Appendix F

Letter and report from Senator John McCain
Department of Defense Inspector General Joseph E. Schmitz

May 3, 2002
The Honorable John McCain  
United States Senate  
Washington, D.C. 20510-0303

Dear Senator McCain

This is in response to an April 17, 2002, letter from you requesting an independent analysis of six issues involving the Air Force plans for a multi-year lease of tanker aircraft. The General Accounting Office was requested by the Senate Armed Services Committee, at an earlier date, to review five issues that were cited in your letter. In accordance with the Inspector General Act of 1978, as amended, I am obligated to “give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation.” Accordingly, after consultation with representatives of the General Accounting Office and with your office staff, we limited our analysis to one issue: you asked me to “assess the Air Force’s decision in selecting the Boeing 767 rather than the Airbus A330 for its air refueling tankers.” This was done to avoid duplication with the ongoing efforts by the General Accounting Office.

In the FY 2002 Defense Appropriations Act, section 8159, Congress authorized the Air Force to establish a multi-year pilot program for leasing Boeing 767 and 737 aircraft in commercial configurations. In response to your request, we reviewed the subsequent Air Force assessment of both the European Aeronautic Defence and Space Company and Boeing Company responses to the Air Force request for information concerning the proposed multi-year lease of a fleet of 100 tanker aircraft. We also discussed the assessment with representatives of the Assistant Secretary of the Air Force (Acquisition); the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the European Aeronautic Defence and Space Company.

In the course of our assessment, we discovered that the Air Force did not fully accomplish the purpose of Federal Acquisition Regulation Subpart 15.201, “Exchanges With Industry Before Receipt of Proposals,” which was to improve the understanding of Government requirements and industry capabilities through the exchange of information with potential offerors. The Chief, Mobility Division, Office of Director of Global Reach Program, Air Force, indicated its belief that because the Appropriation Act specified Boeing aircraft, the normal processes of a request for information were not necessary. However, one stated purpose of the request for information in this instance was to assist the Air Force in developing a fair and reasonable business case, with industry input, for an operating lease versus purchasing aircraft. This business case could be used in responding to the statutory requirement to report to Congress as required by the Defense Appropriations Act, and for future planning to satisfy Air Force operational requirements. Further, European Aeronautic Defence and Space Company representatives provided us with a written statement on the Air Force assessment. They stated that:

From a general perspective, EADS [European Aeronautic Defence and Space Company] views the RFI [request for information] process as having been useful and productive. While we do not entirely concur in the USAF [U.S. Air Force] analysis, technical assessments and conclusions, on balance we are optimistic about the encouraging statements related to future competition.
Although the Air Force selected the Boeing Company aircraft for its near-term commercial derivative air refueling aircraft requirements, we understand that it plans to develop a strategy to encourage the European Aeronautic Defence and Space Company to continue air refueling boom and other tanker development efforts to make it a viable option for the long term.

The enclosed summary addresses in more detail the primary issues concerning the Air Force decision to select the Boeing 767 rather than the Airbus A330 for its air refueling tankers. Please contact me or Mr. John R. Crane, Director, Office of Congressional Liaison, at (703) 604-8324, if you have any questions regarding this matter.

Sincerely,

Joseph E. Schmitz

Enclosure

cc: The Honorable Carl Levin
Chairman, Committee on Armed Services
United States Senate

The Honorable John Warner
Ranking Minority Member
Committee on Armed Services
United States Senate
We separated into four sections our response to the issue of the Air Force actions to select the Boeing 767 rather than the Airbus A330 for its air refueling tankers.

Section 1

Analyze the U.S. Air Force’s procedures, including the tanker request for information process.

Response

On June 28, 2001, and October 17, 2001, the Air Force and the Joint Requirements Oversight Council, respectively, approved a mission needs statement and was in the process of preparing the operational requirements document for the refueling tankers before the FY 2002 Defense Appropriations Act was signed in January 2002. The Air Force approved the operational requirements document on March 21, 2002, but has yet to approve an acquisition strategy. Section 8159 of the Appropriations Act, “Multi-Year Aircraft Lease Pilot Program,” specifically provides authority for the Air Force to lease up to 100 Boeing 767 aircraft. In response, the Air Force began planning to lease tanker-configured aircraft. The Air Force determined that internationally two companies were pursuing the conversion of commercial aircraft to refueling tankers for military and commercial use, the Boeing Company and the European Aeronautic Defence and Space Company. On February 20, 2002, the Air Force requested information from the two companies using the request for information process with a response due within 2 weeks. The request for information process provided the Air Force with the opportunity to address its need to begin to replace its aging KC-135 fleet of 545 aircraft, the requirements of the Congressional language, and the seven key performance parameters of the required aircraft. Further, the request for information required that:

- the company’s response be centered upon completion of the draft key performance parameter matrix, which the Air Force attached to the request for information;
- the key performance parameter matrix be used for a self-assessment of how the company’s platform or concept rated against Air Force requirements as shown in the matrix;
- the two companies address technical and schedule risk; and
- the companies address the structure of an operational lease that met the requirements outlined in the congressional authorization.

---

1 According to the Federal Acquisition Regulation, 15.201(e), a request for information may be used when the Government does not presently intend to award a contract, but wants to obtain price, delivery, other market information, or capabilities for planning purposes. Responses to those notices are not offers and cannot be accepted by the Government to form a binding contract. A request for information does not have a required format.

2 A mission need statement is a nonsystem specific statement containing operational capability needs and written in broad operational terms.

3 A operational requirements document is a statement containing performance and related operational performance parameters for the proposed concept or system.

4 An acquisition strategy is the framework for planning, directing, contracting for, and managing a program and provides a master schedule for research, development, test, production, fielding, modification, postproduction management, and other activities essential for program success.

5 Key performance parameters represent those capabilities or characteristics so significant that failure to meet the threshold value of performance can be cause for the concept or system selected to be reevaluated or the program to be reassessed or terminated.
The Boeing Company and the European Aeronautic Defence and Space Company submitted responses, which the Air Force subsequently evaluated based on the seven key performance parameters, the companies' proposed business arrangements, and their ability to comply with delivery requirements. The Air Force used the request for information procedures in the Federal Acquisition Regulation in determining whether the Boeing Company and the European Aeronautic Defence and Space Company were capable of satisfying its air refueling tanker requirements. However, according to European Aeronautic Defence and Space Company representatives, had there been more opportunities to clarify requirements and exchange information before the request for information issuance and before the Air Force decision, the European Aeronautic Defence and Space Company would have been in a better position to respond to the technical requirements in the request for information. The exchange of information as envisioned in the Federal Acquisition Regulation, Subpart 15.2, was not fully accomplished given that a key factor, the size of the aircraft, which was used in the Air Force's decision, had not been clearly identified in the request for information process, as discussed in Section 2.

Section 2

Assess the Air Force's decision in selecting the Boeing 767 rather than the Airbus A330 for its air refueling tankers.

Response

In response to the Air Force request for information, the Boeing Company and the European Aeronautic Defence and Space Company conducted self-assessments of their ability to meet the seven key performance parameters. Specifically, they evaluated the following seven key performance parameters:

- Fuel Offload and Range
- Tanker Air Refueling
- Boom Air Refueling
- Drogue Air Refueling
- Receiver Air Refueling
- Global Air Traffic Management
- Interoperability

In the self-assessments, the Boeing Company rated its technology higher than the European Aeronautic Defence and Space Company rated its technology. The Boeing Company responses indicated that for all seven key performance parameters its technology was mature, hardware was commercially available, and the design integration was complete. The European Aeronautic Defence and Space Company responses to four of the seven key performance parameters indicated that its technology was in development and that the design may meet the aircraft delivery schedule. However, according to European Aeronautic Defence and Space Company representatives, their self-assessment showed that they were fully compliant or exceeded the key performance parameters except for the boom air refueling.

To evaluate the Boeing Company and the European Aeronautic Defence and Space Company responses to the request for information, the Air Force used a multi-disciplined, multi-command assessment team. Based on the responses by the two companies to the request for information, the assessment team evaluated how well the proposed aircraft met the key performance parameters and rated the Boeing Company technology as more mature than the European Aeronautic Defence and Space Company technology, which was similar to the companies' self assessments. In conducting its evaluation, the assessment team rated both companies lower than
was shown in their self-assessments. In addition to the seven key performance parameters, the assessment team rated two additional requirements: the companies’ proposed business arrangements and their ability to comply with delivery requirements. The assessment team also rated the Boeing Company higher in those areas.

The assessment team also evaluated the technical risk associated with the two companies abilities to meet the seven key performance parameters and the two additional requirements. The assessment team rated the Boeing Company technical risk lower in four of the key performance parameters and in each of the two additional requirements. The Air Force’s decision to select the Boeing 767 rather than the Airbus A330 for its air refueling tankers was based on key performance parameters, the details of the financial arrangements, and size of aircraft. However, the importance of the size of the aircraft was not clearly addressed in the request for information. Additionally, if the size of the aircraft was of importance, the request for information may have been clearer if the Air Force used the KC-135R as an example rather than the KC-10. The specific details of the assessments that the Boeing Company, the European Aeronautic Defence and Space Company, and the assessment team conducted are competition sensitive.

Section 3:

Evaluate the Air Force’s claim that using the European Aeronautic Defence and Space Company aircraft presents a high technical risk, including assessing whether the European Aeronautic Defence and Space Company’s level of experience regarding tankers, air refueling booms, and operator stations would constitute a materially higher risk than the Boeing 767 proposal.

Response:

The Air Force determined that the information that the two companies provided to support their assessment shows that the Boeing Company level of experience regarding tankers, air refueling booms, and operator stations exceeds that of the European Aeronautic Defence and Space Company in the availability of operational boom and boom operator station designs. The details of the technical risk are competition sensitive. The Air Force had information supporting its assessment that using the European Aeronautic Defence and Space Company aircraft would present a higher technical risk. However, its assessment was not fully based on technical risks associated with key performance parameters. The other factors were:

- required ramp and hanger space, which presented deployment limitations; and
- compliance with statutory requirements on lease terms and conditions.

However, the Air Force did not formally assess the costs of the required ramp and hanger space.

Section 4

Examine whether the Air Force provided the tanker request for information to other segments of the aerospace industry, including aircraft financing entities, beyond the specific release of the request for information to the Boeing Company and the European Aeronautic Defence and Space Company. Ascertain whether no other industry input was solicited via the request for information, the Air Force’s rationale for so narrowly limiting the request for information solicitation process.

Response

Because the Air Force determined that only the Boeing Company and the European Aeronautic Defence and Space Company were pursuing the conversion of commercial aircraft to refueling tankers for military and commercial use, the Air Force only obtained information from those two companies, using the request for information process.