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ORIGINS AND EVOLUTION OF
THE AIRLIFT SERVICE INDUSTRIAL FUND

MAJOR DAVID L. WELCH 87-2685

"insights into tomorrow"

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THE AIRLIFT SERVICE INDUSTRIAL FUND

AUTHOR(S) MAJOR DAVID L. WELCH, USAF

FACULTY ADVISOR MAJOR THOMAS O. JAHNKE, ACSC/EDCH

SPONSOR MR. R. CARGILL HALL, GM-14, USAFHRC/RI

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Preface

This study is a brief history of the Airlift Service Industrial Fund (ASIF). It is based primarily upon Military Airlift Command histories. The study highlights the major aspects of the fund's history: background, advantages, performance, and problems. For those readers already familiar with the operation of the ASIF, this report will broaden their background knowledge. Others may view it as another piece of the puzzle in understanding an often confusing management concept.

I would like to thank those who assisted in preparing this report. My project advisor, Major Tom Jahnke, provided indispensable support and direction. The personnel of the USAF Historical Research Center provided superb professional assistance in the tedious task of reviewing many dozens of volumes of histories. And finally, I thank my wife, Connie, whose total patience and moral support contributed immeasurably to my completing this project.

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About the Author

Major David L. Welch received his commission in 1974 through the Air Force Reserve Officers' Training Corps program at Virginia Polytechnic Institute and State University. After completing navigator training at Mather AFB, California, he was assigned to the 50th Tactical Airlift Squadron, Little Rock AFB, Arkansas, as a C-130 navigator. He later served as an instructor and flight examiner at the Tactical Airlift Instructor School at Little Rock. He earned his Master of Science degree in Operations Management from the University of Arkansas in 1980. In 1981, he was a distinguished graduate of Squadron Officer School. His most recent assignment was as Chief of Capabilities and Requirements, 834th Airlift Division, Hickam AFB, Hawaii. In this capacity, he managed both the Military Airlift Command flying hour program and the joint airborne/air transportability training program within the US Pacific Command. The former involved managing over 23,000 flying hours both ASIF and operation and maintenance-funded. In addition, he is thoroughly knowledgeable in Military Airlift Command scheduling and command and control procedures.

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Glossary

Prior to 1 January 1966, the Military Air Transport Service (MATS) was the Single Manager Operating Agency for Airlift Service. On that date, MATS was renamed the Military Airlift Command (MAC). With the exception of Chapter One, this report will use "MAC" throughout when referring to the agency.

The following list of terms, with their respective definitions and acronyms, are used throughout this project.

Channel Airlift: Common-user airlift service provided on a scheduled basis consisting of routine airlift support to ensure the rapid and dependable movement of personnel, cargo, and mail (47:1).

Fiscal Year (FY): A 12-month accounting period. Prior to FY77, the US government fiscal year covered the period from 1 July through 30 June of the next calendar year. Starting in October 1976, the period slipped to its current cycle, October through September.

Joint Airborne/Air Transportability Training (JA/ATT): Continuation/proficiency combat training conducted in support of Department of Defense agencies which includes airdrop, air assault, aircraft load training, and service school support (43:1-2).

Special Assignment Airlift (SAA): Funded airlift which cannot be supported by channel missions because of the unusual nature, sensitivity, or urgency of the cargo or operations to points outside the established channel structure (43:1-3).

Ton-mile: One ton transported one mile (32:60).

Introduction

"The primary mission of MAC is to provide the airlift necessary for the wartime deployment of balanced fighting forces and to provide sustaining logistical support for those fighting forces" (36:3). To accomplish this wartime mission, the Military Airlift Command (MAC) must keep its aircrews trained and maintain a global airlift system in a constant state of readiness. The unique aspect of training MAC aircrews to operate transport aircraft and the associated training of maintenance and transportation personnel produces a useable by-product: airlift (36:3). This airlift by-product is available to support the various logistical and mobility requirements of Department of Defense (DOD) users throughout the world (36:3). As DOD Single Manager Operating Agency for Airlift Service, MAC maintains the responsibility to efficiently provide airlift to satisfy user's transportation needs (36:3). The Airlift Service Industrial Fund (ASIF) facilitates management of this responsibility.

BRIEF ASIF OVERVIEW

With characteristics similar to some business enterprises, the ASIF serves MAC as a financial management tool for allocating the airlift by-product (36:3; 4:42). The initial

capitalization of the ASIF in 1958 serves as a source of funds for MAC to supply airlift service to meet user demands (36:3). The customers are then billed at a predetermined tariff rate and repay the ASIF (36:3). Operating costs are returned which are then used to provide further airlift service; hence, the ASIF revolves (3:1). This method ensures customers use the airlift by-product in the most economical manner (4:42).

PROJECT OVERVIEW

The balance of this research project is a brief history of the origins and evolution of the ASIF. Chapter One begins the review by examining the historical conditions which prompted creation of the ASIF in 1958. The chapter relates advantages of industrial funding with those conditions. Chapter Two traces the performance, problems, and changes to the ASIF from its beginning. It covers the initial operations and adjustment period, the demanding years of the Southeast Asia conflict, and the period of transition from war to peace through 1973. Chapter Three resumes the evolution in 1974, the beginning of a 2-year period of financial turmoil when the ASIF suffered great losses from lack of airlift "business" and tight defense budgets. The chapter continues with peacetime operations to present day. And finally, the Conclusion provides a summary and prospects for the future.

Chapter One

ORIGINS OF THE ASIF

In tracing the origin of the ASIF, one must also study the single manager concept for airlift service. The originators of the ASIF considered the two inseparable (6:96). Without a single source of airlift, one could not expect the military departments to purchase service from MAC if it was available at no cost from another provider. This chapter traces the origin of both the ASIF and single managership within MAC and relates their advantages.

BACKGROUND

After World War II, Congress and the public exerted considerable pressure on the military departments to confront the economic realities of the post-war era and reduce its spending. Several studies of the military departments' organizations revealed considerable duplication of activities. Each service had frequently gone its own procurement way securing items which, for all practical purposes, were identical (3:53). The Hoover Commission reports concluded that prior approaches to the problem, centering on cross service agreements, had not produced expected economies (3:53).

The DOD approach to eliminate this duplication and functional overlap in common use items and services was the single manager concept (3:53). That concept assigned a single military service the responsibility for a common item from its procurement to its ultimate consumption (3:53).

Prior to single managership and industrial funding, MAC provided airlift to the services based upon its own available capability and the urgency of customers' requirements (48:18). The Air Force funded all airlift provided by MAC. Many abuses of this system resulted since the users considered the airlift to be "free" (48:18). Customers routinely inflated the priorities of their cargo to ensure MAC would allocate airlift against their needs (48:18). This often caused unfair distribution of services. Congressional reviews frequently criticized the Air Force for expending airlift based on inflated priorities (48:18). This system of "free" airlift did not establish any cost consciousness among the users and was not in keeping with economic realities of the times. These conditions prompted implementation of the single manager concept and industrial funding for airlift service.

ORIGINS OF THE ASIF

Activities to consolidate airlift services began as far back as the mid-1940s. In September 1945, General Vandenberg recommended to the Chief of Staff that all air transport activities be placed under one Army Air Forces command with the Air Transport Command and the Troop Carrier Command consolidated

(6:90). Such ideas were advanced during later years; but, due to divergent views from various major commands and air staff agencies, recommendations were not approved (6:90).

On 1 June 1948, the first step toward a single manager airlift organization occurred with formation of the Military Air Transport Service (MATS) (6:90). MATS, the official unification of the Air Transport Command and the Naval Air Transport Command, became one of the unified DOD organizations (49:12-13). Both Navy and Air Force personnel manned the new organization; however, the Air Force managed MATS (49:13). Air transportation of cargo and passengers became its primary mission (49:13). Specifically excluded, however, was the responsibility for tactical transport of airborne troops and equipment and their forward area resupply (49:13-14). General Kuter, the first commander of MATS, expressed his concern that continued dispersion of transport aircraft throughout the military would prevent further economy and efficient utilization (6:90-91).

The 1949 amendment to the National Security Act provided the legal basis for industrial funding (18:115). This statutory authority established working capital funds as a means of more effectively controlling the cost of programs and work performed by the DOD (18:115). One of the first actions taken along these lines was a recommendation by a 1953 USAF Air Transportation Symposium to study airlift industrial funding (6:91).

Several reorganization and funding initiatives occurred in 1954. In March, the Air Staff forwarded a MATS reorganization

plan to the Chief of Staff, General Twining (6:91). General Twining and Under Secretary of the Air Force, James Douglas, asked General Kuter in June to form a committee to review the Air Staff proposal (6:91). At the same time, General Tunner, former Deputy Commander of MATS, sent a proposal to the committee. General Tunner recommended a merger of all air transport, including troop carriers, into a single organization (6:92). This organization would operate along the lines of the Military Sea Transportation Service (MSTS) and use industrial funding (6:92).

In September 1954, the committee presented its findings to Headquarters (HQ) USAF. All studies agreed on the need for reorganization, the shortage of airlift capability, and the consequent need for civil aviation support (6:92). The Kuter and Tunner plans would provide the optimum air transport force incorporating all air assets (6:92). The Air Staff proposal, however, was an immediate step in the right direction and precluded inter-service and intra-Air Force controversies (6:92). The committee, therefore, made these recommendations:

MATS should be reorganized along MSTS lines with industrial funding and broad authority to contract for civil air transportation, and residual MATS units organized into a USAF organic air transport force. Whether strategic, logistic, and troop carrier support were to be incorporated would not be decided until this force became an effective operating unit (6:92-93).

That same month, HQ USAF forwarded the recommendations to the DOD.

The Hoover Commission recommended DOD ". . . eliminate the duplicating air transport services within the DOD, and merge the entire transport operation into MATS. . ." (6:96). After this recommendation plus several studies by MATS and the Air Staff, the DOD agreed "all regular route type air transport services . . . should be merged into a single command" (6:96). The DOD believed this was necessary to operate the airlift agency on an industrial fund basis (6:96).

The provision of airlift to the using military agencies on a reimbursable basis will, in the opinion of the Department of Defense, result in improved logistic planning insofar as the use of air transport is concerned, provide a better gauge of the efficiency and effectiveness of air transport operations than is now available, and provide an effective means of controlling the use of air transport services (6:96).

The DOD authorized the limited distribution of transport aircraft for training operations of a strategic or tactical nature (49:17-18). On 7 December 1956, DOD issued its directive 5160.2.

The DOD Directive 5160.2, Single Manager Assignment for Airlift Service, directed several actions. It integrated into a single military agency all transport type aircraft engaged in point-to-point service or aircraft susceptible to such (6:100). The directive designated the Secretary of the Air Force the Single Manager for Airlift Service (6:100). He would then designate a major component of the USAF as Single Manager Operating Agency for Airlift Service (18:115). It required the single manager to take all necessary steps to establish airlift service on an industrial fund basis as early as possible, but

no later than 1 January 1958 (10:100). And finally, 7160.2 directed the service secretaries of the military departments to abolish any organizational unit or part thereof performing functions which duplicate those assigned to the agency as soon as the agency assumed responsibility for those functions (5:50-51). MATS, then, as the single manager agency would provide airlift services for all agencies of the DOD; procure all needed commercial airlift service; carry out realistic training programs; and maintain an adequate emergency readiness posture (6:101).

Within 60 days after issuance of 5160.2, the Secretary of Defense required MATS to submit its plan to implement the directive (6:101). This plan was to outline relationships between the agency, the military departments, and the Military Traffic Management Agency; address the maintenance of military airlift services required for war; outline the agency's operating plan to include the organization, functions, and personnel requirements; and outline the responsibilities of the military departments that would provide agency support (6:101).

By mid-July 1957, MATS had finished its organizational plan. A complete worldwide test operation of industrial fund traffic documentation and revenue accounting procedures was under way (6:109). In addition, transfer and support agreements with the Pacific Air Forces, the US Air Forces in Europe, the Tactical Air Command, and the Navy on units, personnel, facilities, and functions to be assigned to the agency were nearly complete (6:109). Then, on 17 September 1957, DOD issued Joint

Regulation AFR 76-33/AR 59-40/OPNAVINST 5410.7A/NAVMC 1145 to establish the inter-service agreements and policy necessary to operate the Single Manager Operating Agency for Airlift Service (18:115). Testing of the system continued until 1 July 1958 when the ASIF officially began operation.

The Assistant Secretary of Defense (Comptroller) approved the ASIF charter on 12 April 1958. The charter authorized an initial working capital fund (or corpus) of \$75 million (18:116). Capital from the fund would be used to pay expenses incurred in providing service. The ASIF would cover the direct costs of services to the other major USAF commands and military departments; commercial augmentation; civilian personnel costs; petroleum, oil, and lubricant charges; and other costs directly incurred as a result of providing airlift service (7:167-169). Revenue would be redeposited into the ASIF when received by the customers.

The charter provided other general principles. The mission of MATS was to remain unchanged by the ASIF (7:170). It would utilize existing accounting procedures to minimize new training of personnel; keep administrative procedures simple to minimize the number of additional personnel; and establish procedures to keep the minimum financial capital in the corpus at any time (7:170). Finally, MATS would compute tariffs to recoup expenses so that the system would show neither profit nor loss (7:170).

MATS would no longer receive its annual budget allocation for reimbursement of all strategic airlift (7:171). It would

continue, however, to operate on the old budgeting system to receive appropriated funds for its non-ASIF activities (7:172). The customers themselves would estimate their annual airlift needs and budget to receive the funds required for airlift payments from their own Congressional appropriations (7:172). MATS would then decide how much of the total requirement it could handle with organic assets and arrange commercial augmentation for the remainder (7:172).

The theoretical problems were not easily solved nor totally predicted, and the solutions to date, MATS considered tentative to some degree (7:175). For instance, the tariff calculation formulas used a forecast of flying hour capability. With some costs remaining fixed regardless of flying hours consumed, an underfly would fail to return enough revenue to the ASIF (7:175). Accounting management would become critical at the headquarters. Managers would have to closely monitor dollar outflow and income to ensure the break-even basis. And, of course, the paperwork would have to be accomplished meticulously, accounting for airlift costs and charges, if MATS expected its customers to pay the bills. The success of planning to make the ASIF work remained to be seen in the future months of operation (7:178).

ASIF ADVANTAGES

As a brief review, recall the conditions prior to implementing the ASIF. MATS provided airlift based upon its own capability to produce, upon the customers' stated priorities,

and at no cost to the users. Insufficient capability occurred at times, and customers routinely inflated priorities to ensure allocation of airlift service. Congressional studies highlighted these abuses and criticized the Air Force for poorly managing its assets. The DOD recognized the industrial funding system had advantages which would alleviate these problems.

The primary advantage of the ASIF versus the old direct funding system was that it created a greater awareness of costs associated with airlift by establishing a buyer-seller relationship (4:42). Buyers now had to plan and budget for their requirements and seek appropriations from Congress. Each user would then have to carefully examine his airlift requirements to stay within his fixed operating budget (14:331). This fact alone would cause the buyer to carefully evaluate the need for airlift and establish realistic priorities. At the same time, pressure would be placed on the seller to more effectively manage and provide the best service at the most economical cost. In addition, directives obligated MATS to manage the fund so revenues would approach operating expenses as nearly as possible (13:197). The value of such a system as a management tool for cost effectiveness is apparent: (49:62).

Flexibility to meet changing operational requirements constituted another advantage. If military aircraft had to be used for contingencies or special missions, or if normally forecasted requirements exceeded capability, MATS could buy additional commercial lift to continue meeting demands on the

system. The ASIF would pay the expenses without the need to request funds. This flexibility is possible only within the industrial fund method of financing (49:63).

Finally, the ASIF would encourage MATS to fully utilize its airlift capability. The ASIF could not afford to fly empty aircraft or carry small loads (48:19). The airlift by-product produced the revenue to keep the system operating (7:176). Based on these premises, the ASIF began its evolution.

Chapter Two

ASIF EVOLUTION FY59 THROUGH FY73

FY 59: EARLY PERFORMANCE AND PROBLEMS

According to the MAC Historian, MAC had made every conceivable effort in the months prior to 1 July 1958 to establish its industrial fund and operate based on the requirements of AFM 170-12, Airlift Services, Air Force Industrial Fund (8:191).

"This operation was without precedent. Never before had a strategic military force attempted to support itself by selling to customers the by-product of its necessary training--in this case, airlift" (9:83). The system, at this point however, had not been perfected, and several problems arose in the early months of operation.

The first problem involved inaccurate tariffs. MAC did not receive user requirements in sufficient time to use them in the tariff computations. Consequently, the initial tariffs were computed using historical requirements data which proved too high (9:87). This created tariffs which were too low to recoup expenses. By the end of September 1958, the ASIF corpus was depleting at a substantial rate (8:197). As of 30 November, the cumulative loss equaled \$3.3 million (8:197). MAC requested, and HQ USAF subsequently approved, a 14-percent increase in

channel tariffs effective 1 December 1958 (8:198). Rates for SAA were also increased significantly.

A second problem encountered was late, incomplete, and inaccurate reporting (8:194). Delays in reporting occurred at all levels as MAC became accustomed to the new system. Some mission reports were not submitted until 3 weeks following mission completion (8:194). In addition, during the Middle East and Far East crises, east and west coast wings freely traded aircraft causing confusion over who was to accomplish the billing (8:194). These and other irregularities caused delays in billing and corresponding delays in payment receipt. As of 31 December 1958, MAC showed accounts receivable at more than \$84 million with an average collection cycle of nearly 4 months (8:195,197).

In the early months, "no shows" and late requirements also caused problems. A "no show" meant the failure of the military service to use the aircraft which MAC had positioned for onload based upon firm requests (9:85). This effectively denied other customers the use of the aircraft. MAC decided to levy an equitable charge of two flying hours times the hourly tariff rate assigned to the particular type aircraft (8:198). Late requirements meant that users were requesting additional airlift or SAA after MAC planners had scheduled the given month's operations (9:85). This frequently caused turmoil throughout the system and charges were considered for these also (9:85).

One procedural change was made in FY59 to ensure the ASIF was receiving its forecast revenue. MAC discovered that one of the west coast aerial ports had established a common procedure to maximize cabin loads on westbound SAA missions with channel cargo without making charges (8:201). This reduced the channel backlog; however, it also deprived the ASIF of revenue. Since the tariff rate was computed based upon receiving revenue for that cargo, MAC decided to charge the channel user and credit the SAA user for the space occupied by the non-SAA cargo (8:201-202). MAC also decided that whenever it became practical, more than one special mission could be moved on a single aircraft with the bill prorated between the users (8:201). This procedure had not been used in the past since a SAA mission was considered a charter-type operation.

By January 1959, MAC realized that the projected deficits from earlier months which had prompted tariff increases were apparently somewhat inaccurate (9:89). The tariff increase would likely generate excess profits. MAC revised the tariffs downward in March 1959, but still closed out its first successful year under ASIF with a \$13.8 million profit (9:89; 37:15). This profit would be considered in computing tariffs for the next fiscal year, FY60.

FY60-FY61: GETTING ADJUSTED

MAC completed its second year of ASIF operations on 30 June 1960. The operating year was comparable with FY59 with a gain of \$11.8 million based on revenue and expenses of \$287.4 million

and \$275.6 million respectively (10:74). MAC continued to work the problem with aged accounts receivable. By the end of the second quarter, the average collection cycle had decreased to 2.66 months, slightly less than the 90 days originally considered in determining the ASIF's initial corpus requirement (9:108).

The command continued adjusting to the ASIF in FY61 as several changes were made affecting operations. Airmail was added as a source of revenue and expense to the ASIF. The President directed this traffic be handled under MAC contract to aid civil carriers and help them modernize (12:230). Modernization efforts continued as the Civil Aeronautics Board (CAB) revoked its waiver of rate regulation authority which had previously allowed MAC to competitively bid for commercial contracts using nonstandard rates (11:55-56). These events significantly increased the costs of procuring commercial airlift. Tariffs were not increased to cover this problem until the next year, and ASIF common-user rates were consequently below the cost of commercially procured passenger service (12:231-232). To increase user reliance on the ASIF, MAC implemented DOD-approved billing changes for SAA missions. This change to AFR 76-11 would allow SAA users to estimate costs of those missions so precisely that bills would nearly conform to estimates (11:55).

For the first time, operating results showed a net loss of \$2.96 million for FY61 as a result of a 25-percent tariff

discount in effect for the last five months of the year (12:237). MAC had placed a discount on cargo, SAA, and mail (except commercially carried) to offset a \$7.43 million net gain during the first half of the year and a projected \$14 million end-of-year gain (12:234). The SAA category alone increased by 42.5 percent over the previous year primarily as a result of the Congo airlift requirements (12:230). Considering gains from the two previous years, the FY61 loss had little impact on the ASIF.

GLOBAL COMBAT MOBILITY

In FY62, a pronounced trend towards strictly military-type operations began to develop (13:201).

More and more, the command specialized in global mobility and special assignment airlift missions. As MAC completed its second year on the Congo airlift, delivered Marine and Army troops to Thailand, stepped up its missile airlift, and planned for a growing number of joint airlift exercises, it seemed obvious that the demand for airlift would increase from year to year (13:198).

With the increase in combat-oriented operations centered around SAA, MAC moved steadily away from scheduled operations along fixed routes by delegating more of that type operation to the commercial airlines (13:198-199). In terms of ton-mile capability and flying hours, SAA ton-miles increased 40.8 percent over FY61 and SAA flying hours took 45 percent of the total versus only 28 percent in FY61 (13:198). In addition, by the end of FY62, commercial airlift satisfied 56 percent of MAC passengers and 46 percent of the transoceanic cargo (13:199). Statistically, FY62 marked another successful year showing a \$0.6

million profit based on income and expenses of \$389.2 million and \$388.6 million respectively (13:208-209).

The ASIF demonstrated its flexibility to meet changing military requirements in FY63. The Cuban missile crisis in October and November of 1962 required the concentration of large numbers of aircraft on SAA. This necessitated using commercial airlift on many channel routes (14:331). Consequently, commercial augmentation costs went significantly over budget. Thus, in April 1963, MAC increased passenger tariffs by 15.2 percent to more closely balance income and expenses (14:333). The year-end deficit was thus held to \$2.7 million based on income and expenses of \$394.8 million and \$397.5 million respectively (14:333,335). FY63, then, continued to reflect the policy of greater application of commercial lift to passenger operations leaving military aircraft to perform the more military-oriented missions (14:335).

Compared with the previous year, FY64 was a period of reduced activity. Overall SAA activity decreased making more military aircraft available for channel operations and consequently less need for commercial augmentation (15:443). Net operating results showed a \$1.5 million profit based on an income/expense pattern of \$386.2 million/\$384.7 million (15:433).

SOUTHEAST ASIA SUPPORT

The command saw FY65 generate the largest income and expense pattern since the ASIF's beginning as a direct result of

increased user commitments to Southeast Asia (SEA) (16:666-667). The dramatic increase in demand for airlift caused two major budget reassessments in January and March 1965. A \$12 million first half operating loss prompted the January reassessment (16:673).

The operating loss resulted from decreased exercise revenue, increased demand for channel cargo movement, and increased need for commercial augmentation (16:673). MAC levied a 15-percent surcharge on all exercise missions. With increased demand for channel lift to SEA and a subsequent decrease in exercise missions, MAC found itself losing money (16:673). The increased demand for channel lift was primarily satisfied with more expensive commercial augmentation; in fact, the situation required the greatest commercial airlift expense since the ASIF began (16:673-674). The two combined tariff changes resulted in increases of 47 percent for cargo and 17.5 percent for SAA, exercise, and airborne training missions above those set on 1 July 1964 (16:673). These tariff increases permitted MAC to limit the year-end deficit to \$1.5 million, a loss the ASIF could recoup in FY66 (16:678-679).

Airlift demand in FY66 again was the greatest ever encountered by MAC with records set each month, only to be surpassed by the next (17:824). Steadily increasing demands in SEA dictated the demand for airlift, and MAC implemented new operational, support, and management concepts to help meet demand and improve its operation (17:824). In addition, the advent of the

C-141, with its lift capacity and speed, ushered in the beginning of an all jet strategic airlift force era (17:824).

New innovations to improve operation of airlift service included multi-directional aerial ports, improved cargo flows, and single-passenger reservation agencies. MAC opened several new aerial ports which were able to provide service to more than one geographical area (17:824-825). With this new concept, MAC made plans with the Military Traffic Management Service (MTMTS--the Army single manager for continental US transportation). MTMTS would regulate the day-to-day flow of cargo into continental US (CONUS) aerial ports based on forecasts of capability provided by MAC (17:829). The single-passenger reservation agency improved ASIF operations by providing a single point for making passenger reservations for all airlift users. This innovation would improve passenger relationships and fill all seats on MAC and commercial augmentation missions (17:829-830). In addition, an external analysis of the ASIF occurred during FY66.

In November 1965, MAC contracted with management consultants, Booz, Allen, and Hamilton, Incorporated, to study ASIF operations (17:826). Their purpose was to determine ASIF financial requirements and develop recommendations to improve ASIF financial management so MAC could be fully responsive to customer needs (17:826). One finding indicated not all costs related to providing airlift service were incorporated into the ASIF. Based upon this study and a July 1965 USAF Auditor

General report, MAC began actions to bring 11 more maintenance organizations under industrial funding (17:827-828).

During FY66, SEA demands, new management techniques, and high performance aircraft, coupled with higher commercial augmentation led to the largest income and expenditures ever experienced by the ASIF (17:834). FY66 income of \$625.9 million was 40.6 percent higher than the previous year (17:834). One negative aspect, however, was at year's end, the ASIF showed accounts receivable of over \$129.7 million which brought the cash balance so low that the ASIF needed a \$10 million cash transfer from the US Treasury to continue paying bills (17:841). This situation would hopefully be remedied in FY67.

The ASIF income/expense pattern and commercial augmentation demands continued their upward spiral during FY67 surpassing previous year records. The total FY67 ASIF income reached \$1.02 billion exceeding FY66 by 63 percent (18:148). FY67 expenses topped FY66 by 60 percent reaching \$1.002 billion (18:148). MAC adjusted tariffs twice that year in December 1966 and April 1967. In fact, a \$36 million loss for the first 9 months due to high demand and increased commercial augmentation dictated the April increase (18:137).

The scope of the ASIF broadened in FY67 as MAC brought more organizations under ASIF's jurisdiction. MAC corrected findings from previous years by converting field maintenance and communications and electronic maintenance squadrons at Dover, McGuire, Charleston, Hunter, and Travis AFBs to industrial funding

(18:130). This action would make the ASIF tariff more accurately reflect true costs.

The ASIF continued successful operations as MAC provided increased service levels during FY68. Although not as high as originally budgeted, income and expense figures still exceeded FY67 reaching \$1.094 billion and \$1.075 billion respectively (19:297-298). Commercial airlift cost more than \$691.4 million and satisfied 91 percent of all passenger lift and 24 percent of the cargo movement (19:299-300). FY68 would prove, however, the end of ever-increasing income and expenses.

Although FY69 passenger and cargo figures exceeded those of FY68, most other ASIF statistics for the year declined (20:254). For the first time since FY65, ASIF income earned from SEA operations reflected a decline from the previous year (20:254). Total FY69 income and expenses exceeded \$1.004 billion and \$1.036 billion, respectively, which produced a \$32.3 million loss for the year (20:252-253). This loss was absorbed within previous year's accumulated operating results.

The ASIF statistics for FY70 continued to decline reflecting the decreasing scale of combat operations in SEA (21:19). Compared to FY69, numbers of passengers and tons of cargo on both channel and SAA missions decreased (21:19,24). FY70 income and expenses declined 8.1 percent and 8.5 percent, respectively, compared with the previous year (21:183).

During FY70, MAC took action to ensure continued successful ASIF operations. Studies were under way to ensure maximum use

of aircraft capacity. Much of the CONUS inbound capacity was unused and MAC implemented cost incentives to promote that usage (38:19). Unaccompanied baggage and household goods, primarily in remote areas and overseas inbound movements, were declared air eligible; and restrictions on former air eligible items were removed as SEA demands decreased (38:19). To produce greater tariff rate stability, the Office of the Secretary of Defense (OSD) instituted a policy change replacing the seven geographical tariff rate areas with a single worldwide rate per passenger and cargo ton-mile (38:19).

Efforts to recover from declining SEA activity continued in FY71. Table One summarizes ASIF statistics for the FY68-FY71 period and reflects declining levels of activity since FY68.

Item	FY68	FY69	FY70	FY71
Income	1,094,083	1,003,621	922,145	855,411
Expenses	1,074,809	1,036,022	948,581	844,519
Commercial Augmentation	691,423	617,232	558,198	486,690

Table One. ASIF FY68-FY71 Statistical Trend (\$000) (22:204).

The ASIF began FY72 in a favorable financial position with the operating budget structured to absorb small losses in the first 5 months and to achieve a small profit in December (23:485). From the beginning, however, larger losses occurred ranging from \$3.9 million in August to \$13.9 million in December (23:485). These losses were due primarily to undergeneration of

cargo and imbalances of inbound versus outbound movements requiring substantial additional one-way commercial augmentation (23:485).

To reverse this trend, MAC designed tariff increases effective 1 January 1972. ASIF losses continued throughout January, February, and March, however (23:480,485). SEA operations increased in April resulting in large profits in April, May, and June (23:485). Nevertheless, the ASIF ended FY72 with an accumulated operating loss of \$13.9 million (23:485).

The goal of the FY73 operating budget was to recover from the previous year's deficit operation and obtain an accumulated operating profit (24:253). Due to careful management and high SAA requirements in SEA, the ASIF achieved a gain of \$42.3 million for the year (24:253). As of 30 June 1973, the ASIF reflected a healthy condition with a surplus of \$37.3 million (24:253,255).

The period FY74-FY75 was a traumatic time for MAC regarding the ASIF. This period and the remainder of the ASIF evolution continues in Chapter Three.

Chapter Three

ASIF EVOLUTION: FY74 TO PRESENT

FY74-FY75: FINANCIAL TURMOIL

The ASIF system had performed quite well since its inception in 1958 and was sufficiently flexible to meet the great demands placed upon it by SEA activity. The ASIF experienced a period of extreme difficulty, however, beginning in FY74. Table Two reflects the general decline in activity and the worst loss to date in the ASIF's history as MAC adjusted to the post-SEA era.

Item	FY71	FY72	FY73	FY74
Income	855,411	824,720	753,238	663,880
Expenses	844,519	850,852	710,891	716,980
Operating Result	10,892	(26,132)	42,347	(53,100)

Table Two. ASIF Statistical Trend (\$000), FY71-FY74 (25:102).

The FY74 budget revision submitted in September 1973 predicted revenue and expenses to break-even at \$700,458,000 (25:96). The budget contained a statement by the Commander-in-Chief MAC (CINCMAC) describing a situation that had heretofore

never occurred. "This budget submission marks the first time in MAC's history that available airlift capability is surplus to users' forecasted workload" (25:95-96). The final budget revision submitted later in the year predicted the loss that occurred.

That loss occurred primarily from undergeneration of cargo, and moreover, from dramatic increases in aviation fuel prices (25:96).

Aviation fuel cost 14.9 cents per gallon 1 July 1973 through 31 January 1974; 27.7 cents per gallon (an increase of 86 percent) 1 February 1974 through 31 March 1974; and 35.4 cents per gallon (an increase of 28 percent) 1 April 1974 through 30 June 1974. Comparing 14.9 cents. . . with 35.4 cents. . . represents an increase of 237 percent per gallon in FY 1974 (25:96).

In addition, rates charged for commercial augmentation rose 4.23 percent effective 28 August 1973 (25:96). Historically, these items (aviation fuel and commercial costs) constitute the majority of the airlift expense budget. On 1 January 1974, MAC tried to curb the losses by increasing tariffs by 12.5 percent for passengers, 27.4 percent for cargo, and 27.3 percent for SAA (25:96). Despite this action, the ASIF continued losing large sums during each of the last 6 months of the fiscal year with the same prospects for FY75.

During the FY75 budgeting cycle, MAC realized it would again be faced with uncommitted airlift capability. The command computed a minimum flying hour program of 431,393 hours necessary to maintain its war readiness posture (45:2). After having applied all user requirements to this capability, an uncommitted

residual of 92,161 flying hours remained (45:2). The volume of air cargo had steadily decreased to a crisis level too low to yield sufficient income to support the flying hour program (26:364).

The Secretary of the Air Force stated in a 12 June 1974 memorandum to the Secretary of Defense that the airlift system had to exist and be trained and exercised in peacetime if we expected to have airlift capable of responding in wartime (26:363). The following statement from the memo summarizes the problem of underutilization:

As the services transition to a more normal peacetime logistics process, they have shifted from airlift to surface transportation. . . . The Army is MAC's biggest customer during contingencies or emergencies. During peacetime, however, their transportation planning is directed towards surface shipment. Despite this decline in the generation of air cargo, to assure a wartime capability MAC must exercise its crews, aircraft, facilities and channels. Thus, despite a reduced requirement, airlift capability continues to be generated. Since the cost of airlift must be absorbed by a smaller base, the cost-per-ton-mile rises, in turn forcing additional cargo to surface modes thus reinforcing the cycle and compounding the problem (26:363).

The ASIF's problems were further compounded when Air Force operation and maintenance (O&M) funds were not available to supplement the MAC budget (44:1). Funds for training and readiness amounting to \$121 million were included in the Air Force FY75 budget request; however, the House Appropriations Committee deleted the entire amount (46:1). Based on an Air Force appeal for the total amount, the Senate Appropriations Committee restored just \$14.8 million (46:1). Underused capacity had

never been budgeted for in the O&M appropriation as recovery of airlift costs had always been a function of the tariff rate structure (46:1). The impact of the lack of funds would mean that the Air Force could not fund MAC for the uncommitted hours or its local training hours for FY75 (44:1).

The ASIF financial problem of rising costs, falling revenues, and Air Force funding problems drew top level inquiry from the DOD (26:130). On 29 July 1974, a DOD Program Decision Memorandum called for the removal of C-5s and C-141s from the ASIF but was countered by an Air Staff/MAC reclama (26:130). Various studies proposed changes to the ASIF ranging from retention as presently structured, through various modifications, to elimination of the ASIF altogether (26:130).

Advocates rallied behind the ASIF's defense pointing out its historical success with the dollar serving as a universally understood and effective disciplining agent (26:130). Critics complained that the losses, both incurred and projected, were significant in themselves to warrant disposal of this method of management (26:130). The CINCMAC, General Carlton, strongly supported the ASIF's retention as evidenced in a message to the Chief of Staff of the Air Force (26:130). He asserted that the ASIF had worked well and declared:

I am sincerely concerned with any prospect of losing the ASIF and the adverse impact it would have on the efficient management of DOD airlift requirements. Its loss would force MAC to revert to archaic airlift management methods in use during the 1950s when MATS was completely O&M funded (26:130).

In September 1974, HQ USAF Director of the Budget, Brigadier General Blanton, held a meeting with USAF and MAC representatives to discuss the option of increasing tariffs, reducing MAC flying hours, and financing of the ASIF to a FY75 year-end deficit position (44:1). Since the Air Force was the primary user of airlift, increasing tariffs would have severe financial impact especially on permanent change of station costs (44:1). Reducing MAC flying hours was inevitable with 35,000 hours withdrawn from the current program saving approximately \$35 million (44:2). Finally, the ASIF would have to bear the loss, but could remain operable with a \$40 million loss to the corpus (44:2).

Efforts were under way throughout the year to seek ways to increase airlift utilization and thus reduce the ASIF loss. One DOD review completed in April 1975 recommended tariff reductions to the extent necessary to motivate the military departments to fully utilize available capacity (26:366). In addition, the study recommended establishing a uniform tariff for airlift and sealift (26:366). Other recommendations of promise centered around a review of logistics practices to determine if increased usage of airlift would permit reduced pipeline and inventory levels and increase logistics support effectiveness in other areas (26:367).

Statistically, the ASIF showed a net operating loss for each month in FY75, except for the fourth quarter, and ended with a deficit of \$31.6 million (26:137). Losses were

due primarily to the lack of total O&M reimbursement for non-productive airlift, plus undergeneration of cargo and unprogrammed cost increases not covered by the tariffs (26:137).

PEACETIME OPERATIONS

For the first time in more than a decade, the Military Airlift Command experienced a full year of peaceful operations. Vietnam was but a painful memory, and the Middle East, although still a cauldron, did not boil over. Except for a short-lived Korean contingency, it was back to the routine business. . . (27:iii).

The ASIF survived the financial turmoil period, transitioned to peacetime operations, and finished FY76 in good financial position. Table Three reflects the first profit since FY73.

Item	FY73	FY74	FY75	FY76
Income	753,238	663,880	878,733	930,753
Expense	710,891	716,980	910,283	864,001
Operating Result	42,347	(53,100)	(31,550)	66,752

Table Three. ASIF Statistical Trend (\$000), FY73-FY76 (27:116).

Despite the profitable year, efforts continued in FY76 to solve the underuse of the MAC airlift system. On 9 September 1975, the Secretary of Defense approved a program for the rest of 1975 where excess capability could be used by the military departments to ship lower priority cargo at a cost equivalent to ocean transportation rates (26:367). Assistant Secretary of Defense, W. P. Clements, Jr., announced a study of airlift as a

means of reducing inventory levels (26:367). MAC began efforts to win back some of the cargo then going to commercial aircraft by pursuing tariff equivalency targeted for FY77 (26:367). In addition, MAC wanted to see a DOD policy enacted requiring the use of DOD transportation; but, as a minimum, it wanted to be consulted prior to the purchase of commercial transportation by a military department (26:367).

A significant change to the ASIF occurred on 1 October 1976 when MAC incorporated the active duty C-130 fleet into the ASIF system. The C-130 would continue to be used in its historical role with JA/ATT, joint exercises, and local unilateral training all being funded by Air Force O&M dollars (27:118). Logistics movements would consume no more than one-third of the C-130 flying time (27:156). MAC made this transition smoothly, but continued to struggle with the problem of excess strategic capability.

To cope with the situation, MAC proposed changes in setting tariffs and suggested "fenced" air transportation funds. These proposals became necessary due to continued unsuccessful efforts to obtain O&M subsidy for essential training (27:188). MAC proposed tariffs be set to closely approximate commercial tariffs and thus avoid the dilemma the user faced with commercial rates below the MAC tariff (27:117). The "fenced" funds proposal stated that once users identified DOD-approved funds for air transportation, they would not be used for other transportation means without MAC approval (27:188). USAF

implemented this plan unilaterally for Air Force users (27:117). The sister services, however, agreed to it in principle adopting a corporate responsibility to use their funds only as approved by Congress (27:188).

During 1978, several outside agencies tried to eliminate what they perceived as wasteful, duplicated efforts regarding MAC's aerial ports, an essential part of the ASIF system. Based on a Government Accounting Office (GAO) recommendation in 1975, the Senate Appropriations Committee directed a reduction in strategic aerial port manpower authorizations (29:255). According to the MAC Director of Air Transportation, reductions scheduled for the fourth quarter of FY78 would place the aerial port system nearly 300 personnel spaces short of its requirements to meet current peacetime workloads (29:255). Concurrently, MAC and the Air Staff were fighting to retain the MAC CONUS military passenger terminals whose closure had been directed by Defense Programming and Planning Guidance (PPG) for the FY79-FY83 Program Objective Memorandum released on 11 March 1977 (29:258). The PPG recommended commercial terminals be used in lieu of military terminals. CINCMAC, General Moore, opposed any efforts to reduce manpower or eliminate or "mothball" aerial ports (29:259). He contended that to enact manpower reductions or commercial gateways would adversely impact MAC's wartime readiness and would be far disproportionate to any resulting advantages (29:259). Despite the objections, Secretary of

Defense Brown proposed the closure of the Norton AFB terminal in a decision package on 9 December 1978 (29:262).

In 1979, the House Appropriations Committee began investigations into MAC management activities focusing specifically on the ASIF (30:423). Investigators expressed dissatisfaction with the efficiency of the ASIF in that some seats on MAC flights remained empty because users could not afford the tariffs and that the fund prevented Congress from monitoring DOD airlift properly (30:423). MAC officials acknowledged the fund had imperfections, but observed that Congress had scrapped the old direct funding system (that the investigators now recommended) because of gross abuses (30:423). Nevertheless, in early 1980, the investigation recommended abandoning the ASIF for direct funding with full committee action not expected until mid-1980 (30:424). CINCMAC, General Huyser, advised Secretary Brown not to scrap the system until the committee could prove they had a better one (30:424).

Table Four summarizes ASIF income and expense data to date.

Item	FY77	FY78	FY79
Income	933,315	1,033,835	1,133,686
Expenses	1,004,475	1,026,868	1,078,472
Operating Results	(71,160)	6,967	55,214

Table Four. ASIF Statistics (\$000), FY77-FY79 (28:76; 29:49; 30:60-61).

The ASIF began FY80 with a favorable \$57.6 million cumulative profit and with a cash corpus of \$74.9 million (31:67). To moderate this position, OSD approved in February 1980 a revised operating loss objective of \$13.9 million (31:67). But the Iran crisis of February 1979 would prove a greater impact on the budget than expected.

By March 1980, the average price of fuel had more than doubled over the October 1979 price of \$0.55/gallon to \$1.18/gallon (31:67). This change dramatically increased ASIF liabilities and prompted OSD to more than double the tariffs at midyear (31:67). By the end of FY80, the ASIF had lost \$48 million, three times greater than the OSD-approved budget (31:68). Fortunately, the FY79 carryover of \$57.6 million helped offset this loss (31:71).

At the beginning of FY81, the ASIF position reflected a cumulative balance of \$9.6 million and a corpus of \$30.7 million (32:58). This favorable position declined rapidly, however, with a first quarter loss of \$2.4 million greater than budgeted (32:58). Similar losses occurred in the second quarter; and in March 1981, officials estimated that continued trends would cost the ASIF an estimated \$40 million loss by the end of the year (32:58,60).

Commercial augmentation expenses offset the profits (32:60). Higher than anticipated requirements, especially for exercises, necessitated using C-141s. They were replaced by commercial DC-8s which were more expensive to operate and

less efficient than the C-141 (32:60). In addition, to deliver cargo faster, airlift managers had increased the number of aircraft operating in the system, thus reducing cargo loads on both military and commercial contract aircraft (32:60).

On 17 March 1981, Vice CINCMAC, Lieutenant General Ryan, advised commanders of the MAC numbered air forces of the ASIF problem and proposed a more reasonable balance between payload efficiency and responsiveness (32:60). Actions to improve the situation included restructuring of some channels and elimination of others; reducing usage of DC-8s on some channels and eliminating commercial usage altogether on others; working to increase cargo pallet weights and bulk; and increasing airlift productivity by enforcing minimum cargo loads on airlift missions (32:60,91-92). These actions proved successful as fourth quarter profits equaled \$20.7 million and the overall loss was limited to \$1.9 million for FY81 (32:60).

One policy change occurred early in FY82 when OSD replaced the two-tiered channel passenger rate with a multi-factor system with the goal of making passenger tariffs more equitable and acceptable to customers (33:79). The old system contained two passenger mile rates, one each for low and high density channels (33:76). Many users had difficulty preparing and adjusting their budgets without a single cost system (33:76). The new system set fares on most MAC routes at the commercial alternative rate and established a single rate on remaining channels with hopes that the new system would align more closely with

the cost of channel operations and alternate commercial fares (33:76).

In mid-1983, MAC completed a major assessment of airlift requirements into the 21st century entitled, "Airlift Management in a New Era" (35:350). This document recommended changes in the tariff program to provide tariff incentives to attract additional cargo for channel operations to fill what the study had shown would be an excess of cargo space by the end of 1985 (35:350-351). This excess capability situation was one that had made ASIF management and wartime readiness training difficult in the past several years. In late 1983, HQ USAF approved a program of reduced tariffs for filler cargo similar to those recommended in the assessment (35:351).

Table Five summarizes ASIF statistics for FY82-FY83.

Item	FY82	FY83
Income	2,381,082	2,374,071
Expenses	2,322,651	2,263,478
Operating Results	58,431	110,593

Table Five. ASIF Statistics (\$000), FY82-FY83 (32:77-78; 34:538; 39:27)

To ameliorate its positive financial position, the ASIF recorded a loss of \$31 million in FY84, \$58.1 million lower than approved by OSD (40:2). Increased revenue resulted from higher

channel utilization and dramatically higher SAA activity due to Grenada and Central America operations (40:2,26).

Improving the channel cargo system was the goal for FY85. To encourage airlift efficiency, MAC changed its tariff system for channel cargo by making it similar to that of the commercial airlines (41:2). MAC deleted the single tariff rate for cargo and began a weight-break tariff structure. Three different rates were established which decrease as the weight of the shipment increases (41:2). MAC geared the tariff incentives to increase its attractiveness to DOD shippers and thereby enhance airlift efficiency (41:2).

Table Six summarizes ASIF statistics for FY85 through third quarter, FY86.

Item	FY85	FY86 (third quarter)
Income	2,159,439	1,435,834
Expenses	2,193,310	1,495,789
Operating Results	(33,871)	(59,955)

Table Six. ASIF Statistics (\$000), FY85-FY86 (third quarter) (41:27; 42:23).

Conclusion

SUMMARY

As DOD Single Manager for Airlift, MAC has the dual responsibility of maintaining the readiness of a worldwide airlift system and providing the efficient application of its airlift by-product to satisfy DOD airlift transportation requirements (36:20). The ASIF is the resource allocation mechanism used to manage those responsibilities. Since its beginning in 1958, the ASIF has fulfilled its role very well.

Prior to its implementation, a serious problem existed in allocating airlift (2:22). The Air Force paid for all airlift service through MAC O&M funding at no cost to the user (2:22). Although established procedures existed to determine air eligibility and to set priorities, no real penalty existed for exaggerating a bit--or a lot--on what was a priority movement (2:22-23). Results often included time-sensitive cargo waiting for airlift while lower priority cargo received service (2:23).

Investigations in the mid-1950s highlighted system abuses and directed implementation of industrial funding to ensure stricter management of the premium airlift resource (2:23). The ASIF induces conscientious financial management because it establishes a buyer-seller relationship placing the decision to

use airlift or a cheaper, slower mode more squarely on the shoulders of the DOD transportation user (36:3). The buyer must now spend his budgeted dollars for airlift which effectively establishes the ASIF as a means of allocating airlift service (2:23). At the same time, the system pressures the seller to manage its product to provide the best service at the most economical cost.

The financial management pressure created by the ASIF has provided a flexible, responsive airlift system that evolved over a 28-year period. During the early years of ASIF operations, MAC quickly adjusted to the problems of improper reports, late forecasts and requirements, and "no shows." These problems seemed minor, however, when they were overshadowed by the great demands placed upon the system by the Vietnam War in the mid-1960s. But, the flexibility created by industrial funding permitted the system to easily adapt to the most demanding period seen by MAC to that point in history. In fact, the mid-1970s proved the system could adapt much easier to excess requirements than to excess capability as airlift "business" dropped off after the war. To keep the ASIF solvent, MAC managed those problems by implementing improvements to the system and making tariffs more competitive with the commercial alternative. In the 1980s, MAC continues to seek ways to maintain an airlift system capable of providing the defense transportation needs of the DOD and maintain itself in a war-ready posture. The concept of using the dollar as a

universally understood, resource allocation tool has remained effective throughout the past 28 years.

THE FUTURE

According to Deputy Chief of Staff/Comptroller, Colonel True, CINCMAC (General Cassidy) is content with the ASIF's performance (50:--). General Cassidy believes, as stated above, that the dollar is still the most effective allocator of airlift (50:--). Recent assistance provided by C-5 airlift to Puerto Rico for the hotel fire disaster illustrated the system's flexibility and responsiveness (50:--). MAC was able to provide the humanitarian assistance expeditiously and not worry about the expenses until mission completion because the ASIF corpus serves as a ready source of funds for such contingencies (50:--).

Colonel True does not foresee any changes to the ASIF in light of the recently announced unified transportation command (50:--). There will be no changes to the single manager charters of which the Single Manager Assignment for Airlift Service dictates industrial funding (50:--). At this time, he sees no other system that would better serve MAC (50:--).

Perhaps the only area for improvement regarding the ASIF is in educating those who are affected by it. The industrial fund approach is an often misunderstood, and therefore, a much maligned management tool (2:23). In fact, a Spring 1986 article in Airlift magazine stated that the greatest source of criticism of the ASIF stems from lack of understanding of its purpose and

execution (1:3). The Airlift Operations School at Scott AFB provides education on the ASIF as a part of its curriculum. To facilitate educating a wider range of personnel, especially airlift users, presentations on the ASIF could be given at airlift users conferences such as the annual HQ Pacific Air Forces Airlift Management Office conference. The goal should be to dispel apprehension and promote understanding.

The future is bright for the ASIF. It ensures a system ready to meet its customers' needs at the most economical rates, and at the same time, realizes a great cost savings to the DOD (2:17). Although it may not be a perfect system, it constantly undergoes refinement (2:17). It has withstood much scrutiny over the past 28 years, and a better, workable substitute has yet to be found (2:17).

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