

# Corporate Behavior in Vermont: How Lockheed Martin Defrauds American Taxpayers

By [Greg Guma](#)

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*On October 2, 2009 Senator Bernie Sanders made one of his classic fiery speeches on the floor of the US Senate. This time Vermont's independent socialist was taking on Lockheed Martin and other top military contractors for what he called "systemic, illegal, and fraudulent behavior, while receiving hundreds and hundreds of billions of dollars of taxpayer money."*

Among other crimes, Sanders mentioned how Lockheed had defrauded the government by fraudulently inflating the cost of several Air Force contracts, lied about the costs when negotiating contracts for the repairs on US warships, and submitted false invoices for payment on a multi-billion dollar contract connected to the Titan IV space launch vehicle program.

A month later, however, he was in a different mood when he hosted a delegation from Sandia National Laboratories. Sandia is managed for the Department of Energy by Sandia Inc., a wholly-owned Lockheed subsidiary. At Sanders' invitation, the Sandia delegation was in Vermont to talk partnership and scout locations for a satellite lab. He had been working on the idea since 2008 when he visited Sandia headquarters in New Mexico.

In January 2010 he took the next major step – organizing a delegation of Vermonters. The group included Green Mountain Power CEO Mary Powell; Domenico Grasso, vice president for research at the University of Vermont; David Blittersdorf, co-founder of NRG Systems and CEO of Earth Turbines; and Scott Johnston, CEO of the Vermont Energy Investment Corporation, which runs Efficiency Vermont.

Despite concerns about Lockheed's bad corporate behavior Sanders didn't think that inviting Sandia to Burlington meant helping the corporation to get away with anything. Rather, he envisioned Vermont transformed "into a real-world lab for the entire nation" through a partnership. "We're at the beginning of something that could be of extraordinary significance to Vermont and the rest of the country," he promised.

When the project was publicly announced in December 2011, Sanders challenged the description of Lockheed as Sandia's "parent company," and turned to Sandia Vice President Rick Stulen, who explained that "all national laboratories" are required to have "an oversight board provided by the private sector. So, Lockheed Martin does provide oversight, but all of the work is done by Sandia National Laboratories and we're careful to put firewalls in place between the laboratory and Lockheed Martin."

Gov. Peter Shumlin credited Sanders for bringing the new multi-million dollar Center for Energy Transformation and Innovation to the state. Vermont's junior Senator was "like a dog

with a bone” on the issue, recalled the governor at their joint press conference. The project, a partnership between Sandia National Laboratories, the University of Vermont, Green Mountain Power and Vermont businesses, would create “a revolution in the way we are using power,” Shumlin predicted.

To achieve that, the center has up to \$15 million to accelerate energy efficiency, move toward renewable and localized sources of energy, and make Vermont “the first state to have near-universal smart meter installations,” Sanders explained. Sandia will invest \$3 million a year, along with \$1 million each from the Department of Energy and state coffers.

On Nov. 4, 2013 Sanders and Shumlin held another press event, this one in Williston with representatives of IBM, Sandia, and the US Department of Energy to launch a Vermont Photovoltaic Regional Test Center. The new center, one of only five in the country, will research ways to cut the cost of solar power and integrate solar energy into Vermont’s statewide smart grid.

For Sandia, having a Vermont presence provides “a way to understand all of the challenges that face all states,” Stulen explained in 2011. Vermont’s size makes it more possible “to get something done,” he said, revealing that considerable integration had already occurred with the university, private utilities and other stakeholders.

Vermont’s reputation for energy innovation also attracted \$69.8 million in US Department of Energy funding to promote rapid statewide conversion to smart grid technology. This is being matched, according to Sanders, by another \$69 million from Vermont utilities.

#### Flying High: How Lockheed Happened

Lockheed Martin is one of the top US government contractors, bringing in \$36 billion in 2008. That’s roughly \$260 per household, known in some parts of the country as the Lockheed Martin Tax. It is also a top US weapons contractor (about 80% of its revenue comes from the Pentagon), as well as high among Departments of Energy and Transportation contractors, and in the top five with the Department of State, NASA, and the Departments of Justice and Housing and Urban Development.

Beyond producing planes, subs and weapons systems it has supplied interrogators for the prison at Guantanamo Bay, trained police in Haiti, run a postal service in the Congo, and helped write the Afghan constitution. In the US, it has helped to scan mail, design and run the Census, process taxes for the IRS, provide biometric ID devices for the FBI, and played a role in building ships and communication equipment for the Coast Guard. Its more than 100,000 employees have a presence in 46 states.

Despite – or, maybe because of – its scope and size, however, Lockheed executives sometimes feel the need to violate rules. As a result, as Bernie Sanders often mentioned in speeches until a Sandia lab for Vermont took shape, it is also number one in contractor misconduct. Between 1995 and 2010 it engaged in at least 50 instances of misconduct and paid \$577 million in fines and settlements.

In the mid-1990s then-Rep. Sanders objected to \$91 million in bonuses for Lockheed-Martin executives after the defense contractor laid off 17,000 workers. Calling it “payoffs for layoffs” he succeeded in getting some of that money back.

The corporation has come a long way from its beginnings before the First World War. Two brothers, Allen Haines and Malcolm Loughead, formed their first aircraft company in 1916, after building a plane a few years earlier. When their charter service foundered, they turned to government work with plans for a “flying boat” known as the F-1. The Navy passed and the plane was used only for flight demonstrations, but the brothers managed to survive in business by marketing tourist flights.

A decade after the war they incorporated Lockheed Aircraft Corp. in Nevada. Its first plane, the Vega, made possible explorer George Wilkins’ first flight over the Arctic Circle. Due largely to the publicity surrounding that event Lockheed’s stock value rose fast enough at the end of the 1920s to make it an attractive takeover target. It soon became part of Detroit Aircraft, then touted as “the General Motors of the Air.” Detroit Aircraft went belly up within a few years, however, and Lockheed was purchased by a group of investors for only \$40,000. By 1935 it was back in the black, bringing in more than \$2 million in sales.

Even before World War II most of its planes were being built for the military, at home and abroad. Britain had purchased 1,700 by 1941. The scale of the UK deal, along with the 10,000 twin-engine fighter planes it subsequently sold to the US during the war, turned it into the largest company in the industry.

Although Lockheed also produced commercial airplanes – notably the Constellation, used by TWA and Pan Am – after WWII its bread and butter became fighter planes and patrol aircraft for the Air Force and Navy. It was simple math. Post-war military sales to the government averaged about ten times the sales to airlines.

Lockheed succeeded in part by equating its own interests with the national interest. During the Cold War the rationale wasn’t just competition with the Soviet Union but also building up the exciting aeronautics industry, keeping skilled personnel, and promoting jobs directly and through various vendors. All this required long-term planning and sustained government funding. The US had a global responsibility, argued Lockheed’s executives, and that meant rapid transport of people, food, energy and weapons.

The development of its C-5A Galaxy – a Vietnam-era, over-sized transport craft with a 223-foot wingspan – illustrates the company’s actual approach to partnership with the government. At first, they submitted low bids and talked about the national interest. By the time the project was close to delivery, however, the price was up by billions, plus a steady income for years to come supplying replacement parts –at open-ended prices. With the only real downside the risk of a small fine if they broke the rules, it was well worth the price.

The SEC later found that Lockheed and the Air Force concealed the overruns, and Lockheed executives sold off their own stocks while withholding information from shareholders. As Rep. Otis Pike recalled, the C-5A scandal illustrated Lockheed’s sales tactics. Once government buys in and the overruns begin, “they make up their hole by laying it on the spare parts. There’s not a damned thing the Air Force can do about it...Once they start buying equipment, they have to get their spare parts.”

As the industry evolved, adding missiles, exotic aircraft and space vehicles, Lockheed was at the forefront with its Polaris missile and high-tech spy planes for the CIA. The most famous was the U-2, a fast, high altitude aircraft that was top secret until one was shot down. The real important of the U-2 was that it revealed the exaggeration of Soviet military

might. But few people were allowed to see what the U-2 photos actually proved. Instead military spending hit a new high to combat the alleged threat.

Beginning the 1990s Lockheed was a winner in the long-term effort to privatize government services. In 2000, it won a \$43.8 million contract to run the Defense Civilian Personnel Data System, one of the largest human resources systems in the world. As a result, a major defense contractor consolidated all Department of Defense personnel systems, covering hiring and firing for about 750,000 civilian employees. This put the contractor at the cutting edge of Defense Department planning, and made it a key gatekeeper at the revolving door between the US military and private interests.

For the past decade Lockheed's largest project has been the F-35 Joint Strike Fighter, the largest project in the history of military aviation. One Lockheed executive has called it "the Super Bowl" and the "program of the century." Early plans called for the US and Britain to buy more than 3,000 planes.

The initial idea was to create a capable plane without the performance problems that had plagued earlier efforts. But as the R & D proceeded, various capabilities and requests collided. The Navy version turned out to be seriously overweight. National partners meanwhile quibbled over who should get what lucrative production work. One faction in the military publicly criticized the plane, especially the idea of its so-called "multi-role."

Maintenance and support would carry a high price tag - \$700 million over the lifetime of a plane. The engines reportedly ran so hot that they could melt the decks of aircraft carriers on vertical takeoff and fatigue the metal beneath.

On October 28, the Burlington City Council defeated two resolutions that would have opposed a proposal to base F-35s at the Burlington International Airport. The first was designed to block the F-35s from the Vermont Air National Guard facility at the airport. The second would have created "health and safety standards" applying to all planes.

The votes were the latest in a series by communities near the airport on whether to support bedding the planes in Vermont. In South Burlington, councilors earlier this year voted in favor of the F-35, reversing an earlier decision. In July, the Winooski City Council voted to oppose the basing plan.

#### Strange Bedfellows: Sandia and the Senator

Most of the revenue for Lockheed's Sandia National Laboratory comes from maintaining nuclear weapons and assessing defense systems. Its primary headquarters is on Kirtland Air Force Base in Albuquerque, NM, and employed about 7,500 people. The other is in Livermore, CA, employing another 1,000. If the Pentagon ever decides to make the F-35 capable of dropping nuclear bombs, not an impossible development, Sandia is very likely where it will be made.

But not at the Vermont lab. Bernie Sanders has repeatedly pledged that Vermont's facility will strictly avoid defense work. Instead, it will focus on energy technology and cyber-security issues, and examine "how to bring these technologies to bear and to use Vermont as a test bed," explained Les Shephard, Sandia's vice president for energy, resources and nonproliferation. To do that, Shephard added, the Vermont satellite lab will have access to Sandia resources to develop innovations that could, ideally, be spun off into new companies.

Some resulting enterprises might even be based in Vermont.

The state was appealing, according to Shephard, because it was already “a national leader” in energy efficiency. But it was also small enough to serve as a manageable site for a variety of experiments. At around \$20 billion Vermont’s total GDP is less than half of what Lockheed makes in a year.

In addition to Vermont’s reputation for energy efficiency and “cooperative utilities,” Sandia also appreciates the region’s challenging climate. “We could develop, deploy and assess various types of technology in cold weather,” Shephard explained. “Our test facilities are in the bright skies of New Mexico, where we have over 300 days of sunshine.”

Another stated focus of the center is to ensure reliable service. That means “anticipating any cyber challenges that may be opened up, or vulnerabilities that may be opened up as we move to this new future,” Stulen said. “Sandia is very much in the forefront of cyber research.”

Joint efforts between Green Mountain Power and Sandia began at least two years ago. The long-term goal is to make Vermont “a national example of how to deploy smart grid technology across a state, along with renewable generation and really demonstrate that we can handle the security issues that come with that.” notes Mary Powell, Green Mountain Power’s CEO.

One of those issues is that having numerous interactive devices on two-way networks creates new risks. According to Kenneth van Meter, manager of energy and cyber services for Lockheed Martin, “By the end of 2015 we will have 440 million new hackable points on the grid. Nobody’s equipped to deal with that today.” Asked about cyber threats, Stulen has acknowledged that use of “more portals” creates more potential threats, but adds that “we think this is a manageable situation. In fact, the benefits far outweigh the risks.”

In the category of benefits, Stulen points to the potential for lower utilities bills by being able to monitor home energy use in detail. But security is also a focus. “We don’t see it as an overriding issue right now, but as a national laboratory our job is to anticipate the future,” he said.

“The federal government has invested \$4 billion in smart grid technology,” Sanders notes, “and they want to know that we’re going to work out some of the problems as other states follow us. So Vermont, in a sense, becomes a resource for other states to learn how to do it, how to overcome problems that may arise.

“In many ways, we are a laboratory for the rest of this country in this area,” Sanders adds. To that end, an exchange program was launched between Sandia and the University of Vermont in 2011, with nine students and several faculty members working on smart grid-related project. The center also began offering short courses on smart grid modernization for Vermont utility staff and energy-tech company management.

Earlier the same year, however, a dispute erupted over a related development agreement between the City of Burlington and Lockheed Martin. After months of study and debate, the City Council adopted a community standards resolution, largely in response to public criticism of the deal with Lockheed signed by Progressive Mayor Bob Kiss.

Kiss vetoed the Council’s resolution. But three weeks later, Rob Fuller, a spokesman for

Lockheed, said the deal was off. “While several projects showed promise initially and we have learned a tremendous amount from each other,” he wrote, “we were unable to develop a mutually beneficial implementation plan. Therefore Lockheed Martin has decided to conclude the current collaboration.”

It read like a Dear John, and a silent bow to public pressure.

Sensitive to local criticisms of Lockheed and the F-35, Sanders bristles at the description of the corporation as “a parent company” of Sandia, which was founded in 1949 and has roots in the development of the atomic bomb during World War II. The company’s website describes its work during that period as “ordnance engineering,” which involved turning the nuclear innovations of the Los Alamos and Lawrence Livermore labs into functioning weapons.

Revenue figures indicate that most of Sandia’s revenue continues to come from maintaining nuclear weapons and assessing defense systems. Its primary headquarters is on Kirtland Air Force Base in Albuquerque, NM, where about 7,500 people are employed. The other big lab is in Livermore, CA, employing another 1,000. Known in the past as a “national security lab,” Sandia’s 21st century mission has expanded to include “security of the smart grid.”

A statement by Sanders released at the 2011 press conference stressed that although the US has 17 national labs doing “cutting edge research,” none of them were located in New England. That was what he hoped to change after visiting Sandia’s New Mexico headquarters back in 2008.

“At the end of the day,” recalled Les Shephard, “he turned to the laboratory director and said, ‘I’d really like to have a set of capabilities like Sandia in New England — and very much so in Vermont.’ And that’s how it all evolved.”

“It occurred to me,” Sanders recalled later, “that we have the potential to establish a very strong and positive relationship with Sandia here in the State of Vermont.” His hope is to make the current three-year arrangement “a long-term presence” between the lab, UVM, utilities and other businesses.

“This is a really exciting development for Vermont,” said Shumlin, calling the partnership “a huge opportunity and a huge accomplishment.”

Sanders added that “working with Sandia and their wide areas of knowledge – some of the best scientists in the country – we hope to take a state that is already a leader in some of these areas even further.” Lockheed’s past offenses didn’t come up.

*Greg Guma has lived in Vermont since the 1960s and wrote [The People’s Republic: Vermont and the Sanders Revolution](#). His new sci-fi novel, [Dons of Time](#), was released in October.*

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