have had some responses to our Category B request for proposals for the balance of the fiscal year. This was before we got the Presidential directive on the flow of gold, and it was all canceled. But we had some responses, which showed that with respect to at least one nonskid the 2.9 figure would give him over 40 percent profit. With respect to another scheduled line, we had one that show^{ed} up pretty close to 15 percent profit. So certainly the paying of higher rates would make more money available to your carriers, with which they could buy more modern equipment. The answer to your question in that regard is, Yes.

With respect to the encouragement aspect of it, I think there's a question of what's the proper source of that; and I'm suggesting this for

your consideration. I'm not attempting to answer it, because I think there are two sides to it. You can finance anything you want to out of any pocket you want to so long as you've got enough money. You can finance the growth of the civil airlines by upping the military budget. Or you can do it some other way--by a direct grant or subsidy or whatever the proper word is.

But there's a very real factor involved here, if Congress chooses to do it, by the Department of Defense budget, and we continue to have expenditure ceilings, because if we continue to have the kind of ceilings we have had under this Administration, it won't do the Army, Navy, and Air Force a particle of good for Congress to up the amount of money available to the prices they have set, because when you put all of our money together, and you have an expenditure ceiling for it, it means that that extra cost has got to come expenditurewise out of some other requirement that the Army or the Navy or the Air Force has.

Now, of course, if under the new Administration that changes over and we don't have those rigid expenditure ceilings that we have had in the past few years, it'll be a horse of another color.

But, to get back to your precise question, it is consistent. But I think it might be said that a height this high (indicating) and a height this high (indicating) are consistent also. It's a difference in degree.

QUESTION: If you are forced to continue to operate under a floor, could you in any way make the criteria such that you could increase the criteria of service required and get competition that way, in other words,

pay more in terms of assistance in loading and unloading, passenger service, and that sort of thing, and get more for the Defense portion of the thing?

GEN. THURMAN: We probably could. As an example, we have run into a problem in one facet of this on luggage, where in the normal economy class you get 44 pounds, and our folks normally take 45 pounds. You've got something to play with there in excess increments. But there's a limit of fringe benefits that you ^{can} get.

And there's also, in addition to there being a limit from a dollar availability standpoint, a dollar worth-whileness standpoint, there's a limit to fringe benefits you can get without getting harpooned by Congress for being too bold. Some of you may have read the article in Time, for example, on a case in point.

QUESTION: How did you allocate the requirement of airlift based upon the CAB price that you mentioned, of 2.9, among the scheduled and nonscheduled?

GEN. THURMAN: We didn't do it among the skids and nonskids as such. What we did, we set up a whole flock of criteria, two of which were of prime importance. One of them is that preference would be given to jet aircraft, and the nonskids don't have very much jet aircraft.

The other one is--and this one worked the other way--that this was one of the terms of the request for proposals. We said that a company, an airline, once receiving the number one choicest bid would be eliminated for consideration on the 2, 3, 4, 5 and so forth items until

to him.
we got back around/ And, as a factual matter, we haven't got around
to him.

So it worked out that the scheduled people had the jet aircraft;
so they got the juiciest plums. And the nonskids, because they didn't,
got some of those that were not quite so juicy.

QUESTION: General, are the obligations of these companies
covered in the CRAF program?

GEN. THURMAN: No. It is not covered in the CRAF program,
unless there is something in the CAB regulations on the subject; and
I'll say there is not. I don't whether they're in CAB or not. Do you,
by any chance, know that, Colonel Alderson?

COL. ALDERSON: There is none.

GEN. THURMAN: The odds are that the
answer is, there is none.

QUESTION: I understand that, at least a couple of years ago,
the Industrial Fund spent a lot of time and effort in a campaign to persuade
at least one other service, or one of the services, to move their personnel
by MATS or one of the secured civil on the basis of a lot of reasons,
one of which was that it would in the long run be cheaper. Has MATS
lost its market as a consequence of the situation you described?

GEN. THURMAN: Yes. It depends on what situation you are talk-
ing about. The most immediate thing that has knocked the bottom out
of it is the gold directive. Not only can the Army, which I presume is

the service you are talking about--and, incidentally, let me give credit to our transportation people for the effort rather than the Industrial Fund, because they have believed that it cost less money. But the gold directive has knocked it out, and the higher prices would tend to knock it out.

As a matter of fact, one of the things that upset the Air Force so when it got this edict was that it did tend to nullify the effort, the rather successful effort, that had been made to get the Army to recognize and go along with the principle that it's cheaper to ship people by air than by surface. So the answer to your question would be different.

QUESTION: General, it would appear that the situation is desirable, even though it is in the nature of a subsidy. I noticed that you hesitated to use that word. Will you tell us why?

GEN. THURMAN: Did I hesitate? Well, I'm a lawyer, in the first place. I don't know what "subsidy" means. And I guess that basically those two things put together were why I hesitate.

But I think you can make out a case that over a long period of time, the operation of economic laws will produce a proper and reasonable return on invested capital; and recognize that in between those extremes you have occasions when it's less and occasions when it's more. From a purely economic standpoint I think an argument can be made that it would be much better to try to flatten that curve out, instead of having it go up and down in your time period.

There is an additional factor that's a lot closer to home. It is

important to the Air Force and to the other services that the airlines do have additional turbine-powered cargo aircraft available in the event of an emergency. Cut-throat competition can go so far that the people who would be willing to buy the sort of thing that would be quite useful to the services in an emergency will be completely unable to buy. That also is a part of my reluctance to use the word "subsidy," because I'm not dead sure that it is a proper word.

QUESTION: A moment ago, in reply to another question, you indicated that the nonskids would be able to make more profit than the scheduled airlines. Will you discuss the economics involved there, as to why this is the case? Is it because of the labor? Is that a factor?

GEN. THURMAN: No. I don't think it's a difference in labor, although that could have something to do with it, I suppose. It's this: Your scheduled carriers, going back to your old common carriers of ancient English law in common law times, coming up through your railroads, and coming up to your airlines--when they are granted a certificate of convenience and necessity, they take on a lot of obligations that they must carry regardless of traffic or no traffic. For example, this isn't a hundred percent so, but it's virtually so, they've got to schedule an airplane to leave a certain point at a certain time and arrive at another point at another time. That airplane has got to go if there are 5 people or 105 on it. And your nonskid, not having obligations of that kind to carry out, can always operate at a cheaper rate than your sched-

uled lines. And while labor and other things of the sort , the subject of normal economic things, can affect it, it is basically the difference between having things that you must do regardless of cost, and not having those things to do. I think it's basically that. The best operator in the world would not make as much money on this kind of business on the scheduled basis as on the nonscheduled.

QUESTION: General, you mentioned that in parceling out this airlift, most of the nonscheduled airlines were eliminated because of not having jet aircraft. How did we get jet aircraft as a minimum requirement?

GEN. THURMAN: It wasn't stated as a minimum requirement. It was stated as a first preference. We were able to give two reasons. One of them is that the Presidentially directed study said that--once in a while it would talk about jet or turbine-powered cargo aircraft--they also talk about jet aircraft across the board--so that the preferences as laid down by that study and approved by the President were consistent with that kind of preference.

The other is that if there's any doubt, any validity at all to the argument about transportation people that it's cheaper to pay a higher rate for air transportation, then jets taking a lot less time would still further reduce cost. It would be cheaper, in other words.

A third thing is that our wives and children, and we ourselves for that matter, are sort of nice people, and we like to get the best there is for them within reasonable limits.

QUESTION: General, I recognize that this is probably not in your assignment, but has there been any indication by CAB or anyone else as to what improvement might be expected in the CRAF program as a result of this? Has anybody offered a projection?

GEN. THURMAN: Well, CAB has not.

I think there is bound to be an improvement in the CRAF program if we continue at anything like this, because, in the first place, you can't get into this business, call it lush or whatever you want to call it, unless you're a member of CRAF.

In the second place, we're in the position, as buying agent for the Department of Defense, to place other preferences, within the limits of the overall policy statements that are available on the subject. We can shape those preferences in such a way^{that} we will get improvement in the CRAF program, because we want improvement in the CRAF program, and, within reason, we're willing to pay for it. But we've got to have the money to do it, and only Congress can give us the money. And the money we're spending is Army, Navy, Air Force money. I want to make that clear.

QUESTION: You cited a differential of 2.9 in the prices of these airlines. Couldn't CAB be asked to pay this differential; and if they don't have the money in their budget to do it, couldn't they be asked to put it in their budget?

GEN. THURMAN: Oh, sure. We could ask them to do it. I don't think we would get very far.

I, frankly, don't know what would happen. I think it's fairly certain that the CAB would take the position that "This isn't our business. Our business is to see to it that the airlines industry remains healthy. Congress hasn't told us specifically what kind of subsidies to give, if you want to use that term. We have been left to work it out." And I think that's what will happen. I don't think we would get to first base. I'll bet you ninety-five to one on it.

QUESTION: General, with full consideration of all the problems which bear on this question, which view do you favor? The competitive view that Congress has expressed, or the ruling given to you by CAB?

GEN. THURMAN: I personally think that we are mixing apples and oranges. What constitutes good procurement is determined by the general exercise of our free enterprise system. It is not determined solely by congressional edict. It's the other way around. Congressional edict really follows the normal play of our system.

When you take a method of doing something, whether it be procurement or anything else, which is governed by the interplay of the free enterprise system and then try to ingraft on that something that is inconsistent with a free enterprise system, you're going to get a monstrosity no matter how you do it. That's my opinion. And while I think that the policy of supporting, and if necessary providing the money for the support of, the civil airlines is a perfectly valid, legitimate policy, my personal opinion is that it ought to be furnished by some channel other than that normal which involves the operation of the laws of supply and demand.

QUESTION: General, for many years we've had the ICC fixing rates for the movement of household goods. I am wondering what the CAB is doing in that respect.

GEN. THURMAN: The interesting thing to me about this particular situation is the fact that when the Korean War came along, we got a departure from the normal regulatory kind of regulations which allow the competitive, free enterprise system to operate.

Now, with relatively minor exceptions, you take your FCC, your Federal Communications thing, your ICC. You go and see your State. You get your rates on electricity and gas and that sort of thing. They proceed along and they're completely unchallenged. Here, however, we had the odd situation where, because of a grave national emergency, the ordinary laws of supply and demand were allowed to enter into the picture. They did. Now they want to whip it back, and I'm not sure it can be done, once the floodgate has been opened.

COL. PRODANOVICH: General Thurman, I want to thank you for a very fine and informative presentation. Thank you very much.

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