

**Embargoed Until Release by the  
Senate Armed Services Committee**

**Statement of**

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**Before the  
Senate Armed Services Committee**

**on**

**Air Force's New Start Request to Lease 100 KC-767 Air Refueling  
Tanker Aircraft**

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Mr. Chairman and Members of the committee, I am pleased to come before you today to talk about the Air Force's new start request to lease 100 KC-767 air refueling tanker aircraft.

On May 23, the Department announced the Secretary's decision to approve the Air Force's proposal to enter into a multi-year Pilot Program for leasing general purpose Boeing 767 tanker aircraft.

There is consensus within the Department that we must start recapitalizing the airborne tanker fleet as soon as possible, and that re-engining the KC-135E aircraft may not be sufficient to extend their service life. Options included an aircraft incorporating a new design, or a variant of an existing aircraft. An aircraft based on a new design would cost the Department research and development funds and some estimates are that such a new aircraft would cost in the range of \$200M-\$250M per unit, while the planned commercial derivative, if it was available, was estimated to cost between \$150M-\$161M.

There are only four suppliers who could develop and produce such a tanker aircraft—Boeing, Lockheed Martin, EADS and the Russians—and only three currently produce wide-body aircraft. The Department's plan, in the President's FY 04 budget, was to begin the tanker development program—a commercial derivative—in FY 06, with the first tanker delivery targeted for FY 09. However,

when the Congress gave us pilot program authority to lease, this allowed the Department to aggressively pursue the tanker version of the 767 craft, an option which might not have been available in FY 06 if Boeing had shut down the commercial production line. On its face, this is clearly a less expensive alternative than new development. It also has far less cost risk than waiting until FY 06 when the same commercial opportunity might no longer exist.

The Air Force proposed leasing tankers and brought their proposal to the Leasing Review Panel, which compared the merits and shortcomings of both leasing and purchasing KC-767 aircraft, given the 767 line remained open for both leasing and purchasing. Based on input from the co-chairs of this panel, Under Secretary Aldridge and Under Secretary Zakheim, the Secretary determined that the lease option best met the needs of the Air Force and was preferable because leasing minimizes the near-term cost to the Department of Defense and delivers the aircraft sooner. If we were to purchase the aircraft and Boeing were to deliver them on the same schedule as it will under the lease, it would require billions of dollars more in the Future Years Defense Program (FYDP). As we have pursued a goal of stability in programs, such a reallocation would have been counter to that goal, and disrupted many on-going programs.

On July 10, the Secretary of the Air Force notified the Defense Committees of the Department's intent to lease 100 Boeing 767 aircraft under the Multi-year

Aircraft Lease Pilot Program and provided a report on tanker leasing to those committees, in accordance with section 8159 of the Department of Defense Appropriations Act, 2002. Section 8159 requires the Air Force to wait at least 30 calendar days after it submits the report before entering into the lease contract.

On July 11, the Air Force provided to the Defense Committees and to the Appropriations Committees a new-start notification associated with the proposed lease of 100 KC-767 air refueling tankers. As the Air Force has noted in both cover letters for the report and this notification, it is the Department's intention not to award a contract until the Defense Committees of Congress indicate that they concur with the Department's plans as set forth in the notification. To assist the Defense Committees in their review of the lease proposal, the Department has supplied all four committees with draft versions of the contract with Boeing. Thus far, the House and Senate Defense Appropriations Subcommittees and the House Armed Services Committee have indicated to us that they concur.

While the proposed lease will provide for delivery of a total of 100 KC-767 aircraft, approximately 60 of which will be delivered in the period covered by the FYDP, the Department intends to recapitalize the airborne tanker fleet. The Air Force has been directed to develop a long-range recapitalization plan beyond the current lease proposal and we will address that plan in the President's FY 06 budget.

At my request, the DoD Inspector General has recently completed an evaluation of the process by which the Department arrived at the decision to lease tankers from Boeing. The results of this evaluation provide insight into the decision-making process conducted by the Leasing Review Panel.

Thank you, Mr. Chairman, for the opportunity to testify before the Committee. I would be happy to answer any questions that you and the Members of the Committee may have.