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Splitting Air Force Tanker Contract With Boeing

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WASHINGTON — The chief executive of Europe's largest aerospace company said Thursday that it would probably bid on a \$35 billion contract for aerial refueling tankers even if the Pentagon decided to split the pact between bidders.

Louis Gallois, the chief executive of European Aeronautic Defense and Space Company, said that his company, known as EADS, and its partner, Northrop Grumman Corporation, would be willing to consider dividing the contract with the other bidder, the Boeing Company, as long as his company could build at least 12 planes a year. That number is needed, he said in an interview, to support building a factory in Mobile, Ala.

He spoke in response to proposals in Congress that the contract, one of the Pentagon's richest, be split between

bidders. In the last eight years, the Air Force has twice botched efforts to award the job to one company, and the leaders of two House subcommittees on military issues have suggested that splitting it would be the quickest way to proceed.

Defense Secretary Robert M.

Gates opposes dividing the contract, which could be extended for decades and eventually cost \$100 billion for more than 400 tankers. He has said that setting up two production lines would add billions of dollars to the cost over the next several years.

But after Northrop Grumman and EADS won the contract last year, Boeing filed a protest contending that the bidding process had been flawed. Several of its complaints eventually led the Air Force to cancel the contract and start over.

Representative John P. Murtha, the Pennsylvania Democrat who is chairman of the House defense appropriations subcommittee, and Representative Neil Abercrombie, the Hawaii Democrat who leads a defense subcommittee that oversees Air Force programs, have said that splitting the order might be the only way to go. They said it could also save money over time if the companies had to keep competing for additional parts of the order.

Mr. Gallois said that his team would bid on another "winner takes all" sweepstakes, though he expressed concern about whether the Pentagon would stick to the same bidding rules.

He and Ralph D. Crosby Jr., the top executive of EADS North America, said that last year's bidding was based on "best value." The Northrop Grumman-EADS team won not only because its bid was cheaper but because the Air Force viewed its larger planes as having more capabilities.

But in trying to develop a simpler process, Pentagon officials have talked of awarding the contract based on the lowest bid that is technically acceptable.

Mr. Gallois and Mr. Crosby said they believed their team would win again if both price and capabilities were

considered. But, they said, it would be hard to predict the results if the criteria were changed.

EADS, which makes the Airbus planes, is Boeing's biggest competitor for commercial airliners. It has also been pushing hard to expand its military contracting in the United States.

Randy Belote, a spokesman for Northrop Grumman, said it would also support a split contract if the Pentagon decided that was the quickest way to start replacing the tanker fleet, which dates to the Eisenhower era.

William A. Barksdale, a spokesman for Boeing, which is based in Chicago, said the company had taken no position "on which direction our customer should take" in awarding one contract or two.

Mr. Gates has said he wants to seek bids this summer for a single contract and pick the winner by early next year.

But with orders for commercial planes slowing at Boeing and Airbus, the stakes are rising. Mr. Murtha has said he might insert a provision to require a split contract in a supplemental financing bill before Congress if he does not think the Pentagon can develop a workable bidding process.

Senator Richard C. Shelby, an Alabama Republican who is supporting Northrop Grumman and EADS, recently placed a hold on President Obama's nomination of Ashton Carter to be the Pentagon acquisition chief. Mr. Shelby said he would like assurances from Mr. Carter that the competition would be "conducted in an open and transparent manner based on a best value process."

Mr. Belote said Northrop Grumman was also concerned that rebidding the contract would unfairly help Boeing.

He said that after Northrop Grumman and EADS won the competition last year, Air Force officials provided detailed cost information from their bid to Boeing in explaining how the decision had been reached.

“So if we get back into a re-competition, we would ask the question if this is irrevocably flawed,” Mr. Belote said.