

Bush administration embroiled in Boeing scandal

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Top officials in the Bush administration—including the president himself—are implicated in the expanding scandal surrounding airplane manufacturer and defense contractor Boeing. The case provides a revealing glimpse into the extent to which US military policy is subordinated to brazen profiteering by defense contractors and the government officials who enjoy their patronage.

The scandal involves a contract that Boeing has been negotiating with the US Air Force to lease to the government 100 aerial refueling tankers. The deal had an initial price tag of \$17 billion, though some estimates place the potential final windfall to Boeing at \$100 billion. The contract was nearly finalized last month, despite studies by both the Pentagon and Congress concluding that the deal was unnecessary and overpriced.

Boeing lobbyists, Air Force officials with close ties to the company, and individuals on the influential Defense Policy Board, including Richard Perle, a key political ally of the Pentagon's right-wing civilian leadership, all pushed the deal, which amounted essentially to a multibillion-dollar subsidy to Boeing. Their efforts also had the support of both the White House and prominent Democrats.

Since news of the scandal broke, Boeing has been forced to fire two of its executives and to demand the resignation of its chairman and CEO, Phil Condit.

The Pentagon, the Justice Department and Congress have all opened investigations into the matter, and the contract itself has been put on hold. The investigations will undoubtedly serve more to cover up than reveal the extent to which the financial interests of defense contractors and government officials have become thoroughly intertwined.

It was in February 2001 that Boeing initially proposed to provide the Air Force with reengineered 767s to be used as refueling tankers. In an unsolicited offer, Boeing suggested that it would sell the Air Force 36 planes for \$124.5 million each (for a total of \$4.5 billion).

For Boeing, the aim was to counter sagging sales of its commercial airliners (particularly the 767s) due primarily to competition from the European airplane producer Airbus. During the late 1990s, Boeing had turned increasingly toward government contracts to make up for its declining position in the commercial market. In a major move in this direction, it acquired defense contractor McDonnell Douglas in 1997. Currently, government contracts make up approximately half of the company's revenue.

While supported by some officials within the Air Force—including Air Force Secretary James Roche—Boeing's plan was undermined by studies carried out by the Air Force itself that found a large-scale purchase of new tankers was unnecessary. A study in 2001 found that no new tankers would be needed for another 10 years.

Nevertheless, billions of dollars were at stake, and Boeing and its allies in the government were determined to push through the deal. After the attacks of September 11, 2001, Boeing was confronted with both a new crisis—airplane purchases by commercial airlines plummeted—and a new opportunity to justify the tanker plan by framing it as part of the "war on

terrorism."

According to an October 27 *Washington Post* article, Boeing executives met with Darleen Druyun, a senior Air Force acquisitions officer, on September 25, 2001, to discuss how the company could sell the tankers even though the Air Force did not have the funds to cover the deal.

"Druyun agreed at the meeting, according to notes taken by Boeing, not only to promote the leasing idea on Capitol Hill but also to find needed money by cutting back a comparatively inexpensive modernization program for existing tankers—an arrangement, Boeing and the Air Force have acknowledged, that will retire flightworthy tankers early to procure new ones," the *Post* reported.

"She also said 'work placement could help' [promote the deal], meaning that Boeing should ensure that subcontracts were awarded in the districts of key Congress members, according to the notes."

Air Force officials were pushing the deal despite the fact that the plan did not even meet requirements for tankers that the Air Force itself had specified. At one point, a document listing these requirements was modified at Boeing's request in order to meet the capabilities of the 767. "The Air Force agreed to drop a demand that the new tankers match or exceed the capabilities of the old ones," according to the *Post*.

Boeing also changed its proposal from selling 36 planes to leasing 100. The purpose of the lease structure was twofold. On the one hand, it helped Air Force officials pushing the deal because it would allow the government to delay accounting for the cost, since technically the payments would take place over a period of several years rather than all at once. Boeing, on the other hand, was able to charge a higher price for the leasing arrangement than it would have for selling the planes outright. Moreover, the company arranged to sell the planes to a non-profit trust, which would then lease the planes to the Air Force. This would allow Boeing to credit the total value of the contract toward immediate revenues. Similar structures had been created by Enron to massage accounting numbers and inflate profits.

As the negotiations developed in 2002, Druyun functioned essentially as Boeing's agent inside the Air Force. This is clear from internal company e-mails obtained by Senate Commerce Committee chairman John McCain, an opponent of the contract.

In a June 2002 e-mail, Bob Gower, Boeing's vice president for tankers, wrote: "[The] meeting today on price was very good. Darleen spent most of the time bringing the [US Air Force] price up to our number... It was a good day!"

Other e-mails indicate that Druyun had given Boeing information on an Airbus offer to supply tankers to the Air Force at several million dollars less per plane. Divulging such an offer to another contractor is a violation of government regulations.

In October 2002, Druyun took her role in the Air Force negotiations to its logical conclusion, entering into employment discussions with Boeing's then chief financial officer Michael Sears. However, she did not recuse herself from Boeing-related negotiations until November. It is

illegal for government acquisition officials to have employment discussions with companies that they are responsible for overseeing. Druyun joined Boeing officially in January 2003.

It was Druyun's role in the deal that initially sparked a Pentagon probe of the contract process in September of this year. Boeing moved to contain the crisis by firing both Sears and Druyun in November, but opponents of the contract—particularly McCain—have seized upon the firings to stall the deal. As the scandal expanded, it forced the resignation of Boeing chairman and CEO Phil Condit.

The corrupt dealings were hardly confined to Druyun alone, but reached to the highest levels of the Bush administration.

Air Force Secretary James Roche has been a strong supporter of the contract, pushing it even after the scandal erupted. Andrew Ellis, Boeing's vice president of Washington operations, wrote in March 2003 that William Bodie, assistant to Roche, was urging the company to "have our friends on the hill, think tanks, etc., get more visible/vocal in countering the kinds of arguments in the Gannett [news service] piece this morning." Ellis wrote that he told Bodie, "It was being worked, and we were prepared to sustain a more visible, longer term, pro-tanker campaign. (It is clearly what he [Bodie] wants, especially if it helps to drown out McCain and insulate/support the secretary [Roche])."

Roche is close to Rumsfeld and has been nominated by Bush to fill the now-vacant position of secretary of the army. He is a former vice president of another military contractor, Northrop Grumman.

In collusion with Roche, Boeing initiated a propaganda campaign that included the mobilization of Boeing lobbyists and the placement of opinion pieces in different publications. One such piece published in *Navy Times* was supposedly written by retired admiral Archie Clemens, former commander of the US forces in the Pacific. An internal Boeing e-mail indicated that the company had "ghost-written" the piece. Shortly afterward, Clemens was hired as a Boeing consultant.

Boeing also called upon its other contacts, including several members of the influential Defense Policy Board, which advises the secretary of defense on matters that include weapons acquisitions and military policy. The board has been a tool for promoting the ideology of the most aggressively militaristic sections of the Republican Party. One of its members is Richard Perle, who stepped down in March as chairman of the board after questions were raised about his relations to several companies, including bankrupt telecommunications giant Global Crossing. Perle nevertheless remains a board member.

According to a *Wall Street Journal* report, Boeing has committed \$20 million in investments to Trireme Partners, a firm set up by Perle in the wake of the September 11 attacks and shortly after he was named to the Defense Policy Board. The purpose of the firm is to invest in "homeland security," that is, to profit off the contracts the government has handed out in the so-called war on terrorism. Boeing has also committed \$20 million to Paladin Capital Group, another homeland security investment firm, this one with Defense Policy Board member James Woolsey as a principal.

Perle has aggressively pushed the Boeing tanker contract. He co-wrote an opinion piece for the *Wall Street Journal* in August of this year supporting the deal. He and co-author Tom Donnelley were sure to frame the handout to Boeing as part of the war on terrorism. "It takes a special government green-eyeshade mentality," they wrote, "to miss the urgency of the tanker requirement... If Sept. 11 does not reasonably generate new 'requirements,' nothing does."

Perle did not mention his business ties with Boeing in the piece, and indeed the comment did not even name the company as the contract's principal beneficiary. Critics have charged that, like the Clemens article, it may have been ghostwritten by Boeing. Indeed, Perle acknowledged that he submitted the column to the company for "fact checking." Boeing has also admitted that it briefed Perle on the issue in his capacity as a member of the American Enterprise Institute.

Other members of the board with ties to Boeing include Admiral David Jeremiah and retired Air Force general Ronald Fogelman, both of whom worked as paid consultants for Boeing as they pushed the contract. Tom Foley, former Democratic speaker of the House and another member of the board, is a partner at the lobbying group Akin, Gump, Strauss, Hauer & Feld. The firm was paid \$600,000 by Boeing to lobby on the tanker deal and other matters. The chief Boeing lobbyist at the firm is Bill Paxon, a former Republican congressman from New York who played a crucial role in Bush's last presidential campaign.

Despite all of these connections, the contract was by no means secure, given the opposition from McCain and budget analysts. A number of reports came out in 2002 that cast doubt on the deal. The Institute for Defense Analysis, an independent think tank, issued a report that Boeing was overcharging the Air Force by \$21 million per plane.

More ominously for Boeing, in late 2002 the head of the Office of Management and Budget (OMB)—part of the executive branch—stated that the leasing plan was not needed and was overpriced.

Boeing, however, had more cards up its sleeve, including the White House chief of staff Andrew Card. According to the *Washington Post*, Card, "acting at what officials say was the direction of President Bush, told the Air Force and OMB to resolve their differences."

A September 2002 e-mail from Rudy deLeon, senior vice president of Boeing's Washington operations and former deputy secretary of defense under Clinton, stated, "Speaker Dennis Hastert and congressman Norm Dicks spoke directly with President Bush in support of moving ahead on the tanker lease. In both cases, President Bush reportedly expressed his support for moving ahead with the tanker initiative and asked chief of staff Andy Card to be 'on point' for this effort."

According to a senior government official quoted by the British paper *Financial Times*, "The reason the president and Karl Rove are interested is because they want to win Washington in the next election." Dicks's home state is Washington, the former location of Boeing's headquarters and a major location of its present operations.

Dicks had written to Bush as early as October 2001 pushing the plan: "We have a unique opportunity," he wrote shortly after the attacks of September 11, "to address the problems affecting Boeing while also meeting urgent requirements to modernize air force and navy aircraft."

"With Card's intervention," writes the *Post*, "obstacles to the deal eventually fell away. Vehement objection raised by OMB and Pentagon budget analysts—that the planes were too expensive and that leasing would set a bad precedent—were muted or withdrawn."

Evidence of top-level backing for the deal has continued to this day. Another senior civilian official in the Pentagon, the top Air Force acquisition officer Marvin Sambur, sent e-mails to other officials as late as November 26—two days after Boeing's firing of Druyun and Sears—urging that the contract be signed immediately to preempt the scandal's derailing the deal.

Three days before he left the White House in 1960, President Dwight D. Eisenhower delivered an extraordinary final speech in which he drew attention to the "conjunction of an immense military establishment and a large arms industry." This "military-industrial complex," he warned, carried with it "the potential for the disastrous rise of misplaced power."

With the installation of the Bush administration four decades later, the danger outlined by Eisenhower has not only fully ripened, it has become quite rotten. The "revolving door" between government and military contractors now leads directly into a White House that acts as a direct sponsor of profiteering, a practice evidenced by not only the Boeing scandal, but also the role of Vice President Richard Cheney, the former Halliburton CEO.



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