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## **Boeing Details Complaints Over U.S. Tanker Choice**

**Firm Says Air Force  
'Skewed' Process;  
Debate Over Costs**

**By AUGUST COLE**

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**Boeing** Co. is hanging its effort to win back a massive \$40 billion aerial-tanker contract on a handful of small criteria changes made by the U.S. government.

Those small but crucial changes shifted the competition in favor of rivals **Northrop Grumman** Corp. and **European Aeronautic Defence & Space** Co., the company asserted in its formal protest filing last week.

A summary of its protest, reviewed by The Wall Street Journal, says the Air Force shifted its stance on a request for data that significantly threw off cost estimates. The Air Force also tweaked the amount of space the planes would need at an airfield, to give the bigger tanker a break, Boeing said.

"In the end, the Air Force changed its direction, skewed the competition against Boeing and in favor of Northrop Grumman/EADS, and awarded a contract for a plane that did not satisfy its own bid requirements," the Chicago aerospace giant wrote in its protest.

Boeing also accuses EADS of benefiting from European state subsidies. The accusation threatens to push the tanker dispute into a long-running trade dispute between Boeing and EADS's Airbus jetliner unit, complicating both.

Los Angeles-based Northrop, the lead contractor for the Northrop-EADS team, defended its victory. "There's a process for a protest and we all need to let it run its course, but let's not change the rules after the fact," said Northrop spokesman Randy Belote. The Air Force said it ran an open and transparent competition, but declined to comment further in light of the protest.

On Feb. 29, the Air Force awarded the contract to Northrop and EADS to use a

modified version of the Airbus A330 jetliner to build 179 new aerial-refueling tankers, which act as flying fuel depots for aircraft and can perform other tasks, such as shuttling medical patients. Boeing filed its protest last week with the U.S. Government Accountability Office, which is expected to rule on its objections by mid-June.

The decision sparked outrage among Boeing's supporters in Congress, as well as criticism for Republican presidential candidate Sen. John McCain, who led the fight to scuttle a previous deal that would have given Boeing the contract without a competition. That deal was doomed in part because it was later learned that a Boeing official had engaged in illegal employment negotiations with an Air Force procurement official who played a role in setting up the contract.

In its 133-page protest, Boeing maintained that a militarized version of its twin-engine 767 jetliner was a "right-sized replacement platform tailored precisely to the Air Force's stated requirements." It said it believed its plane offered the lowest risk, lowest life-cycle costs and the most capability as measured by the bid documents. But rather than follow the requirements, Boeing said, the U.S. Air Force "repeatedly made fundamental but often unstated changes...in order to enable the NG/EADS proposal to survive."

The Air Force went with "a plane that offered an illusory cost benefit fueled by EADS' reliance upon illegal foreign subsidies," Boeing said, in a reference to the continuing fight between the U.S. and the European Union before the World Trade Organization over the legality of government funding that each side accuses the other of collecting.

Although U.S. Air Force officials have said that the Northrop-EADS tanker was the clear winner, Boeing said it believes the total cost of each team's proposal over the 25-year life of the program was much closer. According to the document, Boeing's proposal would have cost \$108.04 billion, just above the Northrop team's \$108.01 billion.

In what is likely to be a key point in its protest, Boeing says the Air Force tried to compel it -- in an alleged violation of U.S. acquisition regulations -- to provide detailed data about how much it costs to produce a commercial version of the 767.

While such information is routinely provided for items such as weapons and other systems that are used only for military purposes, Boeing contended that it wasn't required to submit such competitively sensitive information in this case. This ruling led the Air Force to "drastically" increase Boeing's estimated costs in several areas by a total of \$5.2 billion, while assigning additional development and design risk that Boeing believes was unwarranted, the company said.

Boeing said it instead provided more general data aimed at showing the Air Force the relative costs of producing the airplane. Boeing said the Air Force commended it during a meeting in October for supplying "unprecedented" levels of cost data. But during the debriefing following the loss to Northrop, Boeing said, a senior Air Force

## Competing Flights

Specification	Boeing KC-767	Northrop Grumman KC-45
Length	159 ft. 2in.	192 ft. 11in.
Wingspan	156 ft. 1in.	197 ft. 10in.
Height	52 ft.	57 ft. 1in.
Fuel capacity*	29,400+ gal.	36,800 gal.
Passengers	190	226
Cargo pallets†	19	32
Patients	97	120

\*Approximate †Military 463L pallets  
Source: the companies

cost evaluator told company officials that he had refused to give "any credit or credibility" to Boeing's information, "announcing that all Boeing had submitted were 'marketing materials' and some 'graphs with lines on them.' "

Boeing said it also used commercial market data

based on 10 million flight hours to provide an estimate of maintenance costs for its 767s, but the Air Force instead used its own estimates based on an aging fleet of four-engine KC-135 tankers, resulting in a \$2.8 billion increase in the projected costs.

Boeing maintained that its smaller 767 would be able to operate from more airfields where a bigger plane like the A330 would have trouble finding enough room. But rather than using "real-world constraints," Boeing said, the Air Force tweaked a Northrop-designed computer model so that the A330 fared better on critical tests such as its ability to operate from small airfields.

The Air Force said it did this in part because Northrop threatened to pull out of the competition because its plane would be uncompetitive, but it assured Boeing that it would take into account situations in which the 767's size could give it an edge. Boeing contends this never happened, and the Air Force's actions "perversely resulted in a significant advantage" to Northrop.

Boeing also said it believes it didn't get enough credit for having a history of building tankers, while its competitor had an "incomplete and unstable intercontinental production plan" that involves building some airplanes in Europe before ultimately transferring final assembly to a yet-to-be-built plant in Mobile, Ala. The Air Force's conclusion that the Northrop team had a greater chance of success "cannot be squared with reality or reason," Boeing wrote.