

DEFENSE

Northrop Grumman Willing To Divide Refueling Tanker Contract With Boeing

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by Megan Scully

In a move that could put them squarely at odds with the Defense Department, officials of Northrop Grumman Corp. voiced tempered support Monday for splitting a lucrative procurement contract for aerial refueling tankers with rival bidder Boeing Co.

Northrop Grumman, which is vying to build a new fleet of tankers for the Air Force, released an internal analysis indicating that buying two different aircraft would save \$10.2 billion between 2012 and 2029.

The crux of the projected savings comes from replacing the current fleet of Boeing KC-135 tankers faster than now planned, reducing the cost of keeping those Eisenhower-era planes flying.

The brief analysis does not mention increased logistics, spare parts, maintenance and other costs that opponents of a split or shared contract have said would be incurred by having two vastly different tankers in the fleet. A team of Northrop Grumman and the European consortium EADS has proposed using a modified wide-body Airbus A330, while Boeing has offered a variant of its 767 passenger plane.

Northrop Grumman officials prepared the figures at the behest of lawmakers just as two influential House members began touting the benefits of awarding the contract to two teams.

Randy Belote, a Northrop Grumman spokesman, said the company's primary goal is to speedily replace the aging KC-135s. But Belote also said the company is worried that Boeing supporters will not be satisfied until they see the program "almost earmarked to Boeing."

In its analysis, Northrop Grumman compared the Air Force's current plans to buy 15 tankers a year from a single source with a proposal now being circulated on Capitol Hill to buy tankers from both Northrop Grumman and Boeing for a total of 24 tankers annually.

But the Northrop Grumman figures for a so-called split buy or "dual procurement" of the tankers differ dramatically from those compiled by the Pentagon. Defense Secretary Gates, who in January called the approach an "absolutely terrible idea," has estimated that buying the two versions of the tanker would add billions of dollars to the program's costs.

"Our initial estimates indicate increased costs on the order of \$6 billion to \$7 billion for a second development program and higher prices for lower procurement rates, with billions more in increased operation and support costs," Gates wrote in a September letter to House Armed Services Chairman **Ike Skelton**.

Last year, the Northrop Grumman-EADS team won the fiercely contested competition for the contract to build 179 tankers for the Air Force, a deal worth an estimated \$35 billion. But GAO ultimately upheld Boeing's protest of the award, forcing the Pentagon to reopen the competition.

Northrop Grumman's supporters in Congress backed the idea of a split buy before the firm won the initial contract award. But now, with the lucrative contract again in play, the idea is percolating once again on Capitol Hill and the company is publicly touting its cost analysis in support of it.

In recent days, two key House lawmakers -- House Armed Services Air and Land Forces Subcommittee Chairman **Neil Abercrombie**, D-Hawaii, and House Defense Appropriations Subcommittee Chairman **John Murtha**, D-Pa. -- publicly endorsed awarding contracts to both bidders to get new tankers into the fleet as quickly as possible.

"Northrop Grumman is confident it will win the next tanker competition," the firm said in an e-mail. "However, if Congressmen Murtha and Abercrombie are correct [and] the only way to get tankers to the warfighter quickly is through a dual procurement strategy, Northrop Grumman will support the effort."

Belote said his firm is concerned that Boeing supporters will protest the upcoming request for proposals or the contract award itself. "We're not so confident in the process," the Northrop Grumman spokesman said.

Bill Barksdale, a spokesman for the Boeing tanker program, said the company is waiting to hear the Pentagon's plans for the program and would not comment on the company's position on splitting the contract with its rival.

Before the Air Force awarded the initial contract to Northrop Grumman, Boeing strongly opposed divvying up the contract. And lawmakers who support the Boeing proposal still reject that idea, said Rep. **Norman Dicks**, D-Wash, a House Defense Appropriations Subcommittee member whose district is near the Boeing plant where large portions of the firm's tanker would be assembled.

"This is a political solution for some but I don't think it's a very good one," Dicks said.