Boeing Tanker Leasing Proposal is Innovative Solution to Modernization Challenge

The U.S. Air Force has a real problem. Its fleet of 500 KC-135E tankers is more than 40 years old, but it does not have the up-front money to begin replacing these aircraft through a traditional procurement approach -- estimated to be $8 billion in the next five to six years, according to Department of Defense officials.

So how did the Air Force address the problem of providing fair value to the taxpayer while quickly putting a critical military asset into the hands of its men and women in uniform? The best answer came directly from the commercial aviation industry -- leasing.

Commercial aircraft manufacturers sell 25 to 40 percent of the aircraft they build to leasing companies, while commercial airlines may lease as much as 30 to 40 percent of their fleets at any one time. Leasing gives this highly competitive business segment the flexibility to use scarce capital for operational costs or other expenses. But while leasing is a common, recognized and fully credible commercial practice, it is relatively new to the military.

Consequently, the proposal to lease 767 tankers has taken into account concerns and questions raised by the administration, the Congress and the media. During the past 18 months, the Department of Defense, the US Air Force, The Boeing Company [NYSE: BA] and the Office of Management and Budget have worked to address those concerns in developing the innovative leasing program that the Air Force submitted to Congress on July 10, 2003.

The proposed program makes good business sense. Here's why:

- Boeing bears all risks associated with development and production of a commercial 767 refueling tanker -- not the Air Force or the taxpayer
- The Air Force pays no up-front development costs
- The Air Force makes no lease related payments until the first aircraft is delivered in Fiscal Year 2006 and only begins payment upon delivery of the aircraft
- The Air Force gets "most favored customer" price guarantees -- the taxpayers will receive a rebate if Boeing sells anyone the basic 767-200 commercial aircraft to be modified into the tanker for less than the price agreed to by the Air Force
- Boeing profits will be capped at levels consistent with Department of Defense standards
- The price being paid by the Air Force for the aircraft is the lowest offered to any 767 customer in 17 years and the lowest ever at these production rates
- By taking advantage of commercial practices and current low market rate financing, the government and the taxpayer benefit financially.

The tanker lease program puts an essential military asset into the hands of the US warfighter five years earlier than under traditional procurement processes. Under this proposal, the Air Force will be able to accelerate the planned retirement of the oldest KC-135 tankers and will save $5.5 billion in maintenance and upgrade costs -- more than offsetting lease-related costs. The final lease proposal is 50 percent less than the original Congressional Budget Office estimates in May of 2002. The warfighter, the taxpayer and the nation all benefit. That's good business in the nation's interest.

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