The USAF–Boeing tanker accord is a landmark deal, but it has now been thrust into uncharted territory.

Tanker Twilight

By John A. Tirpak, Executive Editor

The Pentagon in December put the Air Force's tanker deal on hold in response to allegations that former Boeing and service officials had committed ethics violations. The agreement—a plan to lease 20 and buy 80 new Boeing KC-767 tankers to modernize USAF's aerial refueling fleet—marked the climax of more than two years of tough negotiations between the service and the contractor as well as scrutiny by the Administration and Congress.

Now, execution of the deal may be delayed until well into the spring, if not later. That could force both sides back to the bargaining table and conceivably result in a substantially higher price for the aircraft.

If current investigations support the allegations or uncover other breaches of law, the deal could be scrapped entirely.

Right now, only Boeing can provide an Air Force-compatible aerial refueling airplane. Were Boeing to be barred from any new arrangement, the Air Force would be compelled to explore a massive and costly service life extension program for its existing fleet of 126 aged KC-135Es, which suffer from serious corrosion and structural fatigue problems.

In the compromise tanker deal struck in November of last year, the Air Force would lease 20 KC-767 aircraft and purchase 80 more. The first four would be delivered in Fiscal 2006 and another 16 by the following year. All 100 would be in service by 2014, introduced at a rate of about a dozen a year. (See chart, "The 20/80 Deal," p. 49.)

"Our proposal strikes a necessary balance between the critical need for

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The service wants 100 new KC-767 tankers such as this one being built for Italy. The Air Force's planned modernization of its tanker fleet was thrown into limbo, pending the outcome of various investigations.

AP photo / The Herald, Michael O'Leary

Staff photo by Guy Aceto

No one disputes that the KC-135E fleet is old. Sen. John Warner (R-Va.) has declared that tanker modernization must be carried out. He urged the Pentagon to work with Congress to resolve outstanding tanker issues.

new air refueling tankers and the constraints on our budget," Deputy Defense Secretary Paul D. Wolfowitz wrote to the chairmen of the House and Senate Armed Services Committees on Nov. 5, 2003.

The original plan, which called for a lease-to-own arrangement for all 100 aircraft, would have cost about $4 billion more than the 20/80 lease/buy plan. However, it will take three years longer to get the full complement of airplanes under the 20/80 plan.

The compromise was proposed by Sen. John Warner (R-Va.), chairman of the Senate Armed Services Committee. Warner was a key proponent who recognized the Air Force's need to acquire new tankers as quickly as possible, but he bowed to pressure to find a less costly route.

Under the original plan, the Pentagon pledged to go "beyond" 100 aircraft, but Wolfowitz said nothing in his letter about exceeding that figure.

The KC-767 tanker is a "quantum leap" beyond the KC-135E tanker, according to Boeing. Compared to the older aerial refueler, the new tanker will be able to:

- Off-load 20 percent more fuel.
- Lift off with a full load from four times as many runways.
- Provide greater capacities for cargo (19 pallets vs. six) and passengers (200 vs. 57).
- Refuel all US and allied aircraft types on one mission.
- Be air refueled itself.

Additionally, the KC-767 will have a state-of-the-art digital cockpit and enable the Air Force, in the future, to upgrade the aircraft to "smart" tanker capability. Even more importantly, the new tanker will spend 70 days in depot maintenance over a 10-year period, compared to 700 days for the KC-135E, according to Boeing.

The tanker deal went off the rails—at least temporarily—on Nov. 24, when Boeing fired two of its key leaders—Michael M. Sears, the company's chief financial officer, and Darleen A. Druyun, a vice president in the missile defense business. (See "Editorial: Tanker Turmoil," January, p. 2.) Druyun had been the Air Force's No. 2 acquisition official until she retired in late 2002.

In a statement, Boeing said the company sacked the two executives because Sears had approached Druyun about possible employment, though she was still working for the Air Force and before she had recused herself from official involvement with Boeing contracts. Boeing said that an internal investigation uncovered direct and indirect communications between Sears and Druyun and that the two had tried "to conceal their misconduct."

The company insisted that it received no special treatment from Druyun, who is described by some as an architect of the tanker deal. Druyun took the job with Boeing in January 2003.

Marvin R. Sambur, USAF's top acquisition official, said that Druyun left the Air Force long before the critical period of negotiations that produced the tanker deal. He added that the price of the aircraft continued to drop during negotiations in the year after her departure, which means she did not secure a windfall for Boeing, if that, indeed, was her goal.

Boeing also replaced its top executive, Philip M. Condit, on Dec. 1, 2003. Its new chief executive officer, Harry C. Stonecipher, said, "One of the first, foremost, and most immediate tasks I have" is "getting the tanker program going and reassuring the government that we are not only compliant but [also] an exemplary supplier to them."

The Boeing firings spawned separate investigations by Congress, the Justice Department, the Pentagon, and the Air Force. The Senate Armed Services Committe and Commerce, Science, and Transportation Committee plan to hold hearings on the issue this month.

At the heart of these probes lie the questions of whether Druyun improperly passed information to Boeing about a tanker offer from a rival manufacturer, European Aeronautic Defense and Space Co. (EADS), and whether Druyun somehow favored Boeing in the tanker deal in anticipation of working for the company.

Expanding Probes

Already, though, the problem has spread beyond the tanker deal.

At a Nov. 25 Pentagon press conference, Defense Secretary Donald H. Rumsfeld said that he had asked his aides whether the problem with the tanker deal might have broader implications for the Defense Department. "I said that I thought they ought to set about looking at it and asking those questions," said Rumsfeld, adding, "We're the custodian of the taxpayers' dollars. We have an obligation to see that things are done properly."

Air Force Secretary James G. Roche asked the Pentagon inspector general to look into other big-ticket contracts involving Druyun and Boeing, back to 2000. These programs include the F/A-22 fighter, the C-17 airlifter, an E-3C AWACS upgrade, and the Small Diameter Bomb. After it became known that Boeing was not the only company that considered hiring Druyun, the IG investigation widened further.

On Dec. 17, the Defense Criminal Investigative Service began an inquiry into all Druyun-related contracts valued $10 million or more in the two years before she left the Air Force. Such a list encompasses a wide variety of programs. A Pentagon official said that, even working diligently through the winter holidays, it could take "some months" for DCIS to sift through all those contracts.

Sen. John McCain (R-Ariz.), the chairman of the Commerce Committee and the tanker deal's chief Capitol Hill opponent, said he planned to investigate the large number of former senior Air Force and US government personnel who have found employment with Boeing.

At McCain's request, Boeing turned over thousands of internal e-mails pertaining to the tanker deal. McCain staffers released some of them, particularly those that seemed to suggest what McCain called an "incestuous relationship" between the company and USAF.

McCain last August turned over copies of those e-mails to the Pentagon inspector general. At that time, the IG launched an investigation focusing on the issue of whether Druyun had passed EADS proprietary information to Boeing.

Various news organizations picked up the e-mail trail. On Sept. 1, 2003, Boeing issued a response to one news report that claimed an e-mail revealed the company received proprietary data. Boeing said the information was taken out of context and simply referred to "a standard debriefing" following the Air Force decision to contract with Boeing, not EADS. According to Boeing, the e-mail shows that "an Air Force official was telling Boeing that, even though we had won the competition, our price would have to come down."

Still, lawmakers approved the tanker replacement plan in early November. They shied away from the Air Force's original request to lease all 100 tankers, but, on Nov. 5, they reached a compromise agreement with the Administration that produced the 20/80 lease/buy deal.

McCain, meanwhile, has held up the confirmation of Michael W. Wynne to be the Pentagon's new chief of acquisition, technology, and logistics. Wynne, in his Nov. 18 confirmation hearing, declined to promise that he would turn over all internal Defense Department documents relating to the tanker lease, as McCain demanded. Roche's nomination last July to be the new Secretary of the Army has been on hold, pending the outcome of a DOD IG investigation on the sexual assault problems at the Air Force Academy. (See "Upheaval at the Academy," January, p. 56.) The IG report was due in December. However, McCain is likely to block Roche's confirmation because of the tanker issue as well.

Pentagon officials later said they did not want to establish a precedent of giving a Senator access to internal communications, based simply on a request. "If he really wants them, he can subpoena them," a senior Pentagon official said.

While McCain continued his assault on the tanker deal, other lawmakers contended that the replacement plan must move forward. After the initial Boeing revelations, Senate Armed Services Committee Chairman Warner wrote to Rumsfeld, agreeing that the deal should get closer scrutiny but arguing that it shouldn't derail tanker modernization.

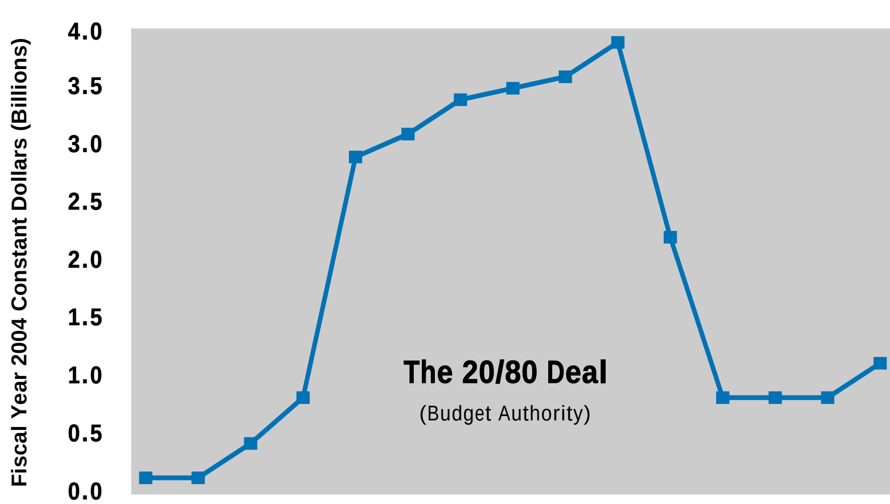
"Quite apart from the allegations surrounding the lease, additional tanker aircraft are needed for national security purposes," Warner wrote on Nov. 26. "For this reason, a full and cooperative effort between the legislative and executive branches is imperative to meet this requirement."

The "Pause"

Initially, Air Force officials wanted to press on with the tanker deal and award a contract early last December so that Boeing could start on the first 767 by midmonth. However, Air Force officials said, Pentagon leaders demanded some "breathing room" before the signing of a contract. Defense leadership advocated a Jan. 31 contract award, but even that date was dropped when Warner and McCain said that hearings on the tanker lease would start after Congress came back into session on Jan. 20.

Wolfowitz on Dec. 2 formally notified Congress that DOD had ordered a "pause" in the program.

Last fall, Boeing had announced that a lack of orders was forcing the company to shut down its 757 line and that the same fate awaited the 767 line if the Air Force tanker contract did not materialize before mid-December. Rather than close the 767 line, however, Boeing officials decided to fund the work internally. If the USAF deal evaporates, Boeing would try to sell the 767 tanker to another country. (Boeing already has a contract to provide four 767 tankers to the Italian Air Force. Under the July 2002 agree-



Fiscal Year	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18
Aircraft	0	0	4	16	11	12	13	13	12	12	7	0	0	0	0

Under the 20/80 lease/buy plan, the Air Force would get 100 tankers by 2014. The new deal deepens a bow wave of procurement beginning late in this decade, when USAF is already buying F/A-22s, F-35s, the E-10A, and a major C-5 upgrade.

Boeing artist's concept

Shifting to the lease/buy tanker plan will force tough budget choices on the Air Force. No funds have yet been programmed for the tanker (shown here in an artist's rendering).

ment, the first one is due to be delivered in 2005.)

Boeing officials said that, should the tanker deal stay in limbo, they might still have to stop work and lay off more than 400 employees in the states of Washington and Kansas. Shutting down the 767 line would increase the cost of any subsequent order for tankers, since the line would have to be reopened and its workers retrained and recertified—an expensive process.

Line closure would be double trouble for the Air Force. In addition to counting on the 767 for tanker replacements, the service plans to base its next generation intelligence-surveillance-reconnaissance aircraft, the E-10A Multisensor Command and Control Aircraft, on the 767 airframe. The E-10A would replace the E-8 Joint STARS ground mapping radar airplane, the RC-135 Rivet Joint signals intelligence aircraft, and, potentially, the E-3 AWACS air battle control airplane.

The Air Force had already begun the process of retiring some of its 40-year-old KC-135E tankers in anticipation of getting new KC-767s. (See "100 Tankers," August 2003, p. 64.) By mid-December, the service had not decided whether it would alter those retirement plans, pending the results of the various investigations. Under terms of the 2004 defense authorization bill, the Air Force may withdraw no more than 12 KC-135Es from service over the next year.

Lawmakers also directed the Air Force to provide "an up-to-date, independent assessment of the material condition of the KC-135 aerial refueling fleet." They ordered the outside analysis because the corrosion problem was a major justification provided by the Air Force when it launched its tanker replacement proposal.

The Air Force's tanker plan has been controversial since its inception. Even so, the original lease-to-buy plan successfully ran a gauntlet of Capitol Hill committees, Office of Management and Budget, Pentagon program analysts, and other hurdles. Its last, and most important, roadblock was the Senate Armed Services Committee.

Throughout the two-year debate, Air Force leaders freely admitted that the lease-to-buy plan would cost more than an outright buy. What made the lease approach palatable, they said, was that it would allow the service to spread the cost more manageably and would get the tankers into the fleet more quickly.

McCain and other critics maintained that the lease deal would waste money and amounted to "corporate welfare" for Boeing, which had been hard hit by the downturn in airline business following the 9/11 terrorist attacks. McCain convinced Warner and others on the committee, notably ranking Democrat Carl Levin (D-Mich.), to modify the plan so that only 20 aircraft were to be leased and the remaining 80 purchased.

The original lease plan could be paid out of operation and maintenance funds over a longer period, but the 20/80 plan requires a substantial and unbudgeted up-front USAF investment—about $10 billion, according to the Air Force.

Robbing Peter

The Air Force will have to find about $2.4 billion from other programs to pay to lease the first 20 tankers and another $14.8 billion over the next decade to purchase the other 80.

"We are going to have to take it out of hide," said a senior Air Force official.

The tanker funding profile agreed to by the Defense Department and the Senate Armed Services Committee enlarges the "bow wave" of procurement bills the Air Force will have to pay in the years 2009-14. During that period, F/A-22 production will peak, and USAF will be buying early lots of the F-35 strike fighter. The service plans, in the period, to purchase E-10A aircraft and carry out a major upgrade to its C-5 airlifters. (See "Saving the Galaxy," January, p. 30.) In addition, Congress wants the Air Force to try to ready a new long-range strike capability for 2013.

While USAF would not state which programs might be reduced or sacrificed to pay for the tankers, some service officials did say, unofficially, that three programs—the C-5 upgrade, the E-10A, and the F-35—in particular were being scrutinized as potential sources of funds.

Scrapping the C-5 upgrade would provide about $8 billion—less than half the amount needed to pay for the 100 tankers. Not performing the upgrade could, in turn, require the Air Force to buy additional C-17 strategic transports. The E-10A is expected to reduce ISR operating costs by consolidating many missions onto a single platform and advance the state of the art in airborne battle management by improving coordination between various USAF sensor platforms. The F-35 is urgently needed to fill a shortage of fighters that already exists and that is expected to worsen in the next five years.

The up-front money needed to make the 20/80 deal work under the present law, said Sambur, is "money we simply do not have." ■