



DAVID DRANS/LOCKHEED MARTIN

F-35's RISING COST

The upper projected price tag on the F-35 Lightning II — Joint Strike Fighter — has nearly doubled in constant dollars, DoD officials said.



SOURCE: MCKINSEY REPORT
DEFENSE NEWS GRAPHIC BY BRINN SMITH

JSF

From Page 1

comes several months after the Navy leaked a report showing that the F-35 will cost considerably more to fly and maintain than the sea service's current fighters.

Meanwhile, Mike Sullivan, the Government Accountability Office's director of acquisition and sourcing management, told lawmakers during a March 11 Senate Armed Services Committee hearing that the GAO estimates that the plane will cost \$112 million apiece in today's dollars.

Fox said DoD would formally notify Congress of the breach on April 1.

She said the Pentagon has known of this since October. That's one month earlier than previously reported.

Fox compared the F-35 program to earlier Pentagon aircraft that ultimately produced planes that are "valuable to DoD," such as the C-17 and the F-22.

She noted that the F-22 "repeatedly failed to meet key performance, schedule and cost goals throughout its development program," yet Lockheed Martin was ultimately able to produce "a capable aircraft."

Carter said at the hearing that the Initial Operational Capability dates for the U.S. Air Force and Navy F-35 have been shifted to 2016, a three- and two-year delay, respectively. The Marine Corps date remains 2012, he said.

The Marine Corps aircraft will use Block 2 software, whereas the Navy and Air Force jets will use the Block 3 version. ■

E-mail: jreed@defensenews.com

TANKER

From Page 1

As well, Britain's BAE Systems and Italy's Finmeccanica group have spent large sums to buy U.S. businesses as part of their strategy to gain direct access to the world's largest defense market. EADS, European missile maker MBDA and France's Safran group also are looking for medium-sized acquisitions and program openings in America.

The damage done in trans-Atlantic relations casts doubt on that strategy, said Loïc Tribot La Spère, head of the Centre d'Étude et de Prospective Stratégique, a think tank here.

"It is not worth investing to acquire companies if you find yourself competing against an 'American' company," Tribot La Spère said. "The concern is the U.S. company will win."

"This will significantly penalize aerospace and defense companies," he said. "It will certainly penalize European-American relations."

The implications go wider. "It raises the question whether the operational cooperation you see in Afghanistan can be extended to technological cooperation," he said.

For his part, Pentagon acquisition chief Ashton Carter said in a March 12 interview that he was aware of the protectionism charges.

"People try to read things into a particular acquisition event," he said. "There is no intent to bar European offers from giving us in the U.S. Department of Defense their weapon systems. We actually value that because the wider the base of technology, the more competition that we can have, [it] is better for the taxpayer and the war fighter."

Protectionism Boon

The tanker tender helps those who favor protectionism here, known under the label of European preference, said Camille Grand, director of think tank Fondation pour la Recherche Stratégique.

"In future, when the 'EADS countries' come to buying decisions, industry will have an argument against acquisition of American equipment," he said. "That ends up hurting U.S. business."

Britain, France, Germany and Spain are stakeholders in EADS, with large industrial or financial holdings in the group or its Airbus airliner subsidiary.

As NATO works toward defining a new strategic security concept, the tanker contest could chill the potential for a large trans-Atlantic defense market, Grand said.

"The air tanker dossier had taken on a highly symbolic significance. It could have helped develop a large trans-Atlantic cooperation," he said.

The perception was the U.S. contest had not been "fair and free," which would hinder European de-

Source: EADS Seeking New Tanker-Bid Partner

By JOHN REED

The U.S. Air Force's \$35 billion KC-X competition may not end up being a sole-source competition. It appears that EADS is looking to buy time to find a new partner to bid against tanker rival Boeing.

"We're hearing that EADS has approached [the U.S. Defense Department] and asked for an extension to the tanker bid submittal deadline," which is in mid-May, one congressional aide said March 12.

A DoD official said later in the day, "We are neither encouraging or discouraging EADS from bidding. That said, it's not uncommon for us to extend RFPs a reasonable amount of time. But we haven't been asked to do so in this instance."

Meanwhile, Pentagon acquisition chief Ashton Carter dodged questions from reporters on the matter during a March 12 press conference at the Pentagon. All Carter would say is that the Pentagon "values the contribution of European industry to the choices that we can make as a department." He said that although the Pentagon doesn't have "an indication of any additional bidders, DoD is happy to have a competition."

EADS North America spokesman Guy Hicks said March 12. "We

don't comment on any communications between [EADS] and our customers."

One senior EADS official said earlier this week that he had serious doubts the company has enough time to find a new U.S. partner that could handle a \$35 billion deal, such as Lockheed Martin, L-3 Communications or Raytheon.

However, Raytheon issued a cryptic statement March 12 when asked whether company officials were in talks with EADS about a tanker partnership.

"We have the technology and capabilities to support the tanker program in a number of ways, but we have to refer [inquiries on the matter] to EADS," a company spokeswoman said.

Lockheed and L-3 were unavailable for comment at press time.

Three U.S. lawmakers with large numbers of Boeing employees among their constituents — Sen. Sam Brownback (R-Kan.), Sen. Pat Roberts (R-Kan.) and Rep. Todd Tiahrt (R-Goddard) — responded March 12 to reports of EADS' deadline request: "Delay is unacceptable. Dragging out this competition hurts our war fighters and costs the taxpayer," Brownback said.

Several analysts said time may have run out for EADS.

"Finding someone else would be

tough to do unless they have already done the groundwork" to establish a brand new KC-X partner, Center for Strategic and Budgetary Assessments Senior Fellow Mark Gunzinger said March 10.

Richard Aboulafia of the Teal Group was even more dubious, saying in a March 9 e-mail when asked whether he thought the Air Force might grant EADS extra time to put together a new tanker partnership: "Hell, no. EADS today said they were withdrawing — period."

Aboulafia was referring to comments made that day by EADS Chairman Louis Galois. "When Northrop Grumman, which is one of the most important defense suppliers in the United States, makes the analysis that they have no chance to win, I don't think that we have more chance going alone," Galois said. "That's clear for us."

Loren Thompson of the Lexington Institute said neither Raytheon nor L-3 can manage a large aircraft production program. "They've never built a tanker," he said. "This whole thing sounds unlikely."

In March 10 testimony, Air Force leaders told lawmakers they intended to move ahead with program as scheduled. ■

John T. Bennett and Vign Munsford contributed to this report.

ferse markets from opening up to competition, he said.

The tanker decision was all the more disappointing because the aircraft did not raise key sovereignty issues, such as might arise from buying a combat aircraft or new satellite.

Pierre Conesa, chief executive of consulting firm Consopagie Européenne d'Intelligence Stratégique, here, said, "This gives a bad image for America."

Boosting European Firm?

The bruising experience may yet give European companies a political boost. "European industry could use this as an argument to get support for defense programs in the future," Conesa said.

François Lureau, head of consulting firm EuroFLConsult and former head of the French defense procurement office, agreed: "There is an increasing awareness in Europe [that] more needs to be spent on defense, or certainly not less. The tanker deal tends to support that."

Tribot La Spère said, "If this is confirmed, it is a strong signal that America is practicing a policy of economic protectionism." He added, "It sends the message that the free-market principle is pursued sometimes, not all the time, and not when

it is in their own interests."

U.S. export control is cited as a factor for the launch of the European Meteor missile program. The U.S. denied export clearance for the Advanced Medium-Range Air-to-Air Missile (AMRAAM) for the Saab Gripen fighter jet for sale to Finland, and then sold Boeing's F/A-18 fighter with the AMRAAM to the Finnish Air Force, an analyst said.

A further cause for concern for European industry is the Obama administration's plan to streamline arms export clearances, which will likely increase competitive pressure and boost U.S. share in the world market, Grand said.

But any response, to be effective, would need to be made by European countries acting together, not just France. That might be difficult to obtain.

"It will be hard to make a common front," said Nick Cunningham, analyst at brokerage firm Evolution Securities, London. "Britain and Italy have the most to lose."

Britain is buying the U.S.-built Rivet Joint reconnaissance aircraft and gets technology transfer on the Astute nuclear attack submarine and Trident ballistic missile. BAE and Ultra Electronics have commercial interests in the U.S. market, and BAE is a tier-one manufacturer on the F-

35 Joint Strike Fighter (JSF).

Italy has negotiated final assembly and checkout of the JSF and is supplying the C-27J twin-engine cargo plane to the U.S. Army.

A study by the Center for Transatlantic Relations on U.S.-EU defense trade showed that Europe imported about 1.5 percent of total U.S. procurement. U.S. military exports to a small group of European countries, including Britain, France and Germany, rose from \$1.2 billion in 2002 to more than \$6 billion in 2006.

European exports to the United States totaled \$511 million in 2002 and rose to \$1.5 billion in 2006, mainly due to the U.S. purchase of mine-resistant vehicles.

Apparently, Northrop's assurances that its tanker-building operation would create about 40,000 American jobs and start up an A330 assembly line in Mobile, Ala., were insufficient.

The politics of spending defense money means the taxpayer wants to see domestic jobs created, Lureau said. It takes political courage to go against that.

For Grand, the tanker deal could have sent a powerful signal in trans-Atlantic relations. "This was a missed opportunity at the political level," he said. ■

E-mail: ptra@defensenews.com