



GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE

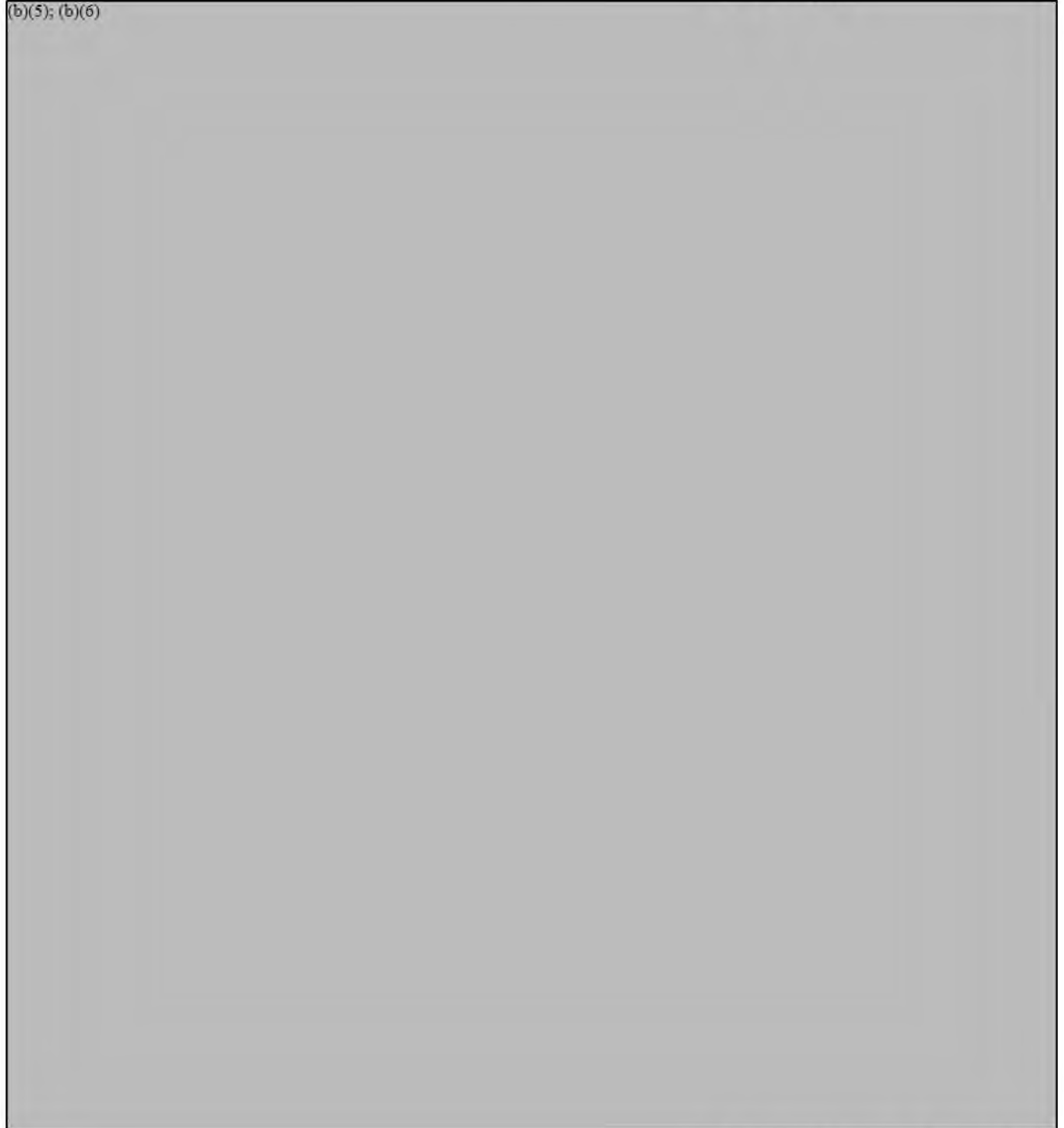
1800 DEFENSE PENTAGON
WASHINGTON, DC 20301-1800

ACTION MEMO

15 FEB 2019

GENERAL COUNSEL

(b)(5); (b)(6)



OSD000912-19/CMD001839-19

TAB

A



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

2/26/2019

The Honorable Elizabeth Warren
United States Senate
Washington, DC 20510

Dear Senator Warren,

I write in reply to your letter of January 31, 2019. Thank you for the opportunity to describe the prudent, significant measures I have directed to ensure this Department of Defense (DoD) team leads with an ethics mindset.

Ethics begins with me: I remain fully committed to complying with both the letter and the spirit of my ethics agreement, and I have met personally with my immediate office staff to convey my absolute intent to follow all applicable rules and guidelines. I have neither requested nor have I been granted any authorization or waiver under these rules. I am highly confident my statements and, more importantly, my actions to date demonstrate my commitment to avoiding any conflicts of interest with my former employer and to maintaining the highest ethical standards for myself and DoD. Please find further elaboration of these statements and actions below and in the enclosed documents.

As I recently stated in the enclosed message to all DoD personnel, an ethics mindset requires more than meeting minimum compliance standards. Leaders must reinforce ethical behavior across the full spectrum of activity. Early in my tenure as Deputy Secretary of Defense, I addressed approximately a hundred of the Department's most experienced ethics attorneys to emphasize the importance an ethical mindset and ensuring ethics counselors have a "seat at the table" when decisions are made. I have incorporated ethics and stewardship principles in DoD policies on attending outside events and engaging with industry. I continue to meet regularly with the General Counsel and the Acting Director of the DoD Standards of Conduct Office to find new ways of reinforcing our ethical culture and principles throughout every level of the Department. For example, I have directed senior leaders to be personally involved in presenting annual ethics training to their organizations this year.

To ensure that I comply with all applicable ethics laws, I regularly ask for and rely upon the advice of the DoD General Counsel, as the Department's Designated Agency Ethics Official, and the ethics attorneys in the DoD Standards of Conduct Office. These advisors have direct and immediate access to me and my staff; they proactively identify and address any potential ethics issues that arise. They also regularly train my staff to ensure any matter from which I have agreed to recuse myself under my ethics agreement is directed to another official for action. I have enclosed copies of the written guidance I issued to ensure this screening is carried out. Over the past 19 months, I assess this screening process has worked well and ensured an ethics review before even the broadest capability and policy decisions are made, including those that would not typically implicate conflict of interest issues. In applying my personal experience and



OSD000912-19/CMD001840-19

insight to help the Department drive performance that benefits our warfighters and taxpayers. I will continue to work with DoD ethics counsel to ensure that I take all appropriate steps necessary to comply with my ethics obligations and foster an ethics mindset within the Department.

In closing, let me reiterate my commitment to preventing any actual or perceived conflict of interest with my former employer. Thank you for your support of the men and women of the Department of Defense.

A handwritten signature in black ink, appearing to read "Patrick M. Shanahan". The signature is fluid and cursive, with a prominent initial "P" and "S".

Patrick M. Shanahan
Acting

Enclosures
As stated



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301 1000

2/2/2019

MEMORANDUM FOR ALL DEPARTMENT OF DEFENSE PERSONNEL

SUBJECT: Leading with an Ethics Mindset

Congress and the Nation have placed their trust in us – trust that we will deliver high performance results and remain accountable to the American people as good stewards of their tax dollars. As we continue translating strategy into action, we must demonstrate our commitment as leaders in carrying this trust forward. A key component of leadership is reinforcing ethical behavior across the full spectrum of our work and recognizing ethics principles as the foundation upon which we make sound, informed decisions.

I ask that you and your teams reinforce this foundation at every turn. Make ethics a natural and constant part of your everyday conversations. Identify gray areas to prevent future missteps. Remain in the ethical midfield and take advantage of the resources at your disposal to gain clarity. We are accountable for our actions as individuals, but we are also strongest when we work as one team to achieve results – ethics is no exception.

Our mindset must focus on more than just meeting minimum compliance standards. Experience has shown that discussions of potential or past scenarios is the most effective way to reinforce a culture of values-based, ethical decision-making. I expect senior leaders to be personally involved in presenting annual ethics training to their organizations and ensuring completion of that training by November 30th of each calendar year. While DoD ethics counselors will participate and provide resources for these events, I expect leaders to take initiative in developing the content. Lead by example with your commitment to ethical decision-making and conduct.

I am proud to serve alongside you as we drive progress along our strategic priorities and maintain the most lethal – and ethical – fighting force in the world.

Patrick M. Shanahan
Acting



NSC000644-0000000781-19



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

JUL 25 2017

MEMORANDUM FOR SECRETARY OF DEFENSE

SUBJECT: Deputy Secretary of Defense Screening Arrangements

This memorandum is to inform you of the screening arrangement I have implemented, with the assistance of the Designated Agency Ethics Official (DAEO), to help ensure that I do not participate in official matters in which I have a financial interest or a personal or business relationship. My obligations are set forth in the Ethics Agreement that I signed prior to my confirmation by the United States Senate. I have not received a waiver of the former employer provisions of the Administration's Ethics Pledge.

For the time periods listed, this screening shall cover the following organizations and entities:

The Boeing Company (Boeing)

Until I have divested or forfeited all my interests in Boeing stock, I am disqualified from participating personally and substantially in any particular matter that would have a direct and predictable² effect on the financial interests of Boeing. I anticipate full divestiture will occur no later than October 16, 2017, and will provide notification when I no longer hold any potentially conflicting equity interest in Boeing.

For two years beginning on July 18, 2017, I am disqualified from participating personally and substantially in any particular matter involving specific parties that is directly and substantially related to Boeing, including regulations and contracts, unless I receive the appropriate waiver of the Administration's Ethics Pledge (Executive Order 13770) and, during

¹ "DAEO" refers to the DoD General Counsel or the Director, Standards of Conduct Office who is designated as the DoD Alternate DAEO.

² A "particular matter" is a deliberation, decision, or action that is focused upon the interest of specific persons, or a discrete and identifiable class of persons. The term includes the matters that do not involve formal parties and may extend to legislation or policy making that is narrowly focused on interests of a discrete and identifiable class of persons. It does not, however, cover consideration or adoption of broad policy options directed to the interests of a large and diverse group of persons. Particular matters typically include applications, contracts, grants, claims, controversies, or licenses.

"Direct" means there is a close causal link between any decision or action to be taken and any expected effect on the financial interest, even though it does not occur immediately. "Predictable" means there is a real, as opposed to a speculative, possibility that the matter will affect the financial interest.



OSD068904-17-CMD012134-17

my first year in office, the appropriate authorization from the DAEO pursuant to 5 C.F.R. 2635.502(d).⁴

For the duration of my service as Deputy Secretary, I am disqualified from participating personally and substantially in any particular matter involving specific parties in which I know the Boeing Company is a party or represents a party, unless the DAEO first authorizes my participation. This disqualification derives from my Ethics Agreement and my commitment to ensure that participation in a matter involving Boeing would not cause a reasonable person to question my impartiality. If I am not authorized to participate, the Secretary of Defense or his designate shall act on the matter.

The University of Washington

I held a position as a board member of the University of Washington. Unless the DAEO authorizes my participation, for one year beginning on July 18, 2017, I am disqualified from participating in any particular matter involving the University of Washington where the circumstances would cause a reasonable person with knowledge of the relevant facts to question my impartiality. All such matters shall be forwarded to the DAEO. If the DAEO determines that the interest of the Government in my participation outweighs any appearance of a lack of impartiality, he will make a written determination specifically authorizing my participation in the particular matter. If I am not authorized to participate, the Secretary of Defense or his designee shall act on the matter.

Other Companies

I am disqualified from participating personally and substantially in any particular matter that would have a direct and predictable effect on the financial interests of the companies listed in TAB A until I have divested my stock. I anticipate this will occur no later than October 16, 2017, and will provide notification when I no longer hold any potentially conflicting interest in these companies.

None of these interests and restrictions precludes me from participating in a personal or official capacity in any social, ceremonial, or other public affairs events that include personnel from any of these organizations or entities. Similarly, when not taking any official action, I may be allowed to attend meetings and receive information regarding these entities.

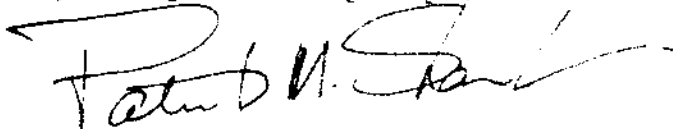
To help ensure that I do not participate in matters relating to these entities, I have taken or will take the following steps:

⁴ In addition to the "particular matters involving specific parties" described in FN 2, such matters shall also include any meeting or other communication with Boeing relating to the performance of my official duties, unless the communication applies to a particular matter of general applicability and participation in the meeting or other event is open to all interested parties.

- I have directed my staff to screen all matters directed to my attention that involve outside entities or that require my participation, to determine if they involve any of the entities or organizations listed above.
- If my staff determines that any of these entities or organizations is or represents a party to the matter, they will refer the matter to the DAEO without my knowledge or involvement.
- In order to make sure that I do not inadvertently participate in matters from which I should be recused, my staff will seek the assistance of the DAEO if uncertain whether or not I may participate in a matter.

I will revise and update this memorandum if warranted by changed circumstances, including changes in my financial interests, my personal or business relationships, or the nature of my official duties.

The DAEO may issue additional guidance on standards and procedures to personnel implementing these screening arrangements.



Attachment
As stated

cc:
Chief of Staff
Immediate Office Staff
Executive Secretary
General Counsel (DAEO)
Standards of Conduct Office

ATTACHMENT A

1	AbbVie (ABBV)
2	Accenture (ACN)
3	Alfa Laval ADR (ALFVY)
4	Allete Inc (ALE)
5	Ashtead Group ADR (ASHTY)
6	Assa Abloy ADR (ASAZY)
7	Astrazeneca PLC (AZN)
8	Atlas Copco ADR (ATLKY)
9	Avery Dennison (AVY)
10	BAE Systems ADR (BAESY)
11	Baxter International (BAX)
12	Bayer ADR (BAYRY)
13	BBA Aviation ADR (BBAVY)
14	Berkshire Hathaway Class B (BRKB)
15	Boeing Company (BA) (including the Boeing Stock Fund)
16	BP PLC (BP)
17	CA Inc. (CA)
18	CACI International (CACI)
19	Coherent (COHR)
20	Compass Group ADR (CMPGY)
21	CSL LTD ADR (CSLLY)
22	Cummins Inc (CMI)
23	Dassault Systems ADR (DASTY)
24	Edison International (EIX)
25	Edwards Lifesciences (EW)
26	Electronics For Imaging (EFI)
27	Emcor (EME)
28	Emerson Electric (EMR)
29	Energys (ENS)
30	Entergy Corp (ETR)
31	Fastenal (FAST)
32	Fresenius SE&KGAA ADR (FSNUY)
33	General Motors (GM)
34	GlaxoSmithKline (GSK)
35	Globus Medical (GMED)
36	Granite Construction (GVA)
37	Grifols SA ADR (GRFS)

38	Home Depot (HD)
39	Informa ADR (IFJPY)
40	Integra Lifesciences (IART)
41	Intel Corp (INTC)
42	International Business Machines (IBM)
43	Iridium Communications (IRDM)
44	KDDI Corp (KDDIY)
45	Komatsu ADR (KMTUY)
46	Korn/Ferry Intl (KFY)
47	L3 Technologies (LLL)
48	Linde AG ADR (LNEGY)
49	Matson (MATX)
50	Medtronic (MDT)
51	Mercury Systems (MRCY)
52	Merit Medical (MMSI)
53	Microsemi (MSCC)
54	Mitsui & Co ADR (MITSY)
55	Morgan Stanley (MS)
56	Motorola Solutions (MSI)
57	Nestle SA ADR (NSRGY)
58	Novartis AG (NVS)
59	Omniceil (OMCL)
60	Orbital ATK (OA)
61	Park24 Company LTD ADR (PKCOY)
62	Pfizer (PFE)
63	POSCO (PKX)
64	Procter & Gamble (PG)
65	Qualcomm Incorporated (QCOM)
66	Roche Holdings (RHHVF)
67	Roche Holdings Limited ADR (RHHBY)
68	Royal Dutch Shell (RDS/A)
69	Royal Dutch Shell ADR (RDSA)
70	SAP SE (SAP)
71	Shire ADR (SHPG)
72	Sinclair Broadcast (SBGI)
73	SK Telecom LTD (SKM)
74	Sonova Holdings ADR (SONVY)
75	Sony Corporation (SNE)
76	Stamps.com (STMP)
77	Sysco (SYY)
78	Systemex ADR (SSMXY)

79	Total SA (TOT)
80	Total System Services (TSS)
81	Tyson Foods (TSN)
82	United Rentals (URI)
83	Valero Energy (VLO)
84	Verisk Analytics (VRSK)
85	Wolters Kluwer ADR (WTKWY)
86	Wolverine Worldwide (WWW)
87	WPP PLC ADR (WPPGY)



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

1/7/2019

MEMORANDUM FOR DESIGNATED AGENCY ETHICS OFFICIAL

SUBJECT: UPDATED SCREENING ARRANGEMENT

This memorandum is to inform you of the screening arrangement I have updated and implemented, with the assistance of the Standards of Conduct Office, to help ensure that I do not participate in particular matters in which I have a financial interest or a personal or business relationship. My obligations are set forth in the Ethics Agreement that I signed prior to my confirmation as Deputy Secretary of Defense by the United States Senate. I have not received a waiver of the former employer provisions of the Administration's Ethics Pledge. These updated arrangements are effective immediately and supersede those dated July 25, 2017.

ETHICS AGREEMENT OBLIGATIONS

For two years beginning on July 18, 2017, I am disqualified from participating personally and substantially in any particular matter involving specific parties that is directly and substantially related to the Boeing Company ("Boeing"), including regulations and contracts, unless I receive the appropriate waiver of the Administration's Ethics Pledge (Executive Order 13770).

For the duration of my service as Deputy Secretary, I am disqualified from participating personally and substantially in any particular matter involving specific parties in which I know the Boeing Company is a party or represents a party, unless the Designated Agency Ethics Official (DAEO)¹ first authorizes my participation. This disqualification derives from my Ethics Agreement and my commitment to ensure that participation in a matter involving Boeing would not cause a reasonable person to question my impartiality. If I am not authorized to participate, another senior Defense official shall act on the matter.

¹ A "particular matter" is a deliberation, decision, or action that is focused upon the interest of specific persons, or a discrete and identifiable class of persons. The term may include matters that do not involve formal parties and may extend to legislation or policy making that is narrowly focused on interests of a discrete and identifiable class of persons. It does not, however, cover consideration or adoption of broad policy options directed to the interests of a large and diverse group of persons. Similarly, the term would not include broad budget and strategy discussions about acquiring or improving a general defense capability that is not specific to a particular weapons system or program. Particular matters typically include applications, contracts, grants, claims, controversies, or licenses. In addition to the "particular matters involving specific parties," such matters shall also include any meeting or other communication with Boeing relating to the performance of my official duties, unless the communication applies to a particular matter of general applicability and participation in the meeting or other event is open to all interested parties.

² "DAEO" refers to the DoD General Counsel, or the Director, Standards of Conduct Office who is designated as the DoD Alternate (DAEO).



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None of these interests and restrictions precludes me from participating in a personal or official capacity in any social, ceremonial, or other public affairs events that include personnel from Boeing. Similarly, when not taking any official action, I may be allowed to attend meetings and receive information regarding this company.

SCREENING ARRANGEMENT

To help ensure that I do not participate in matters relating to these entities, I am taking the following steps:

- I am hereby directing my Chief of Staff, Executive Secretary, Military Assistants, and other designated Administrative Assistants to screen all matters directed to my attention that involve outside entities, or that require my participation, to determine if they involve Boeing.
- If any screener determines that Boeing is or represents a party to the matter, he or she will refer the matter, without my knowledge or involvement, to an appropriate alternate senior Defense official for action or assignment. If the alternate official believes my participation in a particular matter is important, he or she will contact you via the DoD Standards of Conduct Office (SOCO) to determine whether I may be authorized to participate, where the interest of the Government in my participation outweighs any appearance of impropriety.
- In order to make sure that I do not inadvertently participate in matters from which I should be recused, I am directing each of my screeners to seek the assistance of SOCO if he or she is uncertain whether I may participate in a matter.

In consultation with SOCO, I will revise and update this memorandum if warranted by changed circumstances, including changes in my financial interests, my personal or business relationships, or the nature of my official duties.

The DAFO and SOCO may issue additional guidance on standards and procedures to personnel implementing this screening arrangement.



Patrick M. Shanahan
Acting

cc:
Chief of Staff, Secretary of Defense
Chief of Staff, Deputy Secretary of Defense
Executive Secretary
Immediate Office Staff (Secretary and Deputy Secretary of Defense)
DoD Standards of Conduct Office

TAB

B

January 31, 2019

The Honorable Patrick Shanahan
Acting Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Acting Secretary Shanahan:

I write regarding the potential conflicts of interest you face between your current position as Acting Secretary of Defense and your long pre-DOD career as a senior executive at Boeing. When you were named as Acting Secretary you reaffirmed your recusal from participating "personally and substantially"¹ in decisions regarding Boeing "for the duration of [your] service" at DOD.² I commend you for this step, which went beyond the legal requirements of a two-year recusal.

But I remain concerned by reports that your "private remarks ... boosting ... Boeing[have] fuel[ed] questions about whether [you] harbor an unfair bias," and that you have been "praising Boeing and trashing competitors ... during internal meetings."³ These reports illustrate that even if you are following the letter of the conflict-of-interest requirements, your decades of work for Boeing might be influencing – either intentionally or unintentionally – your behavior toward the company and its competitors, and other employees at the Department that are responsible for contracting decisions that involve Boeing. In short, I am concerned that these reports indicate that your inherent real or perceived conflicts of interest may not have been satisfactorily resolved.

You have been appointed to a position that demands ethical behavior of the highest order. Given your decades of employment with Boeing, and the questions raised by these recent public reports, I ask that you take additional actions beyond those presently described in your ethics pledge.

I therefore ask that you:

- (1) Respond to the allegations described above indicating that your statements to or in front of DOD staff may have presented the appearance of a conflict of interest.

¹ [https://extapps2.oge.gov/201/Presiden.nsf/PAS+Index:0BC89B1A1A470E048525813C0026F931/\\$FILE/Shanahan.%20Patrick%20%20finalEA.pdf](https://extapps2.oge.gov/201/Presiden.nsf/PAS+Index:0BC89B1A1A470E048525813C0026F931/$FILE/Shanahan.%20Patrick%20%20finalEA.pdf)

² <https://thehill.com/policy/defense/423535-acting-defense-chief-recuses-himself-from-matters-involving-boeing>

³ Politico, "New Pentagon chief under scrutiny over perceived Boeing bias," Eliana Johnson and David Brown, January 9, 2019, <https://www.politico.com/story/2019/01/09/defense-patrick-shanahan-boeing-pentagon-1064203>



OSD000912-19/CM001088-19

- (2) Clearly convey to DOD staff that you will not unfairly favor your former employer, and that you likewise expect them to follow all applicable rules and guidelines.
- (3) Consult with appropriate ethics and contracting officials and determine if there are additional steps that you can take to address potential conflicts of interest.
- (4) Provide me with a list of all additional steps you will be taking to address your real or perceived conflicts of interest.

I look forward to your response and to working with you during your tenure.

Sincerely,

A handwritten signature in cursive script, appearing to read "Elizabeth Warren". The signature is written in black ink and is positioned above the printed name.

Elizabeth Warren
United States Senator

TAB

C



Acting Defense chief recuses himself from matters involving Boeing

BY ELLEN MITCHELL - 01/02/19 02:04 PM EST

39 SHARES

Just In...

State of the Union reflects Trump's presidency: Pure chaos

OPINION — 4M 47S AGO

Howard Schultz to be featured at CNN town hall in Texas next week

CAMPAIGN — 5M 51S AGO

Massachusetts court upholds conviction of woman who encouraged boyfriend's suicide

COURT BATTLES — 15M 51S AGO

Schiff hits back at Trump: He's 'terrified' of House Russia probe

ADMINISTRATION — 19M 25S AGO

March tariff increase would cost 934K jobs, advocacy group says

FINANCE — 24M 44S AGO

Information warfare threatens Western corporations

OPINION — 24M 44S AGO

Daily Caller reporter Benny Johnson joining Turning Point USA

MEDIA — 36M 05S AGO

US cutting aid to Cameroon over human rights abuse allegations: report

INTERNATIONAL — 39M 15S AGO

[VIEW ALL](#)

Acting Defense Secretary [Patrick Shanahan](#) will not be involved with any Pentagon matters dealing with Boeing, where the former deputy Defense secretary worked for 31 years, according to a Pentagon official.

"Under his Ethics Agreement, Mr. Shanahan has recused himself for the duration of his service in the Department of Defense from participating in matters in which the Boeing Company is a party," according to Shanahan spokesman Lt. Col. Joe Buccino.

The statement added that Shanahan's priorities are continuing to "focus on implementation of the National Defense Strategy."

[President Trump](#) in late December named Shanahan, then the deputy Defense secretary, as the acting Pentagon chief for the start of 2019 after Defense Secretary [James Mattis](#) resigned, largely over the president's decision to pull U.S. troops from Syria.

A former Boeing executive with less than two years of government experience, Shanahan was confirmed as the Pentagon's No. 2 civilian in July 2017.

Shanahan's 31-year career at Boeing included overseeing its rotorcraft program, which supplied the U.S. military with Apache and Chinook helicopters, and helping build the V-22 Osprey tiltrotor.

He also led Boeing's missile defense program starting in 2004, going on to oversee Boeing's commercial airplane programs, and eventually serving as senior vice president for supply chain and operations before leaving for the Pentagon.

During the confirmation process for deputy secretary, Shanahan pledged to "not participate personally and substantially" in matters involving Boeing if confirmed.

But news reports have surfaced in the past month that question whether Shanahan has kept himself out of Boeing matters completely.

[Bloomberg](#) reported in December that a Pentagon plan to request \$1.2 billion for 12 Boeing F-15X fighter jets included some "prodding" from Shanahan.

TAGS: PATRICK SHANAHAN, JAMES MATTIS, DONALD TRUMP

TAB

D



Acting Defense Secretary Patrick Shanahan, who spent 31 years at Boeing, has signed an ethics agreement recusing him from weighing in on matters involving the mammoth defense contractor. | Pierre Verdy/AFP/Getty Images

DEFENSE

New Pentagon chief under scrutiny over perceived Boeing bias

Concerns about Patrick Shanahan's Boeing ties have re-emerged since President Donald Trump said he may be running the Pentagon 'for a long time.'

By **ELIANA JOHNSON** and **DAVID BROWN** | 01/09/2019 05:02 AM EST



Acting Defense Secretary Patrick Shanahan's private remarks during his 18 months at the Pentagon have spurred accusations that he is boosting his former employer Boeing, people who have witnessed the exchanges told POLITICO — fueling questions about whether he harbors an unfair bias against other big military contractors.

Shanahan, who spent 31 years at Boeing before joining the Pentagon in mid-2017, has signed an ethics agreement recusing him from weighing in on matters involving the mammoth defense contractor. But that hasn't stopped him from praising Boeing and trashing competitors such as Lockheed Martin during internal meetings, two former government officials who have heard him make the accusations told POLITICO.

The remarks raise questions among ethics experts about whether Shanahan, intentionally or not, is putting his finger on the scale when it comes to Pentagon priorities. They also call new attention to a recent decision by the Pentagon to request new Boeing fighters that the Air Force has said it does not want — a request that Bloomberg has reported came after "prodding" from Shanahan.

Concerns about Shanahan's ties to his former employer first surfaced during his confirmation hearing to be deputy secretary, but they have re-emerged since President Donald Trump said last month he may be running the Pentagon "for a long time."

In high-level Pentagon meetings, Shanahan has heavily criticized Lockheed Martin's handling of the production of the F-35 fighter jet, which is expected to cost more than \$1 trillion over the life of the program, according to one of the two sources, a former senior Defense Department official who was present.

Shanahan, this official said, called the plane "f—ed up" and argued that Lockheed — which edged out Boeing to win the competition to build the plane in October 2001 — "doesn't know how to run a program."

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"If it had gone to Boeing, it would be done much better," Shanahan said, according to the former official.

As the Pentagon's No. 2, Shanahan repeatedly "dumped" on the F-35 in meetings, calling the program "unsustainable," and dismissed Lockheed Martin's CEO, Marilyn Hewson, according to the second source, a former Trump administration official. "The cost, the out-years, it's just too expensive, we're not gonna be able to sustain it," this person said, quoting Shanahan.

The former Trump official said Shanahan "kind of went off" about the F-35 at a retreat for Republican lawmakers last year at the Greenbrier resort in West Virginia. This angered several members of the delegation who had home-district interests in the F-35 program, the former official said.

"We would complain about Lockheed's timing and their inability to deliver, and from a Boeing point of view, say things like, 'We would never do that,'" this former official said.

Shanahan is the first Pentagon chief to come purely from the private sector since the 1950s and has virtually no government or policy experience. He became the acting Defense secretary Jan. 1, following former Secretary Jim Mattis' resignation over Trump's abrupt decision to pull U.S. troops from Syria and begin drawing down from Afghanistan. He has signed an ethics agreement barring him from weighing in on any matters involving his former employer, the Pentagon's fifth-largest contractor in 2017.

Shanahan's experience at Boeing is "his only reference point," the former Trump administration official said. "He doesn't have a lot of other experiences to draw on. He owns it in a powerful way because he doesn't have the military experience, he doesn't have the experience in government. So when he talks about those things, he's very forceful."

His remarks about the F-35 stand in stark contrast to those of the president, who regularly praises the stealth fighter despite initially slamming its high costs.

The F-35 program, while experiencing a number of setbacks, technical delays and groundings throughout the years, is generally considered to be on the mend. The Air Force and Marine Corps variants have been declared ready to deploy, and the Navy version is expected to reach that point as early as next month. And unit costs have come down for all three variants as the plane matures.

Trump has praised Shanahan's ability to cut costs, calling him a "great buyer." He is now among the candidates the president is considering as a permanent replacement for Mattis.

Asked for comment, Shanahan's office released a statement saying he is committed to his agreement to stay out of matters involving Boeing.

"Under his ethics agreement, Mr. Shanahan has recused himself for the duration of his service in the Department of Defense from participating personally and substantially in matters in which the Boeing Company is a party," his office said.

Shanahan's critics are misreading his comments, according to two currently serving officials, who requested anonymity to speak about internal discussions. While Shanahan regularly recounts his experience working on major programs at Boeing, they say, he has not said the company should have won the F-35 contract.

"He's not talking about Boeing right now; he's really speaking more to his experience, his leadership. His insight is, 'I've seen this, I've done it,'" one Defense Department official said.

A second source, a senior government official who has been in the bulk of the meetings involving the F-35, says Shanahan is no Boeing booster.

"I don't believe that's the case at all. I think he's agnostic toward Boeing at best. I think he's extremely confident about his capability relative to sourcing and working with contractors," this official said. "There might be overconfidence there in terms of how his commercial experience translates to defense programs. But I don't think there's any intent to have Boeing favored in the building."

But as Pentagon chiefs go, Shanahan is an outlier. For the past 60 years, Defense secretaries have come to the job with a mixture of military, public service, engineering and business experience.

Two of former President Dwight D. Eisenhower's Defense secretaries had only business experience when they were sworn in. Charles Wilson was president of General Motors when he was nominated, and Neil McElroy was president of Procter & Gamble, although he did serve for a brief time as chairman of the White House Conference on Education.

The late Senate Armed Services Chairman John McCain (R-Ariz.) was among those expressing qualms about Shanahan's ties to Boeing during his confirmation hearing to be deputy secretary in June 2017. "I am concerned that 90 percent of defense spending is in the hands of five corporations, of which you represent one," McCain told Shanahan. "I have to have confidence that the fox is not gonna to be put back into the hen house."

Mandy Smithberger, director of the military reform program at the Project on Government Oversight's Center for Defense Information, said Shanahan's comments could raise questions about his ability to give an unbiased view of programs.

"It's reasonable that people would question whether he is making these comments based on actual policies and performance versus biases and conflicts that he might have from his former employer," she said.

Asked whether a deputy Defense secretary could feasibly recuse himself from Boeing-related matters, Smithberger said it would be "pretty close to impossible."

Though Shanahan has a subordinate who screens matters that come to him in order to prevent him from considering Boeing-related matters, government officials frequently interpret the law narrowly, Smithberger said. "They'll ask, 'Is Boeing an entity competing for a program?' rather than, 'This policy decision, could it be profitable to Boeing or benefit them in another way?' That's why, when people have this deep of a conflict, we wonder if they can really occupy this kind of a position."

Shanahan's ties to Boeing came under renewed scrutiny in December, when Bloomberg reported that Shanahan had urged the Air Force to add \$1.2 billion to its fiscal 2020 budget to purchase 12 Boeing F-15X fighters.

Military experts seemed baffled by the F-15X decision, arguing that the jet, because it lacks the F-35's stealth capability, is ineffective against enemies like Russia and China, which have sophisticated air defense technologies.

"They simply lack the survivability to fly into harm's way and make it home against the military equipment that's built by China and Russia — identified as the two pre-eminent threats in our national security strategy," retired Lt. Gen. Dave Deptula, the dean of the Mitchell Institute for Aerospace Studies, told POLITICO.

Air Force leaders have said publicly they are not interested in purchasing more F-15s, raising questions about the Pentagon's request to purchase the planes now.

In September, Air Force Secretary Heather Wilson told Defense News that the service needs to spend its money on stealthy, fifth-generation F-35s — and that buying even an advanced fourth-generation fighter such as the F-15X, which isn't as stealthy, was not in the cards.

"This is a real head-scratcher for me," retired Air Force Col. J.V. Venable, a senior research fellow with The Heritage Foundation, told POLITICO. "I don't like the decision, I don't think we should invest any more in fourth-generation platforms."

Lockheed did not respond to a request for comment. In a statement, Boeing said it "adheres to and respects Secretary Shanahan's decision to recuse himself from Company matters. We have not spoken to Sec. Shanahan regarding Boeing programs during his entire Pentagon tenure."

A Boeing official said the company views having one of its former senior executives at the top of the Pentagon as a complicating factor, not as an advantage. "We couldn't talk to the DepSec and now we can't talk to the acting secretary about our programs," the official said. "That's a disadvantage to Boeing that other companies don't have to deal with."

At Boeing, Shanahan was involved with the 700-series jetliners, some of the world's most popular commercial aircraft, and played a key role in getting the troubled 787 Dreamliner program back on track.

He oversaw military programs as well, and was vice president and general manager of Boeing Missile Defense Systems and Boeing Rotorcraft Systems. There, he was involved with ballistic-missile defense and laser systems, and the Apache, Chinook and Osprey military helicopter programs.

Dan Grazier, a military expert with the Project on Government Oversight, said that even if Shanahan isn't violating his ethics agreement, he risks coloring the decisions of underlings if he draws too heavily on specific Boeing experience.

"You get into a gray area if he's saying these things in front of what can only now be subordinates talking about these types of matters," Grazier said. "There can be some undue influence issues with that."

Grazier, a critic of the revolving door between industry and government agencies, said he's reserving judgment on Shanahan until he sees him in action as secretary.

He said people with industry experience have a checkered past when they take on senior Defense Department positions.

He said his concern is less with senior government officials enriching themselves in their current jobs and more with decisions that could make them rich later.

"In general, the concern with revolving-door issues is not so much what they could potentially do, or what they could get right now," Grazier said. "It's how they could be compensated later on. He won't be in this position at the Pentagon forever."

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