Air Force Sends Tanker Recommendation to Hill

As Congress initiates review of the U.S. Air Force's report on the 767 Tanker lease, Boeing [NYSE:BA] issued the following statement:

"We commend (Air Force) Secretary (James) Roche and the entire U.S. Air Force leadership for their vision and work over the last 18 months. They have addressed critical needs of the men and women who protect our nation. In doing so they also have provided the best value to the American taxpayer," said Jim Albaugh, president and CEO, Boeing Integrated Defense Systems.

"We committed ourselves to providing the Air Force with the quickest and most cost-effective way of putting modern, safe tanker aircraft into the hands of the warfighter," Albaugh said. "There is no question that as people study this program and understand it, that they will agree -- it satisfies a critical need, and it's a fair deal."

Since the events of September 11, the U.S. Air Force has increasingly relied on its Eisenhower-era air-refueling fleet, particularly during the conflicts in Afghanistan and Iraq. In its July 10 report to Congress, the Air Force stated, "After a comprehensive and deliberate review that both validated the urgent need to start recapitalization of tankers now and the advantages of leasing, the Secretary of Defense approved the Air Force's proposal."

According to the report, the current tankers have an average age of 43 years (making them the oldest combat aircraft in the U.S. Air Force), suffer from issues with corrosion, and face a possible fleet-wide grounding, which would cripple the nation's combat forces. The need to provide a viable alternative to our country's reliance on its aging tanker fleet is an issue on which proponents and opponents of the lease agree.

When the Air Force and Boeing began reviewing possible solutions, the company made a commitment to its customer. "For nearly two years, the Air Force leadership has looked at every possible option to ensure that our servicemen and servicewomen can rely on their air-refueling fleet," Albaugh said. "In the end, the Air Force chose leasing because it most quickly delivers the needed tankers to the customer." In its report to Congress the Air Force also looked at the cost of leasing versus purchasing the tankers.

"In a dollar-to-dollar comparison of leasing versus a traditional annual procurement, purchasing the aircraft might save the taxpayers one percent," Albaugh said. "However, the difference in price is eclipsed by the $5 billion taxpayers would save by not having to pay maintenance costs associated with the 100 oldest KC-135's in service today."

The agreement itself is unprecedented in several ways. Boeing is paying all up-front costs associated with the development of the aircraft. Boeing also agreed to cap its profits at standard DoD levels while taking on all the risk of a firm fixed-price development and production program. The U.S. government will independently audit those profits. Under this arrangement there is no risk to the government of an overrun and they have assurances that Boeing will not make profits above stated guidelines.

The Air Force also has received most-favored customer pricing so the taxpayers will receive a rebate if Boeing sells anyone a 767 aircraft for less than the combined lease/purchase price agreed to by the Air Force. The combined lease/purchase price is the lowest offered by Boeing to any 767 customer in 17 years and the lowest ever at these production rates.

According to the Air Force, leasing will put 60 new tankers into the fleet before the service could purchase its first under a traditional procurement. All 100 leased aircraft would be in use by the Air Force five years ahead of the hundredth purchased aircraft. The 767 Tanker also brings unprecedented flexibility and capabilities to our servicemen and servicewomen.

"We believe the 767 Tanker is the right aircraft for the mission to support our forces," said George Muellner, senior vice president and general manager of Air Force Systems for Boeing Integrated Defense Systems. "The new tankers can refuel both U.S. Air Force and U.S. Navy aircraft on the same mission, as well as all NATO aircraft, which will provide our commanders with unparalleled flexibility in planning and executing joint and coalition operations." Such flexibility would eliminate the need for commanders to use attack aircraft in supporting roles. During Iraqi Freedom the U.S. Navy was forced to use its newest multi-role fighter, the F/A-18E/F Super Hornet, to refuel older, less capable attack aircraft due to a shortage in available tankers.

"The 767 Tanker can also be refueled while in flight," Muellner added, "increasing its range and the time it can spend in the theater of operations -- increasing the range and flexibility of all the aircraft it supports." The flexibility of the 767 Tanker extends beyond its refueling capabilities, as it is can carry more than double the cargo or passengers as the aging KC-135.

"The ability to serve as both a tanker and a cargo aircraft offers our military leaders unmatched global reach," Muellner said. "Reach that is a necessity as our armed forces are asked to protect and defend our nation and allies on a global scale."

Once the Air Force recommendation receives final approval, suppliers in 38 states will begin work on the Tanker program, sustaining more than 30,000 U.S. jobs.

A unit of The Boeing Company, Boeing Integrated Defense Systems is one of the world's largest space and defense businesses. Headquartered in St. Louis, Boeing Integrated Defense Systems is a $25 billion business. It provides systems

solutions to its global military, government and commercial customers. It is a leading provider of intelligence surveillance and reconnaissance; the world's largest military aircraft manufacturer; the world's largest satellite manufacturer and a leading provider of space-base communications; the primary systems integrator for U.S. missile defense; NASA's largest contractor; and a global leader in launch services.

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