U.S. Air Force - Boeing 767 Tanker Lease Explained

As the United States is called upon to protect its national interests around the globe, in-flight refueling capabilities have become critical to America's battlefield success. In the past decade, military operations in Kosovo, Afghanistan and Iraq have reinforced the importance of air refueling tankers -- the US military's "airborne gas stations" -- to our sustained military operations. But the age, lower reliability and cost of operating and maintaining today's Air Force fleet of more than 500 KC-135 air refueling tankers can and will put unacceptable limits on the projection of American air and overall military power.

The Air Force has expressed growing concern about the condition of 1950s-era 707-class aircraft and about the cost effectiveness of operating, maintaining and upgrading a tanker fleet, which is more than 40 years old. To address the situation, the Air Force began to explore new ways to begin recapitalizing the tanker fleet.

In 2001, Congress authorized the Air Force to explore the viability of leasing 100 Boeing [NYSE: BA] 767 tankers. The Secretary of the Air Force made it clear from the beginning of negotiations that the service would not proceed with a lease unless it could negotiate the best program value for both the American taxpayer and the American warfighter.

The final proposal does just that. In May 2002, the Congressional Budget Office estimated that a tanker lease program could cost as much as $31 billion. But, working together, Boeing, the Air Force and the Office of Management and Budget have developed a lease program that is 50 percent less expensive than that original estimate.

The 767 tanker lease program provides clear value to the taxpayer and provides the best solution for the Air Force to begin recapitalization of the tanker fleet. Here's why:

- **The Air Force will save an estimated $5.5 billion in maintenance and upgrade costs through accelerated retirement of the aging KC-135E tanker fleet.**
- **Boeing assumes development costs and production risk.** Boeing has already put hundreds of millions of dollars of its own money into 767 research and development costs. Under the proposed lease program, Boeing profits will be capped and the U.S. government receives "Most Favored Customer" price guarantees: the taxpayers will receive a rebate if Boeing sells any customer a 767 aircraft for less than the combined lease/purchase price agreed to by the Air Force. Under the proposed lease, the Air Force makes no lease related payments until the first aircraft is delivered in Fiscal Year 2006. 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.
- **The 767 tanker lease program is the quickest way to put modern, safe aircraft in the hands of our warfighters.** Leasing with an opportunity to buy rather than outright procurement gets more new tankers into the fleet (60 tankers under a lease versus only one under a purchase) nearly three years earlier, beginning in 2006. Leasing also avoids what would be a lengthy and cumbersome government development and procurement process, allowing the Air Force to avoid spending millions of dollars upfront on 767 tanker development -- money that can be spent on other military priorities.
- **The 767 tanker will be the best in the world.** The tankers will carry 20 percent more fuel than the KC-135; will be capable of both boom and drogue refueling on the same mission, allowing the 767 to refuel the full spectrum of U.S. and allied aircraft; can operate off shorter runways carrying more fuel; will provide more flexibility to the warfighter through increased cargo and passenger movement capability; and is projected to spend only approximately 70 days in depot maintenance every 10 years, versus the 700 days projected for the KC-135E.

The Air Force must begin replacing its aging tanker fleet. Demand for tankers has skyrocketed due to the war on terrorism, with more than 23,000 missions flown in Afghanistan and Iraq alone. The Boeing 767 tankers meet this national security need. Leasing the tankers provides the best value and is the quickest way to put an essential asset in the hands of the nation's warfighters. It's a fair and equitable deal for the taxpayer and for the nation.

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