

United States Senate

WASHINGTON, DC 20510-3604

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April 27, 2006

HURRICANE KATRINA SHOULD NOT BE AN EXCUSE FOR CORPORATE WELFARE

Dear Colleague,

The Emergency Supplemental Appropriations Act of 2006 contains a provision that would give upwards of \$500 million to Northrop Grumman for business disruption incurred by Hurricane Katrina. This is being done despite the fact that Northrop is currently in litigation with their private insurer for this funding. I have offered an amendment that would strike this provision from the bill that I expect the Senate to debate today.

The office of the Defense Contract Management Agency (DCMA), the Pentagon's contract manager which manages naval shipbuilding contracts and assigned to Northrop Grumman in Los Angeles, opposes this earmark.

According to documents from the Defense Corporate Executive of DCMA at Northrop Grumman, "This office believes it would be inappropriate to allow Northrop Grumman to bill for costs potentially recoverable by insurance because payment by the Government may otherwise relieve the carrier from their policy obligation." The Defense Corporate Executive goes on to say that, "If the government pays the costs, or even agrees that the costs are even tentatively or conditionally allowable, there is a risk that insurers will deny coverage on the basis that there has been no loss suffered by Northrop Grumman."

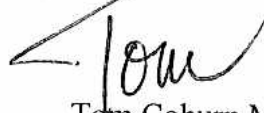
In short, if the government writes a check to Northrop for this purpose, the insurer may not have to fulfill its obligation if litigation determines it is responsible for paying for Northrop's expenses. So both multi-billion dollar corporations would benefit.

The New York Times noted that "while Northrop predicts that it will prevail with its insurers, it had had an easier time" getting "relief" from the government. "Northrop will have a much easier time than most other Hurricane Katrina victims, at least financially," according to the *Times*, which notes "Unlike many small businesses and families that may never fully recover from the storm, Northrop—through a combination of insurance and, most important, support from the Pentagon—is likely to end up having to pay little, if anything at all, from its own coffers to repair the damage."

According to Northrop Grumman's most recent filings with the Securities and Exchange Commission, Northrop's profits in the most recent quarter reached \$358 million, while its revenues were over \$7 billion. Thus, the proposed \$500 million federal payment to Northrop would completely exceed the company's profits so far this year. Last year, Northrop's revenues were more than \$30 billion.

It is wrong for the Senate to expect the taxpayer and future generations of Americans to pay for this unnecessary and excessive corporate welfare.

Sincerely,



Tom Coburn M.D.
United States Senator