



Travail of

years after a prior tanker lease agreement with Boeing fell apart under political pressure.

The issue has become even more pressing in light of Air Force plans, disclosed in June, to ground or retire all of its remaining 80 or so KC-135Es this fiscal year, which ends Sept. 30. As a result, USAF will have to endure a “shortage of aircraft” in its tanker fleet until replacements become available, an Air Mobility Command spokesman said.

Technicians who now work on the KC-135E will be shifted to the KC-135R fleet to help that tanker bear some of the extra load. As recently as February, the Air Force said it planned to keep KC-135Es active in the inventory through about 2016. USAF gave no immediate explanation for the change in plan.

The GAO, in a June 18 report, found “a number of significant errors” in the Air Force’s handling of the process to choose between Boeing’s KC-767 and Northrop Grumman’s KC-30, a variant of the Airbus A330 airliner. The mistakes “could have affected the outcome of what was a close competition,” GAO counsel Michael R. Golden said in a press release, adding, “We therefore sustained Boeing’s protest.” He noted that GAO denied a number of Boeing’s other claims of unfair treatment in the KC-X contest.

The auditors recommended that USAF set aside the award, pay Boeing’s legal costs in bringing the protest, and “reopen discussions with the offerors, obtain revised proposals, re-evaluate the revised proposals, and make a new source selec-

tion decision.” They also suggested that the Air Force may have done a poor job of stating its requirements in the first place, and if so, might want to refine its needs before further discussions with the contractors.

The Air Force had 60 days, by law, to review the GAO’s findings and respond. However, the Defense Department, citing the urgency of the tanker replacement, chose not to wait that long before launching a corrective plan.

Defense Secretary Robert M. Gates, at a July 9 press conference, announced that the Pentagon was accepting the GAO’s findings and was taking over the tanker selection process.

“I’ve concluded that the contract cannot be awarded,” given the problems cited by the GAO, Gates said. He announced that he was putting Pentagon acquisition, technology, and logistics chief John J. Young Jr. in charge of picking a winner in the tanker contest.

Young said he would staff an all-new source selection committee, and work on refining only those issues with which GAO found fault in the Air Force’s choice. Young said he had a strong desire to “leverage” the vast amount of work done by the Air Force, and said problems identified by the GAO were “correctable.”

Boeing protested shortly after the Air Force’s Feb. 29 award of the KC-X contract to Northrop Grumman. Among its many complaints, stated in a 138-page brief, Boeing said the Air Force had given Northrop Grumman a pass on meeting some requirements, had misled Boeing

Once again, for the second time in four years, the Air Force’s drive to bring on a new aerial refueling aircraft has hit the wall. It’s now anybody’s guess how long the program will be delayed, and the prospect of Congress injecting itself in the process looms large.

In June, government auditors dealt the latest blow, upholding a Boeing protest based on a claim that the service made serious errors in giving Northrop Grumman a \$35 billion contract to replace aging aerial tankers. The auditors recommended that USAF take steps to correct the problems, possibly to the point of redoing the competition.

The ruling was issued by the Government Accountability Office, a Congressional watchdog agency. It came four

the Tanker

The KC-X program, though critical, just can't seem to get started.

By John A. Tirpak, Executive Editor



about the size airplane the Air Force really wanted, and had substituted its own cost numbers for Boeing's.

The GAO supported Boeing's protest in 10 areas, eight of which dealt with the evaluation of the two airplanes. The findings, distilled from GAO's 69-page report, are as follows:

Extra Credit

- The Air Force didn't follow its own criteria in measuring the capabilities of each airplane, and was vague in explaining how it would weigh their relative strengths. Boeing offered to meet more nonmandatory requirements than Northrop Grumman, but the Air Force ignored the offer.

- USAF gave credit to the KC-30 for far exceeding requirements in aerial refueling even though the rules said no additional credit would be given above a certain level, which Boeing had met. The Air Force had said this was a key discriminator between the two bids, but it shouldn't have been.

- Northrop Grumman got credit for being able to pass fuel to all USAF aircraft capable of aerial refueling, but it wasn't documented that this was so.

- The Air Force told Boeing it had met a particular requirement, but when the service changed its mind, it didn't tell the company and give it a chance to correct the shortfall. The Air Force was talking to Northrop Grumman about the same requirement at the time.

- Northrop Grumman wouldn't provide a plan for setting up organic depot

maintenance for its tanker within two years of delivering the first production aircraft, as required. The Air Force treated this failing as an "administrative oversight" and didn't penalize the company as it should have.

- The Air Force's evaluation of life cycle costs was "unreasonable." The Air Force's math was off, and when it was corrected, Boeing's costs emerged as lower, by a tiny fraction of a percent. Further, USAF calculated military construction costs using a computer model not proved to be valid, and the Air Force used generic information to calculate milcon required, rather than specific costs for each airplane.

- The Air Force didn't believe Boeing's cost numbers and substituted its own. However, the service didn't prove that Boeing's numbers were unrealistic. Moreover, it was unreasonable for the Air Force to develop the costs with the computer model it used because the model was meant to weigh overall program costs and not just nonrecurring engineering costs.

- Although the Air Force argued that Boeing lost its right to complain on some points because it didn't do so during negotiations, GAO said the company was under no obligation to file "a defensive protest" in the middle of the process, and was right to wait until it was debriefed following the selection.

The auditors pointed out that they made no judgment about which company offered the better airplane in the KC-X contest, merely that the process wasn't sound, and

Left: A Northrop Grumman artist's conception of the KC-30. Above: A Boeing illustration of the KC-767. The two images are drawn to the same scale.

not nearly as "open and transparent" as the Air Force strenuously insisted it was.

In structuring the KC-X contest, the Air Force said it went to great lengths to avoid any grounds for a protest. It invited other services and the GAO itself to participate in designing and evaluating the competition, hoping to inoculate itself as much as possible against missteps. At the press conference announcing Northrop Grumman as the winner of the KC-X, USAF acquisition chief Sue C. Payton told reporters the process was above reproach and "we've got it nailed." Moreover, the Air Force had strong motivation to do it right: The 47-year-old KC-135Es are in critical need of replacement, and the service wanted to prove it could manage a clean acquisition after previous fumbles on the tanker and other major programs.



A KC-767 refuels a US Navy fighter in this Boeing artist's conception.

Young, at the July Pentagon press conference, said he hoped to mobilize a new evaluation team and issue a revised request for proposals on the tanker by the end of July or early this month. He said he hoped to choose a winner by the end of the year.

However, at a House Armed Services Air and Land Forces subcommittee hearing the next day, Young said that picking a new winner by December will be tough.

"I cannot guarantee you [that] we will make that schedule," he said. "There's probably an infinite number of obstacles." He also noted that "the air is charged around this competition," and the political heat may make things even harder.

Rep. Neil Abercrombie (D-Hawaii), subcommittee chair, replied that if Young doesn't succeed by the end of the year, "then this thing is going to start all over again and it's going to take a heck of a lot longer." That's because a new Presidential Administration and a new Congress will be seated in January, and new players may act to become more involved in the program.

Young said that he believed the original, Pentagon-blessed KC-X requirement is sound, and that this will be the "foundation" of whatever tweaks are made to the request for proposals. However, he created some tension by suggesting the RFP will state a more definitive preference for a larger airplane.

The new RFP will be crafted to better reflect requirements and "make clear which of those ... we may place greater or lesser value on," Young said. He wants both teams to "understand what we value."

Although a shift to larger aircraft would seem to favor the larger KC-30 being offered by Northrop Grumman,

Young also said that the Pentagon will "look at" a shift in the weighting given to life cycle costs as well. The bidders made offers predicated on lowest life cycle costs over 25 years, but Young said 40 years might be more realistic, given the very long service being asked of today's tankers. Such a move might favor Boeing, whose smaller aircraft presumably would consume less fuel in the long run.

Extremely Unusual

Even so, Boeing officials said the prospect of preference for a bigger aircraft worried them. Boeing had originally planned to bid a tanker version of its larger 777 airliner alongside the KC-767, but narrowed its bid to just the KC-767 when its analysis concluded the Air Force didn't need a bigger airplane. Company officials said they weren't sure they could make a credible offer on a KC-777 within the tight time limits Young seeks to impose on the recompetition. One company official said it remains within Boeing's rights to protest the revised RFP if the company thinks the competition has been fundamentally altered, or changed in a prejudicial way.

The Air Force, in its original analysis of alternatives, labeled both the KC-767 and KC-30 as "medium-sized" aircraft, Young pointed out.

Young told the House subcommittee that his taking over the tanker competition could create an "extremely unusual" situation should he revoke the Milestone B authority he already granted USAF to proceed on the tanker program. As chairman of the Defense Acquisition Board, he would have to rule on the correctness of an acquisition strategy he himself develops as the new source selection authority for KC-X.

The GAO's findings merely stoked the already intense political heat over the tanker contract. Congressional delegations from Washington, Illinois, and Kansas—all places where Boeing would do considerable work on the tanker—lined up to praise the GAO's findings, but some of those lawmakers suggested they would step in and take legislative action to secure the work for their constituencies.

Rep. Norman D. Dicks (D-Wash.), perhaps the most vocal of Boeing's supporters in Congress, said, "It is now up to Congress to review the matter and to make its judgment" about how best to replace the tanker fleet. He added that "we should proceed expeditiously to build the best aircraft—the Boeing KC-767—here at home." His comments were echoed by Washington's Sen. Patty Murray (D), who said, "It is Congress' job to determine whether major defense purchases meet the needs of our warfighter and deserve taxpayer funding. The Pentagon must both justify its decision [to buy the KC-30] and address the flawed process that led to [the GAO's] ruling." She complained that she and other members of Congress who have sought details as to how Northrop Grumman was chosen to build the KC-X had been "stonewalled," although the Pentagon has said it couldn't give up such information while the protest review was under way.

Murray also noted that the KC-X competition never took things into account such as the simmering trade dispute between the US and Europe over subsidies to airline companies, economic issues such as jobs in the US, "and the importance of maintaining our most critical advantage: innovation through American defense-oriented research and development."

Aerospace industry analysts indicated that Boeing's KC-X loss, if it stands, would cripple the company's efforts to market the KC-767 beyond its two foreign customers, Italy and Japan, and cede worldwide tanker business to Northrop Grumman and European Aeronautic Defense and Space Co. Boeing has also long said that without the KC-767 work, demand for the commercial version of the 767 will swiftly dry up.

Payton, in March testimony before Congress, noted that the Air Force, by law, was prohibited from considering economic impacts, trade disputes, or jobs in evaluating the KC-X bids, and that an offer from any of a dozen countries closely allied with the US, such as France, must be treated the same as if the bidder were a US company.



In this illustration by an artist for Northrop Grumman, a KC-30 refuels a B-2 bomber.

Young, in his July testimony, said the GAO found the Air Force's strategy to cope with the trade dispute acceptable. That strategy was to get the bidders to agree that if they have to pay any fines, those expenses aren't chargeable to the contract.

Even so, Murray said that Congress needs "answers before handing billions of American defense dollars to a subsidized, foreign company focused on dismantling the American aerospace industry." Northrop Grumman has pointed out that EADS would receive about half the revenues from the KC-X contract, and claims that it will create 48,000 jobs in the US if it is permitted to build the airplane. In addition to a dedicated factory in Mobile for the KC-X, EADS promised to also build A330s for the US market at the Mobile facility.

Rep. Rick Larsen (D-Wash.) also voiced the buy-American viewpoint, saying, "American taxpayers should not foot the bill for a product made in clear violation of [World Trade Organization] rules."

Sen. Richard C. Shelby (R-Ala.), in whose state the KC-30 would be built, said he was bewildered by the GAO's findings.

"I cannot believe that in the most highly scrutinized procurement in the history of the United States Air Force, the GAO found so many errors. The fact that the Air Force will likely have to go back to square one on the warfighter's No. 1 priority is very disturbing."

Sen. Jeff Sessions (R), also of Alabama, pointed out that "the competition is not over," and expressed his confidence that "the merits of the Northrop Grumman-EADS tanker will be acknowledged." He said, "I firmly believe" the KC-30 "is the superior aircraft."

A somewhat darker message came from Sen. Carl Levin (D-Mich.), chairman of the Senate Armed Services Committee, who had largely withheld comment during the 100-day period of the GAO's review.

"We now need not only a new full, fair, and open competition in compliance with the GAO recommendations, but also a thorough review of—and accountability for—the process that produced such a flawed result," Levin said in a press release.

How McCain Fits In

When Northrop Grumman won the tanker contest in February, Presidential candidate Sen. John McCain (R-Ariz.) was targeted by Boeing supporters as the villain who made it possible to, in their contention, ship American jobs overseas. After the tanker lease concept was aborted, McCain insisted that Boeing not receive the tanker work as sole-source, and he pushed the Bush Administration to drop language in the original KC-X solicitation that could have penalized a foreign competitor over the airliner subsidies dispute. That allowed Northrop Grumman to bid a tanker based on the Airbus A330.

In a statement issued after the GAO's findings were released, McCain said his "paramount concern" with the program "has always been that the Air Force buy the most capable aerial refueling tankers at the most reasonable cost. Everyone agrees that this can only happen under fair and open competition." He urged a speedy review of the audit findings and implementation of them "as quickly as, and to the fullest extent, possible."

McCain's presumptive opponent for the Presidency, Sen. Barack Obama (D-Ill.), suggested he'd like to see Boeing get the work. In a press release, Obama said

that since the operational stakes are so high, and given the fact that the KC-X is "the second largest military procurement contract in history," that the competition "must be reopened to ensure a fair and transparent process that fully considers the needs of America's military and our workforce." Boeing is headquartered in Illinois.

With the GAO's findings, there was rising pressure on Capitol Hill to do, as one staffer said, "the Solomonic thing" and split the tanker buy between Boeing and Northrop Grumman.

Young, however, waved off the split-buy concept, which the Air Force had discarded as being inefficient and expensive, requiring more than \$4 billion in upfront development costs and to develop a second logistical support system.

While there's often "great benefit" from prototyping and running a competitive fly-off, Young said there's a fairly low level of technical risk in taking an off-the-shelf airliner and configuring it with a boom tanking system.

"We believe it is the best use of [the] taxpayer's money to pick one aircraft for the nation," Young said at the Pentagon press conference.

"We're already getting the benefit ... of a commercial marketplace that delivers something like 400 aircraft in each company last year," and the Pentagon will reap a "huge benefit from getting commercial market pricing."

He also said that splitting the buy has a "down side," in that it would "guarantee both companies" get orders for their aircraft.

Such a scheme would likely not yield the "aggressive pricing" both companies have made, and would obviate the planned future KC-Y and KC-Z competitions.

A Northrop Grumman-funded study conducted by one of Young's predecessors, former Pentagon acquisition Jacques S. Gansler, said savings could be achieved by an annual "tanker war."

Gates, at the Pentagon briefing, said that despite his decision to put Young in charge of picking a tanker winner, he still has "confidence" in the Air Force's acquisition team, given that "GAO sustained eight of slightly more than a hundred issues protested." After a winner is chosen, Young said the Air Force will be back in charge of "execution" of the program.

However, Acting Air Force Secretary Michael B. Donley said he expects USAF to "rapidly apply the lessons learned from this experience and move forward," especially since "other Air Force acquisition decisions are on the horizon." ■