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MEMO TO: Secretary Rumsfeld

DATE: November 19, 2004

FROM: Paul Wolfowitz

SUBJECT: C-130J Update

Don.

Several weeks ago I promised to keep you apprised of C-130J program progress. Mike Wynne, as you know, has made the C-130J a special interest program and, as such, he will apply considerably more scrutiny to how the program meets its cost, schedule and performance milestones. The Air Force is taking an aggressive management approach with Lockheed in achieving full mission capability. Lockheed has delivered 56 aircraft as of 15 Oct. Several issues remain that are troubling.

- Since the 1995 when the contract for the first "J" models was approved, mission capability available in earlier models is not yet available in the C-130J. Heavy airdrop capability is available in the "H" models, but will not be available until '07 in the C-130J.
- The current multiyear contract fly away price of the C-130J is based on an annual production rate of 16 aircraft - the fewer aircraft the more expensive.
- The current program has a production rate of only 12 (except FY'07 when the one Danish aircraft raises the annual rate to 13). The Air Force pays a contingent liability of \$18M, \$28.6M and \$41.4M in FYs '06 through '08 respectively. The US Marine Corps, also buying C-130Js, will pay contingent liability of \$18.6M, \$24.8M and \$52.0M in FYs '07 through '09 respectively. Currently the one Danish aircraft in '07 is the only other known sale.
- The C-130J fly away cost for the Air Force is \$73.5M and \$76.9M for the Marine Corps aircraft. That does not include the contingent liability.

Senator McCain's specific concerns are enumerated with the actions that address those concerns on the enclosed charts. A business case examination of the C-130J, similar to the examination we are doing with the Tanker Recapitalization program, is probably in order.

Enclosure: Senator McCain Concerns Matrix



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**Issues from Senator McCain's July 28, 2004 Letter to Secretary Rumsfeld
Re: Tanker Lease and C-130J Concerns**

ISSUE	Senator McCain Criticisms	True/False	How Resolved
AF leadership credibility	"Many of the problems that the DOD-OIG found in the Tanker Lease Program are similar to those it recently found in the multibillion dollar C-130J procurement program."	Partially true	From its inception in 1995, the program has experienced significant problems meeting contract specifications and user operational requirements. However, since 2002, the program has made substantial progress in both areas. A September 2002 Air Force/Lockheed Martin Blue Ribbon Panel developed a comprehensive deficiency correction plan. It identified contractual deficiencies to be corrected by Lockheed Martin at its expense, and operational shortfalls which were not contractual deficiencies, to be addressed through the establishment of new contractual requirements to be funded by the Air Force.
Commercial item procurement strategy	Prevented visibility of cost data, forced fixed-price type contract	True. The July 2004 DoD-IG report stated similar concerns.	USD(AT&L) designated the C-130J an acquisition-reform pilot program in 1995, approving an Air Force request to procure the aircraft as a commercial item. The nature of a commercial acquisition is to procure to the specification of the item, and to accept that the cost is driven by the commercial market. Since the C-130J development has progressed, the AF plans to use a traditional acquisition for ongoing R&D upgrades. Block 6.0 upgrades, which are currently being definitized, use FAR Part 15, rather than a FAR Part 12 commercial items contract. The commerciality issue is bigger than the C-1305, and should be addressed from an acquisition policy perspective.



ISSUE	Senator McCain Criticisms,	True/False	How Resolved
Operational requirements (document ORD) issue	Aircraft is “not operationally suitable or effective and cannot perform its intended mission.”	Partially true	AF accelerated and fully-funded the Block 5.4 upgrade and retrofit (planned completion 2006) to comply with 2004 ORD threshold requirements. The aircraft is currently cleared to perform 18 of 27 required operational capabilities (see attached table). An additional four are expected by late November 2004. Almost all remaining capabilities involve airdrop operations. After thorough Air Mobility Command (AMC) review, Air Force is planning to deploy the C-130J to the CENTCOM area of responsibility (AOR) in December 2004 in its primary combat delivery mission. The USMC plans to field Initial Operational Capability for the KC-130J in February 2005.
	Deficiency Reports (DRs) include items that ‘could cause death, severe injury or illness, major loss of equipment systems, or that could directly restrict combat or operational readiness.’	True, but misleading	None of the deficiencies is life-threatening—they primarily affect mission capabilities or maintainability. Of the five that have potential safety impact, two relate to airdrop operations for which the aircraft is not currently cleared. The remaining three are mitigated through work around procedures. At the time of Senator McCain’s letter, there were 36 open DRs. As of November 10, 2004, 23 remain open. This is still a relatively high number for an aircraft at this point in production, but the Department and Air Force have a robust process in place to identify, track, and correct remaining deficiencies.
	Air Force revised the ORD to reduce initial capabilities required and satisfied operational requirements by block upgrades at government expense.	True	Since the aircraft was procured as a commercial item, the 1995 ORD focused on C-130H capabilities. AMC updated the ORD in 1999, knowing that the already contracted commercial C-130J would not meet those operational requirements. The 2004 ORD, currently being reviewed by the JROC, gives a more realistic assessment of operational requirements, and aligns requirements with the spiral development block upgrade process. Lockheed originally could only be held accountable for contract specifications, not operational capabilities that were not on the contract. Blocks 5.4 and 6.0 will align the contract to match validated warfighter requirements.



AIR MOBILITY COMMAND OPERATIONAL CAPABILITY RELEASE PROGRESS

CAPABILITY	RELEASE Short/Stretch
Training	Mar-00
Cargo	Mar-00
Passengers	Jan-01
Basic Airland (combat delivery mission)	Jan-01
Worldwide Airland	Jun-02
Assault Operations	Jun-02/Jul-03
Semi-Prepared Surface	Jun-02/Jul-03
Tactical Arrival & Departure	Jun-02/Jul-03
Aeromedical Evacuation	Mar-03
Category II ILS (special instrumentation/procedures for very low visibility landings)	Jul-04
Single-ship Low Level	Jul-04
Night Vision Goggle (NVG) Low level	Jul-04
NVG Airland	Jul-04
Single Bundle Container Delivery System (CDS) Airdrop	Jul-04
Training Bundle Airdrop	Jul-04
Drogue-Only Airdrop	Jul-04
Combat Offload	Jul-04
Defensive Systems	Oct-04
NVG Assault	Nov 04
Personnel Airdrop (with C-130J, short version)	Nov 04
Visual Formation	Nov 04
C-130J-Only Station Keeping Equipment (SKE) Formation (required for formation flying in weather)	Nov 04
Mass CDS Airdrop	Jan 05
Integrated Precision Radar Approach	5.4 (Dec 05)
C-130J/E/H SKE Interfly	5.4 (Dec 05)
Personnel Airdrop (with C-130J, stretch version)	5.4 (Dec 05)
Heavy Equipment Airdrop	5.4 (Dec 05)

