

In Tanker Bid, It Was Boeing vs. Bold Ideas

David Herszenhorn and Jeff Bailey



Air Force

Northrop Grumman, advertising work it is bringing to Mobile, Ala., and its European partner EADS beat out Boeing for an Air Force contract to build aerial refueling aircraft.

Just hours before the Air Force announced the winner of a \$35 billion contract to build aerial refueling aircraft on Feb. 29, an Airbus plane lumbered off the runway in Getafe, Spain, and climbed to 27,000 feet to rendezvous with a Portuguese F-16 fighter.

Then, in the skies south of Madrid, the two aircraft edged closer and closer, until they were joined by a 50-foot boom hanging off the back of the big Airbus plane. For the first time, the boom pumped fuel into another plane, 2,000 gallons in all during several connections.

The technology to pass fuel from one plane to another may not be rocket science — in fact, aerial fuel booms have been in use for more than 50 years — but it helped Airbus's parent and its partner, Northrop Grumman, establish their technical bona fides.

Eager to enter the American defense market, the European Aeronautic Defense and Space Company, the owner of Airbus, made several bold plays, perhaps none more dramatic than building the \$100 million state-of-the-art refueling boom on spec.

As a result, Boeing, the pride of American aerospace, was outmaneuvered on its home turf for a contract that could grow to \$100 billion, becoming one of the largest military purchases in history.

Boeing received a detailed briefing from the Pentagon on Friday about why its bid fell short. Now it must decide by Wednesday whether to file a formal appeal.

The company and its allies in Washington have already made a number of arguments. Among them are that too many American jobs are being lost overseas, and that sensitive military contracts should not be in the hands of a foreign company.

The debate about the impact on American jobs is a murky one, because large manufacturing projects typically involve operations in many parts of the world, regardless of which company has a contract.

If Boeing tries to reverse the decision, it could find itself in a difficult position, accused of further delaying critically needed equipment in a time of war.

Boeing could also be forced to revisit the corruption scandal in 2004 that derailed a \$20 billion deal for the company to lease refueling tankers to the Air Force. Two Boeing executives went to jail as a result, and the chief executive stepped down.

The parent of Airbus, known as EADS, and Northrop Grumman proposed a tanker made from a refitted A330 jetliner that could carry more fuel than the rival proposal, a modified Boeing 767. It also offered more flexibility for carrying cargo, transporting troops, airlifting refugees and delivering humanitarian aid.

Boeing, the heavy favorite to win the contract, having built earlier tankers, promised a new boom but did not build a prototype. One analyst who followed the contest said that Boeing, based in Chicago, seemed arrogant and offered a plan that Air Force officials thought would deliver only 19 tankers by 2013 compared with 49 by the Airbus team.

"The Boeing team was not responsive and often was not even polite," said Loren B. Thompson, a defense analyst at the Lexington Institute in Arlington, Va., based on conversations he said he had with defense officials. "Somehow that all eluded senior management," Mr. Thompson said. "They were not even aware there was a problem."

William Barksdale, a Boeing spokesman who attended the Air Force debriefing on Friday, said Boeing asked "whether we were hard to get along with." He said Air Force officials had no complaints in that area.

On Capitol Hill, the blow to Boeing has set off a protectionist furor among many lawmakers. And on the campaign trail, the Democratic candidates for president, Senators Hillary Rodham Clinton and Barack Obama, suggest that the Boeing loss reflects other Bush administration policies that have resulted in jobs moving offshore.

But the hot rhetoric could sound overly nationalistic, and even hypocritical, once the real implications for jobs and national security become clear. Boeing, for example, would have made many of its own tanker parts overseas, and some experts say that claims of job losses to a foreign company seem exaggerated.

For now, though, the pro-Boeing, pro-America talk is showing no signs of letting up.

"We really have to wake up the country," said Senator Patty Murray, Democrat of Washington State, where Boeing is a significant employer. "We are at risk of losing a major part of our aerospace industry to the Europeans forever."

Representative Todd Tiahrt, Republican of Kansas, said: "It's outsourcing our national security. An American tanker should be built by an American company with American workers." Boeing would have done some of its tanker assembly in Kansas.

Some officials have even suggested that it would have been better to revise the tainted lease deal than to let Airbus compete.

Defense industry analysts, however, say that the Airbus deal in many ways does make sense and that fears of lost military secrets are misplaced.

"We're not talking about missile defense issues," said Jon B. Kutler, chief executive of Admiralty Partners, a firm that invests in defense companies. "This is as plain vanilla as a major contract gets."

The Airbus and Boeing aircraft are both global products — Boeing has said roughly 85 percent of its tanker components would be American-made, the Airbus group about 60 percent — making the impact on jobs unclear.

Boeing said its bid would create or support 44,000 American jobs. The Airbus team's figure was 25,000 jobs in 49 states. Both numbers are impossible to verify. Industry analysts point

out that, employment claims aside, the manufacturers have a profit motive in building the planes with as few workers as possible.

In fact, no layoffs are expected at the Boeing plant in Everett, Wash., where the 767 is assembled, as a result of losing the contract. On the contrary, the company is hiring workers because of a \$255 billion backlog for jetliners. Airbus, too, has a huge backlog.

But while politicians continue to make election-year speeches about protecting jobs, industry analysts say a more useful debate might be over whether there was too much consolidation of American defense manufacturers in the 1990s when military spending slowed, leaving the government with limited domestic options.

With the award to the Airbus group, Mr. Kutler, the defense company investor, said: "The Defense Department is sending a message: on major contracts, don't be assuming we have no other options. It's a global marketplace."

Another crucial question is how such big contracts will be awarded in the future given the indications that many American officials seem to favor competition, but only if American companies win.

"If Cessna wants to start building bigger airplanes, I am happy to see that happen," said Senator Murray, of Washington. "I don't disagree with the concept of more competition, but there is a second bigger question and that is military capability and losing military capability."

Experts warned that excluding foreign competitors could prompt other countries to take similar steps against American defense manufacturers and that choosing inferior domestic products would only put military service members at risk. That tendency, acted on in other countries, has already created what one analyst, Richard Aboulafia of the Teal Group, called "a hideous mix of higher costs and reduced combat effectiveness."

Boeing and its allies in Congress have raised a number of objections that they say could justify reversing the Air Force decision, including whether the bid evaluators properly considered subsidies that Airbus may receive from European governments, or even the fact that Boeing pays higher health care costs because much of Europe has national health insurance.

In a statement after Friday's briefing, Mark McGraw, a Boeing vice president in charge of the tanker program, said that the company would "give serious consideration to filing a protest." He added: "What is clear now is that reports claiming that the Airbus offering won by a wide margin could not be more inaccurate."

If the company appeals, it would be to the Government Accountability Office, which would then have 100 days to issue a ruling.

The Air Force, meanwhile, insists that it chose the better plane.

Sue C. Payton, the assistant secretary of the Air Force, at a contentious hearing before the Defense Appropriations subcommittee last week, said: "Northrop Grumman brought their A game." Northrop is based in Los Angeles.

Ms. Payton also disagreed with assertions that the Air Force had tipped the scales for Airbus. She said officials had carefully followed procurement rules and an array of laws, including the Buy American Act, which she noted calls for certain countries, including Western European allies, to be treated as if they were the United States.

"Let me say I view Northrop Grumman as an American company," she said. "I view General Electric, who has jobs from this in Ohio and North Carolina, as an American company. I view the folks in Mobile, Alabama, and Melbourne, Florida, as Americans. But that did not enter into my decision here."

"You said we want a fair and open competition under the laws," she told the panel. "I complied with those laws."

General Electric is to make the engines and Northrop Grumman expects to hire hundreds of engineers in Melbourne for the Airbus group's tanker, which will be assembled in Mobile, Ala.

The victory on the Air Force contract could mark the arrival of Airbus as a major builder of tankers after decades of dominance by Boeing, which manufactured the only widely used boom.

The Boeing spokesman, Mr. Barksdale, said his company could easily pull together the new boom it promised the Air Force. "It's not a huge leap of technology," he said. "It would not be a huge deal."

But to Northrop Grumman and EADS, building the boom on spec presented a chance to demonstrate their competitive hunger.

"They had to start from scratch," said Tim Gann, a retired Air Force tanker pilot and group commander who now works for the Airbus group, EADS North America. "Up until we developed our boom, only Boeing had a boom. Boeing wasn't going to sell us the boom."

Disponível em: <<http://www.nytimes.com>>. Acesso em 10/3/2008.

A utilização deste artigo é exclusivo para fins educacionais.