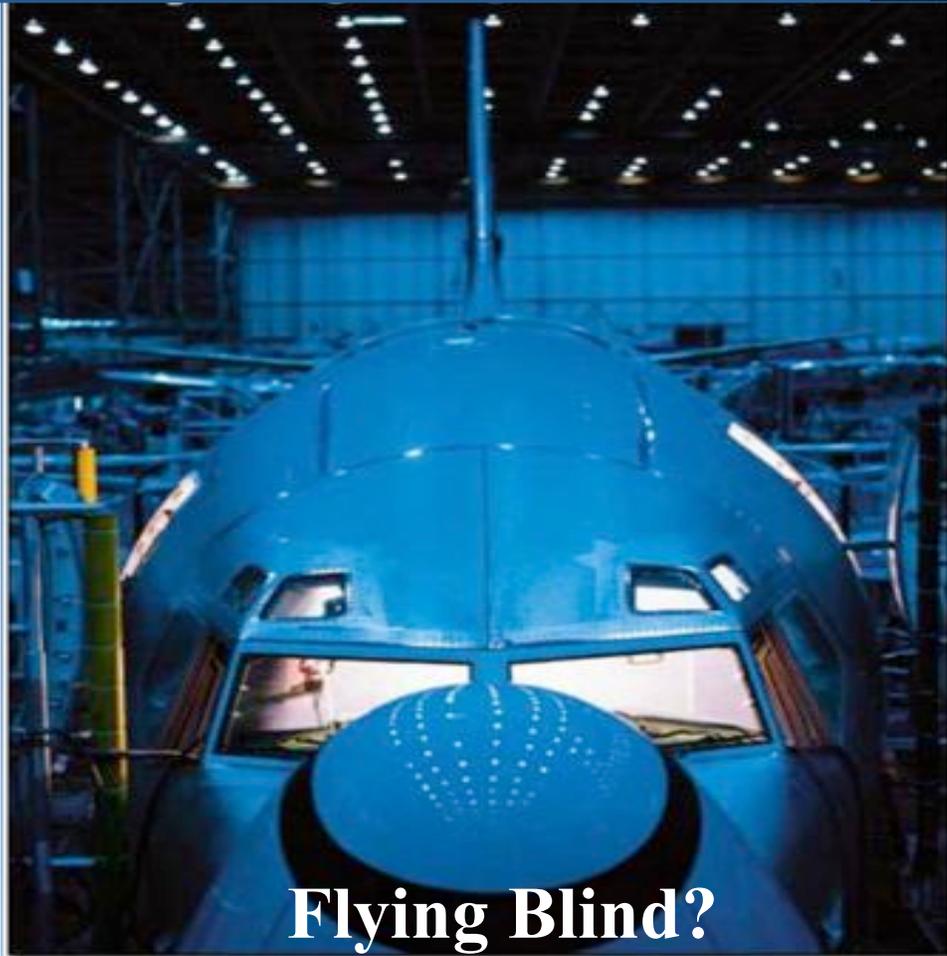


Outsourcing America's New Tanker

“The Department of Defense recently outsourced a \$35 billion contract to build new tanker refueling aircraft for the Air Force to European aerospace heavyweight EADS. By choosing EADS, the DOD not only sent some 44,000 U.S. jobs overseas, it also chose a less capable and more expensive tanker aircraft – one that will cripple U.S. air superiority and empty taxpayer wallets.” – Paul Shearon, IFPTE Secretary-Treasurer



Flying Blind?

Members of Congress as well as the Government Accountability Office are investigating serious flaws in the Air Force's procurement process, which led the Pentagon to choose a tanker aircraft that is less capable, more expensive, and jeopardizes the secret U.S. military technologies, all while contradicting our trade policy and outsourcing tens of thousands of U.S. jobs. Representing more than 75,000 engineers across the country, IFPTE is raising awareness about this disastrous decision and its consequences for working Americans.

Considering the high stakes, this is one procurement decision we can't afford to get wrong.



Boeing's KC-767: "More Capable By Every Measure"

Too Big and Clumsy for the job?

The Air Force previously said EADS' KC-30 was too big for the job:

Six years ago Air Force Evaluators said that the A330 tanker was too big at 81 percent larger ground footprint compared to the KC-135s, and concluded that "The KC-330 increase in size does not bring with it a commensurate increase in available air refueling offload."

According to a host of expert analyses and the Department of Defense (DOD) itself, the KC-767 offers key advantages over the KC-30 because of its size, efficiency, and tested technologies. According to the Air Force's analysis of capabilities Boeing's KC-767 had 98 strengths compared to 30 for EADS/Northrop Grumman's KC-30:

- **More Aircraft in the Air** – The number of tankers or "booms" in the air is far more important to the warfighter than the size of the tanker, since a tanker rarely offloads all of its fuel (the average offload is 60,000 pounds of fuel, a figure far less than the capacity of either the KC-767 or the KC-30). The KC-767 has a 30 percent smaller footprint than the KC-30, allowing the Air Force to park and subsequently launch nearly twice as many KC-767s into action as KC-30s at a military base.
- **More Fuel Offloaded From More Bases** – The KC-767's lighter weight and smaller pavement footprint allow it to offload more fuel at 1,000 nm from more worldwide bases than the KC-30.
- **A Quantum Leap in Cargo and Passenger Capacity** – The KC-767 offers 300 percent more cargo, passenger and patient capacity than the retiring KC-135's. Although EADS' KC-30 offers even more extra cargo space, it isn't as structurally sound as the KC-767 and can only carry about the same gross tonnage in cargo. Moreover, the extra capacity is unnecessary for the vast majority of missions (tankers carry less than 1% of all cargo carried by Air Mobility Command aircraft), and comes at the cost of its refueling capabilities in major military operations and tens of billions more in extra fuel and infrastructure costs.

More Survivable – Survivability is critical given that the USAF intends to operate the aircraft in more hostile (medium threat) environments compared to the current tanker fleet. The Air Force rated Boeing's KC-767 as far more capable of avoiding and mitigating an attack in a combat zone, with five times as many strengths as EADS' KC-30:

- Superior surface-to-air missile defensive and superior situational awareness through cockpit displays;
- Better armor protection for the flight crew and critical aircraft systems;
- Better fuel tank explosion protection through integrated ballistic threat protection features;
- Better Electromagnetic Pulse (EMP) hardening to allow operations in an EMP environment;
- More robust Large Aircraft Infrared Counter Measure (LAIRCM) system for increased Protection compared to the KC-30.

KC-767 Will Save Tens of Billions in Taxpayer Dollars



Since the KC-30 is 52% larger, 32% heavier, and requires the construction of larger facilities, EADS and Northrop Grumman have conceded that it is much more costly to operate over the program's life-cycle:

EADS Low-balled First 4 Tankers, Hits Taxpayers With Hidden Costs Later – There are three critical phases from the budget perspective:

- System Development and Demonstration (includes first four planes): Due to their use of more than \$5 billion in illegal subsidies, EADS underbid Boeing by 1.5 billion.
- Production and Delivery: Costs were virtually identical.
- Operations and Support (70% of total costs, including fuel, maintenance, and infrastructure): Boeing's KC-767 would **save taxpayers tens of billions** of dollars according to estimates.

KC-767 Saves Taxpayers \$25-30 Billion Fuel Costs – A study conducted by Conklin & de Decker Aviation Information using commercial aviation data concluded that with the price of oil between \$100 - \$125 per barrel, the less fuel efficient airframe of EADS' KC-30 aircraft would cost \$25-\$30 billion more in fuel over the lifetime of the tanker fleet compared to the more fuel efficient Boeing 767 airframe, which offers a 24% fuel savings. This extra cargo capacity isn't worth it since tanker aircraft carry cargo in less than 1% of their missions and typically do not carry full fuel loads.

KC-767 Saves Taxpayers Tens of Billions in Military Construction Costs –The behemoth EADS/Northrop Grumman KC-30 will require substantial new Air Force investment to existing KC-135 tanker facilities amounting to \$12 billion in military construction and total life-cycle costs over 25 years, according to Air Force evaluation requirements. These costs could explode as high as \$47 billion over the projected 40-year, real-life scenario of a tanker aircraft. Since Boeing's KC-767 is close in size to current KC-135's, it would require minimal investment.

KC-767 Saves Taxpayers Billions in Maintenance Costs – Based on analysis of publicly available commercial aircraft data, the Boeing 767 will be 20-25% cheaper to maintain than the EADS/Northrop Grumman KC-30, saving the Air Force \$9.21 billion in manpower (Unit Mission Personnel) costs, a minimum of \$2.58 billion in depot level repairs, and nearly \$1 billion in depot maintenance and consumable costs.

Boeing's KC-767 Could Save Taxpayers Nearly \$90 Billion Over the Program's Lifetime.



MORE GREEN

KC-767 produces 25% less carbon dioxide- reducing greenhouse gases and offers a 24% savings in fuel for taxpayers, as compared to the EADS KC-30.

EFFICIENT REFUELING

Real World Example: If the mission is to fly 1,500 miles and off-load 69,500 lbs, a typical offload and in-line with the required range/offload curve, the KC-767 would burn 89,000 lbs of fuel to do the mission versus 110,000 lbs for the KC-30. The KC-767's refueling efficiency is 43.9% versus 38.7% (fuel off-loaded / (fuel burned+fuel off-loaded)).

Comparing Boeing and EADS on Past Performance and Risk



*Any major purchase involves risk – risk of system failures, cost overruns, and schedule delays. That’s why the government considers the ability of a contractor to perform and manage risks to be a major factor in any contract award. Experience is a major determiner of a contractor’s ability to mitigate risk; by any measure **Boeing has far more experience with tankers than does EADS/Northrop Grumman.***

Boeing has delivered 2,000 tankers over 75 years – Boeing has designed, tested and delivered five generations of operational booms. Boeing proposed an efficient, export-compliant inline manufacturing approach to the KC-767 that saves the USAF billions of dollars in total production costs. Aircraft assembly and FAA certification would be performed by the same trained workforce at the same production facility that has delivered nearly 1,000 767 aircraft. Boeing’s KC-767 finishing center in Wichita has modified and upgraded more than 4,000 aircraft since 1940. Boeing has also already delivered two FAA-certified KC-767 tankers to Japan, years ahead of EADS’ first projected delivery to Australia.

EADS/Northrop Still in Testing Stages – This Franco-American partnership has neither developed a working boom on the KC-30 nor delivered a fully-functioning boom-equipped refueling tanker.

- The EADS/Northrop Grumman team is still modifying the Spanish-developed EADS-CASA boom, which is months away from completion. Just as challenging, the Americans and Europeans will be trying to integrate multiple corporate partners, cultures, different technical standards and languages.

Unconventional Assembly – During the initial development phase, EADS/Northrop Grumman will change their production plan three times. The first tanker will be assembled as a passenger plane by EADS/Airbus in Toulouse, France converted to a freighter in Dresden, Germany equipped with a boom in Madrid, Spain and flown to Melbourne, Florida for finishing. For aircraft No. 2 and No. 3, Madrid will be eliminated and Melbourne will install the boom for the first time. By aircraft No. 4, Mobile, Alabama will replace Melbourne and for the first time begin attaching the boom.

Putting the Novices in charge?

Boeing brings an established production line and a skilled workforce to the table, with 75 years experience in building 2,000 tanker aircraft.

EADS/Northrop Grumman have never delivered a tanker with a functioning refueling boom.



Can this Bird Fly? EADS Untested Technology

Northrop Grumman hasn’t been the primary contractor on an aircraft program since the B-2 bomber program and doesn’t currently have production or a trained workforce capable of producing tanker aircraft.

It Just Doesn't Fly: EADS/NG Persistent Performance Problems

Air Force source selection documents reveal the government gave EADS/Northrop Grumman a "B" grade, or "satisfactory" response on its past performance. Given their poor performance on prior contracts, it's no surprise:

Deepwater – The GAO recently found that the remaining Northrop Grumman programs for the recapitalization of the U.S. Coast Guard were two years late and twice the cost.

The Australian KC-30B tanker – Built by EADS/Airbus, this tanker is behind schedule by over a year. The new Spanish-designed boom was supposed to be operational by 2003 and is still undergoing modifications.

EADS' A310 MRTT Tanker – April 19, 2007 and June 14, 2007, EADS issues press releases indicating that its tankers to Canada and Germany would be delivered without a boom, but only with more limited hose and drogue system, which amounts to adding fuel pods to the wings of commercial aircraft. Canada initial operational capability (IOC) date slipped and Germany has not even been able to declare an expected IOC (Initial Operating Capability) date.

European A400M Military Airlifter – This EADS/Airbus airlifter has been plagued with enormous cost overruns and multiple schedule delays of many years. EADS officials are seeking some financial relief or a bailout from the fixed-price contract because of cost overruns.

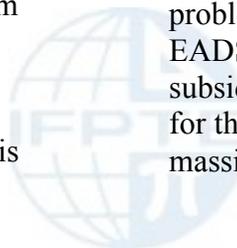
The EADS Eurofighter – EADS delivered this program eight years late, prompting the Teal Group to brand it "the worst case of Euro-mismanagement ever."



US Navy E-2D Aircraft SDD program – Due to quality and schedule problems, this Northrop Grumman program ran up \$1.3 billion in cost overruns and didn't even deliver all of the promised aircraft.

US Navy LHD-8 "Makin Island" Assault Ship – Northrop Grumman blamed what they called a "green" (inexperienced) workforce for flaws in the production of this amphibious assault craft, causing delays of over a year. Given that Northrop hasn't been the prime contractor on an aircraft program since the B-2 Bomber, their relatively small tanker workforce will be similarly "green" and likely to make rookie mistakes that cause production problems and delays.

EADS' A380 – In 2006, EADS announced the first A380 was two years behind schedule, experiencing massive cost overruns and widespread wiring problems. News reports indicate that EADS/Airbus, even with \$3.7 billion in illegal subsidies, will likely lose money on this venture for the next decade. The A380 is plagued with massive cost-overruns.



DANGER ZONE: EADS & Our National Security

“We must be able to trust that U.S. defense contractors will not export military secrets, won’t play politics with our military equipment, and will keep the U.S.’s best interests at heart. Based on its history of attempting to arm Iran, Venezuela, and China; of bribing governments from Syria to Canada; and the fact that Russia is aggressively expanding its control over company shares, EADS clearly fails the trust test.” –Paul Shearon IFPTE Secretary-Treasurer

EADS Can Transfer Sensitive Technologies – With the help of their Congressional allies, EADS successfully pressured the DOD to drop all references to arms export controls under the International Traffic in Arms Regulations (ITAR) within the tanker “Request For Proposals” (RFP). As a foreign company, EADS can freely export such sensitive technologies as anti-missile systems to countries like Iran and Venezuela.

- Weapons Made Abroad – Neither Northrop Grumman nor EADS has publicly guaranteed that EADS and its subcontractors will maintain European production facilities in compliance with U.S. arms export control laws and embargoes to protect any re-transfers of military technology to non-U.S. customers. Although Northrop Grumman will retrofit EADS’ A-330 commercial airframe with military components, those components are designed and will largely be manufactured by EADS at foreign production facilities.
- Selling Our Weapons – EADS already has made efforts to sell military equipment, and market military aircraft at an Iranian air show. Responding to questions about the Iranian air show incident, an EADS spokesperson made it clear that the company doesn’t abide by U.S. trade embargos – not even for military equipment. In addition, some EADS government owners have pressed for the lifting of the international arms embargo on China, much to the dismay of U.S. policy makers in the administration and Congress.
- Handing Strike Capability to Our Enemies – Without aerial refueling technology, the Iranian air force is limited to patrolling its own air space. However, if EADS were to sell this technology – developed at the American taxpayer’s expense – to Iran, the country would suddenly gain strike capability against Europe and beyond.

State Shareholders

Unlike the U.S., European governments tend to view large industries – particularly defense contractors – as extensions of the state. In fact, EADS counts France, Spain, and Russia as influential state shareholders (15%, 5%, and 5%, respectively).



Playing Politics With the U.S. Military

France and Russia have been increasingly vocal opponents of U.S. foreign policy, particularly in the Mid-East. It’s reasonable to fear that, should these governments take a stand against U.S. foreign policy again in the future, they might force EADS to stop work on our tankers, potentially crippling U.S. military air superiority at a critical moment.

Ethical Turbulence?

A Short History of EADS and Ethics

EADS is the European Union's aerospace darling: the company is funded with illegal subsidies, permitted to bribe foreign officials in order to secure contracts, sell arms to rogue countries, pursue espionage of U.S. technologies, and engage in widespread insider trading, all while sheltered within a heavily protectionist European defense market.

State Ownership – The European Aeronautic and Defense Systems is a consortium owned 30% by French interests (including the French government and Daimler Chrysler), 30% German Interests, 5% by Spanish interests. Foreign governments control significant shares of EADS stock: France (15%), Spain (5%), Russia (5%).

Russian Government Ownership of EADS – The Russian government (through a state-controlled bank) has purchased a 5% ownership in EADS and has publicly stated its interest in increasing ownership to 20% (*Forbes*, “Putin Hungry for EADS,” February 21, 2007). Mr. Putin expressed desire for “Russia’s capability to have a hand in EADS’s corporate matters” (*Flight International-FlightGlobal.com*, “Vladimir Putin outlining interest in Russian EADS cooperation including equity stake,” September 19, 2006). The Russian government has expressed hostility to U.S. defense, space, and Mid-East policies.

Foreign Corrupt Practices Act-Related Issues – Until France ratified an OECD convention to outlaw bribery, the French government “permitted French companies tax deductions for giving bribes.”

According to a 2001 European Parliament report, “Airbus agents were offering bribes to a Saudi official to secure a lion’s share for Airbus in modernizing Saudi Arabian Airlines’ fleet.” (*The Economist*, “Airbus’s Secret Past”, 6/12/03)

Illegal Subsidies – Since 1969, EADS has benefited from tens of billions of dollars of European government subsidies the U.S. Trade Representative has determined violate the Subsidies Agreement of the WTO, including more than \$5 billion devoted to the A330/340 airframe which EADS is using for the tanker. Tens of thousands of well-paying U.S. aeronautic jobs have been lost over the last ten years alone due to these subsidies. According to a recent Moody’s report, EADS’ A-1 long-term credit rating is “well above the level it would be in the absence of government support.” With overwhelming bipartisan Congressional support, the U.S. Trade Representative has sued in the WTO to end the practice. The French and other EU companies have remained defiant. Regarding the subsidies, former French Prime Minister Lionel Jospin declared, “We will give Airbus the means to win the battle against Boeing.”



Continuing Bribery Allegations – In 2007, 7 years after ratifying the OECD convention, EADS Eurofighter lobbyist Erhard Steiniger paid 87,000 euros to the wife of Austrian Air Force Major General Erich Wolf, a member of the commission which selected the Eurofighter in a \$2.7 billion contract.

- Since signing the OECD treaty, EADS/Airbus has become embroiled in bribery scandals in several countries, including India, Kuwait, Canada, Belgium, Switzerland, and Syria (*The Economist*, “Airbus’s Secret Past,” June 12, 2003). EADS/Airbus was so brazen as to complain about the OECD rules after they had been implicated (*The Guardian*, “Bribery rules too tough for Rolls, Airbus and BAE,” November 17, 2004).

Close Relationship with Iran – With limited exceptions, U.S. companies are prohibited legally from trading with Iran. Yet EADS attended the Iran Air Show in 2005 and hawked military aircraft, according to Lisa Myers, then a member of the NBC News investigative unit. When asked about their presence at the Air Show, an EADS spokesman said, “As a European company, we’re not supposed to take into account embargoes from the U.S.”

Exclusionary Procurement – The EU has a long-standing track record of exclusionary and discriminatory practices against US defense companies.

- This year, the French government again registered its opposition in the EU to opening up EU defense markets for U.S. contractors.
- In 2004, France excluded Boeing from a competition for military air refueling tankers by including a provision in its “Request for Tender” (the equivalent of U.S. RFP) stating, “Aircraft need to be designed and built in Europe.” Since the French government owns 15% of EADS, it’s not surprising that they’d institute this protectionist provision.



Insider Trading

EADS co-CEO Noel Forgeard was one of scores of executives (85% of EADS’ top 800 executives) accused of dumping stock after learning of major problems delaying A380 production. EADS stock subsequently plummeted 26% on June 13, 2006.

Insider Trading Grounds For Debatment

All major U.S. defense contractors would expect that insider trading on this scale would likely lead to a ban on government contracts.



One way ticket to Export U.S. Jobs: Outsourcing U.S. Jobs

EADS/Airbus' tanker will be built in France, Italy, Germany, Spain and the UK, only making the trip to the U.S. for final assembly. This effectively outsources some 44,000 U.S. jobs to Europe.

Boeing Tanker Will Support 44,000 U.S. Jobs – Boeing will rely heavily on its established production lines and supplier network in the U.S. to produce its tanker aircraft, with 85% of the aircraft's content coming from domestic sources. Primary production will be in Washington, California, Kansas and Connecticut, supporting at least 44,000 jobs, a conservative estimate based on Commerce Department numbers. The remaining 15 percent is produced primarily with content from Japan, Great Britain, and Italy.

95% of KC-30 Airframe is European – Approximately 95 percent of the work to manufacture the airframe of the plane will happen in Europe. According to EADS/Airbus documents, final assembly of widebody aircraft such as tankers only accounts for 5% of the manufacturing process – this is the token work left to Northrop Grumman and other U.S. manufacturers. The plane will use 40% U.S. parts. EADS' claims of 58% U.S. content have never been validated.

EADS Maintains Record of Dubious Jobs Claims – EADS has a very checkered record when it comes to claims of U.S. jobs, content, and manufacturing:

- **No Past History Building Tankers** – EADS has no physical infrastructure in the U.S., and has not trained a skilled workforce for building boom-equipped tankers. Northrop Grumman has neither the workforce nor production lines to build tankers – the company hasn't been the prime contractor on a military aircraft since the B-2 bomber was retired a decade ago. So jobs claims made by either company are based less on experience and more on political expediency.
- **U.S. Jobs Claims All Over the Board** – For months, EADS had only identified about 1,000 jobs that might be supported by their tanker, if the company built the promised new production facility in the U.S. Then EADS raised its jobs promises to 25,000, claiming a host of suppliers that have never worked with the company on a tanker aircraft. In response to political pressure about their plan to outsource U.S. jobs, EADS shocked the industry by claiming that their tanker, which will be built overseas, will support a whopping 48,000 U.S. jobs. How can we believe them?

Playing Both Sides of the Atlantic

EADS has been busy assuring politicians in Europe that its tanker will support tens of thousands of jobs in France, England, Italy, Germany, and Spain. *And they expect us to believe their U.S. jobs promises?*



EADS' Phony 2001 Jobs Claims

In 2001, EADS claimed its operations had 800 U.S. suppliers, a \$4.1 billion impact on the U.S. economy and supported 100,000 U.S. jobs. The Department of Commerce found that it worked with only 250 U.S. suppliers and supported only 500 U.S. jobs.

Losing the Compass?

Unexplained Changes in the Evaluation Process

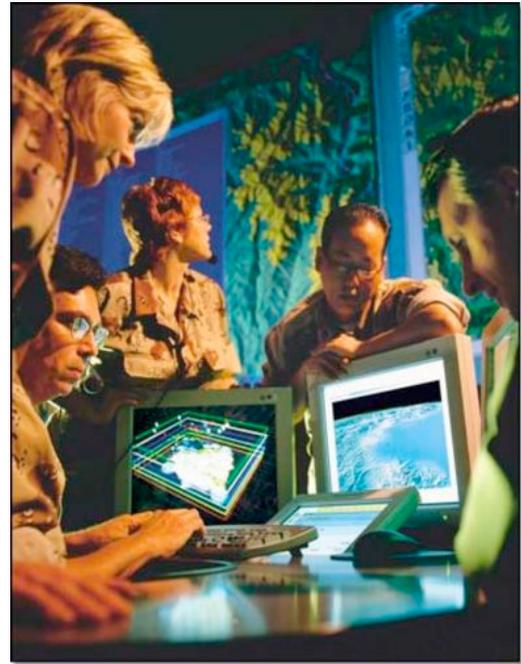
The USAF changed the requirements for procurement (RFP) in mid-course, discounting Boeing's significant advantages in terms of capabilities, cost, and risk for inexplicable reasons. These changes have prompted Boeing to protest the decision before the Government Accountability Office – their first protest of a defense contract in more than a decade. Here are some of the irregularities:

Air Force Changed Its Own Requirements – Air Force cut by half its own spacing requirement for parking aircraft, ignoring real life scenarios and artificially inflating the number of KC-30 aircraft that could be launched from airfields in support of major military operations. This change glossed over a major weakness of the KC-30 aircraft.

Extra Credit for Unneeded Capacity – The KC-30 also received imaginary real world credit for being able to carry more fuel, when military experience shows that this unneeded extra weight and size actually hurts the mission by crippling the Air Force's ability to put the maximum number of aircraft in the sky in support of major military operations. Current KC-135 tankers, which carry far less fuel than either Boeing's KC-767 or EADS' KC-30, rarely off-load all of their fuel on a mission.

The USAF Arbitrarily Added \$5.2 billion to Boeing's Cost – In determining how much the KC-767 would cost to operate and maintain, Boeing relied on current experience and data developed in over 100 years of aerospace experience. The Air Force rejected these estimates and used older, outdated data, unilaterally increasing the price tag of Boeing's offer by a whopping \$5.2 billion.

EADS Exempted from Export Control Laws – After being pressured by EADS lobbyists, the DOD dropped a provision that would have required EADS to comply with ITAR, the law which prevents U.S. military technology from being transferred to countries like Iran and North Korea.



Illegal Subsidies Provision Dropped – After pressure from EADS, the DOD dropped provisions in the RFP (and the ultimate contract) that protected taxpayers in the event that the EU is found liable at the WTO for providing illegal subsidies to EADS – a holding that could undermine the ability of EADS/Northrop Grumman to perform the contract without significant cost overruns.

Illegal Subsidies Made the Difference on Cost – Without the more than \$5 billion in illegal European government launch aid subsidies to develop the EADS/Airbus A330/A340 airframe, it is unlikely that EADS/Northrop Grumman could ever have offered the KC-30 at a lower sticker price. Although Boeing receives R&D funds for non-commercial projects and state-based tax incentives for manufacturing sites – practices widely seen by legal experts as WTO-compliant – the claims that Boeing receives improper subsidies have been debunked by the USTR, by the U.S. Commerce Department, by editorial boards across the nation, and by leading members of both political parties.



Outsourcing America's Tanker: A Bad Deal All Around

By outsourcing the tanker deal to EADS, the Pentagon has made the wrong choice for our troops, our national security, the taxpayers, and the working families that support our industrial base. Contact your legislator about overturning this bad deal. We can't afford to get this wrong.

IFPTE is an AFL-CIO affiliated labor union representing 85,000 white collar professional workers in the United States and Canada. IFPTE represents workers in the Federal, Public and Private Sectors.

