

AFTERSHOC

Lawmakers' failure on deficit agreement wrecks havoc on the Pentagon's plans

JEN DIMASCIO/WASHINGTON

Now what? In August, it seemed as if the U.S. Congress might finally be coming to its senses, putting together an agreement to force itself to reduce the massive U.S. budget deficit. But at the

first opportunity for success, a bipartisan panel created to save lawmakers from themselves bolted, leaving the defense industry holding the bag.

Last week's failure by the so-called Super Committee to find at least \$1.2 trillion in deficit reduction means that

the Pentagon's budget will automatically begin to be slashed by \$600 billion over 10 years starting in January 2013. But the committee's failure will begin reverberating across the industry almost immediately—possibly taking out the nation's biggest weapon system—the Lockheed Martin F-35 Joint Strike Fighter (JSF).

While lawmakers such as Senate Armed Services ranking member John McCain (R-Ariz.) and House Armed Services Chairman Buck McKeon (R-Calif.) have vowed to intervene to stop the automatic cuts, the Obama administration has threatened to veto a reversal. If the Budget Control

Act (BCA) remains in effect, the Pentagon—which plans its future budgets years in advance—will be faced with the prospect of submitting a fiscal 2013 budget by February that assumes the maximum level of cuts. And

that means contractors could face terminations of signature weapon programs that may, or may not, come to pass (see graphic).

“In order to meet the timeline of the BCA and make the required cuts to comply with spending caps, the [Defense Department] will begin cuts immediately,” notes the House Armed Services Committee. “The [Defense Department] will have to frontload many of the cuts because of high short-term costs such as separation payments and penalties for

TEN TEMPTING TARGETS

Joint Strike Fighter

Biggest defense acquisition program ever makes for the biggest target.

Next-Generation Bomber

Key to maintaining a nuclear triad this century—unless it becomes two legged.

Ground Vehicles

What exactly do the Army and Marines need after Afghanistan and Iraq wars?

Helicopter modernization

Wars sidelined earlier efforts and planning. Will budgets do the same?

V-22 Osprey

Marine Corps' perennial target faces new challenge in era of needs-versus-wants.

Ford-class aircraft carriers

These flattops and new submarines could break the bank in shipbuilding.

DDG-51/DDG-1000 destroyers

If Arleigh Burkes are so expensive to upgrade, why not build Zumwalts?

Littoral Combat Ship

Long-sought backbone of U.S. naval forces remains largely out of commission, except as a large-budget target.

Ground-based Midcourse Defense

Legacy ICBM-based missile defense system has seen its star fall in political circles and in test failures.

C-27 light transport aircraft

Has few cheerleaders in the Pentagon outside the National Guard.

Source: Aviation Week Intelligence Network

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Defense Secretary Leon Panetta is in the uncomfortable position of decrying cuts to defense spending and supporting the president's insistence on abiding by the Budget Control Act.

canceling contracts. Even if the Congress were to amend the sequestration triggers in the next year, some decisions would be irrevocable.”

President Barack Obama has put himself in a box, says a Democratic congressional aide. After the Super Committee's failure, Obama has taken a stance against efforts to undo the automatic cuts and effectively gave Congress another year to dither. “The only way these spending cuts will not take place is if Congress gets back to work and agrees on a balanced plan to reduce the deficit by at least \$1.2 trillion,” Obama said on Nov. 21. “That’s the job they promised to do. And they’ve still got a year to figure it out.”

Obama’s statement also forced Defense Secretary Leon Panetta to contort himself in a statement issued Nov. 21, shortly after the Super Committee’s inaction was announced. While Panetta had to press Congress to take another stab at deficit reduction, he simultaneously decried the cuts “that will tear a seam in the nation’s defense.”

There’s a risk in hyping the dangers of sequestration too much, says Todd Harrison, a budget analyst for the Center for Strategic and Budgetary Assessments, a centrist think tank. “It could undercut the veto threat,” Harrison says. He adds that the Pentagon is unlikely to submit a fiscal 2013 budget in February that aligns with the BCA’s spending caps, because the Pentagon did not plan for the sequestration penalty.

Rather than submitting a doomsday budget, the administration may offer a plan for fiscal 2013 that exceeds spending caps under the BCA in February with the intent to amend it be-

fore the January 2013 deadline. Why? Because the Pentagon, renowned for its contingency planning, did not take the sequestration penalty into account and is already well into planning its 2013 request.

The unintended consequences of steep cuts in an official request could be numerous. What if lawmakers try to call the bluff—if it is one—and push to enact it, or worse, do that and start enacting immediate rescissions from targeted programs such as has been happening with the Medium Extended Air Defense System this year? And what do program managers and their bosses do in regards to planning for activities like long-lead acquisition or staff additions?

All this uncertainty may serve as a way for both sides to score campaign points in a presidential election year, notes Steven Grundman of Grundman Advisory. “You would expect that this is a straw-man budget,” he says of the worst-case scenarios.

Sequestration’s full effect almost demands cancellation of the JSE, says Grundman, who was an acquisition official in President Bill Clinton’s Pentagon. If officials actually follow through on capped levels of spending under sequestration, in a fiscal 2013 budget request to Capitol Hill, program managers may have little alternative than to plan only to shut the fifth-generation fighter program down.

Defense executives are bracing for the storm. Contractors may have spent the

last few years preparing for a downturn in budgets, but none of them envisioned anything as drastic as the 23% across-the-board cut that would be imposed on the Pentagon if sequestration is triggered.

In a Nov. 14 letter to McCain and Graham, Panetta outlined a series of weapon system cuts and program delays that add up to \$200 billion in savings. Panetta’s doomsday list opens up a Pandora’s box of potential lobbying arguments.

Knife fights are already breaking out behind the scenes, as contractors and generals hone their pitches to “buy mine” and “cut theirs.”

“It’s three-level chess,” one defense insider says of the machinations inside the Pentagon. Strategically, officials will begin to plan for big cuts. Underneath that there will be the strategy of using big cuts to save individual programs. Tactically, it will evolve into attacking individual programs. “Whack the other guys,” he says.

With a dagger hanging over the head of the nation’s fifth-generation fighter jet, one that has collected international partners to make the costly aircraft more affordable to all, the department’s potential “no” vote gives the Boeing F/A-18 and other legacy fighters a window for program officials to push for upgrades. That argument holds true for other programs on the Pentagon’s hit list.

Plans to rewrite the rules have prompted Wall Street analysts to downplay the impact of sequestration on de-

fense stocks, arguing that pro-defense lawmakers were unlikely to let that come to pass.

Morgan Stanley analyst Heidi Wood says, "The real question is by how much and [the] timing. The president's \$400B request clearly was the opening salvo." A realistic final range could be \$800 billion to \$1 trillion in cuts over the next decade, she adds. "Actual cuts are likely less."

And while budget hawks concede that the sequestration penalty of across-the-board cuts is a poor way to plan a budget, they do not see steep reductions in what the Pentagon expected to spend as outlandish.

"Even with these reductions, and after adjusting for inflation, U.S. defense spending in [fiscal] 2018 would be well above the Cold War average," wrote Gordon Adams and Matthew Leatherman of the Stimson Center nearly one year ago in *Foreign Affairs*. "By choosing to undertake only tailored missions and to fund them with disciplined budgets, the Pentagon would also be contributing vitally to the country's broader fiscal health."

But a change in the nation's approach to the defense budget is now becoming more a reality than an academic exercise.

Defense experts are sorting out what policies the penalty may alter at the Pentagon. Rather than just calling for a strategy to underpin new budget choices, the changes are coming into view.

Michael O'Hanlon of the Brookings Institution recommended during a Nov. 21 panel discussion that the Pentagon begin considering some significant changes in its mind-set: for instance, scrapping the requirement for the capability to fight two major wars at once in favor of a one-war requirement along with the ability to handle two long-term contingency operations.

And he's also suggesting a move that could shake up the Navy: sharing ships. The foreign policy research director says he would think about keeping cruisers and destroyers forward-deployed for one or two years and rotating crews of 300 people, as a way of releasing the Navy from its grip on a 313-ship construct.

"Earth to Navy, it's not going to happen," O'Hanlon said. "We need to find ways to be more innovative and creative. And with this kind of an approach, you can go below 284 ships and still sustain the kind of presence we have." ☉

It may be premature to say the future of U.S. strike aviation will be the first casualty of the U.S. budget crisis, but there can be little doubt that it is in jeopardy—compliments of the congressional Super Committee's abject failure to agree on a plan for reducing the federal deficit by \$1.2 trillion. Whether there are adequate alternatives to the F-35 is debatable if the program is delayed, reduced or killed.

Termination of the U.S. Air Force's F-35A would kill the program. But it also could be delayed, or full-rate production could be cut from the current goal of 80 aircraft a year. The Navy's F-35C and the Marine Corps' F-35B are subject to any of the same outcomes. Adding to the clouded outlook for the F-35, and more broadly to that of U.S. strike aviation, is that the Pentagon and the program's leadership have yet to produce firm guarantees about the Joint Strike Fighter's initial operational capability dates, as well as procurement and support costs.

Meanwhile, U.S. and international groups are working on plans to sustain in-production fighters, such as the F-15, F-16 and F/A-18, along with European fighters, through mid-century. Supplementing all of those less stealthy aircraft will be unmanned strike designs, standoff weapons, electronic attack and signature-reduction packages.

Vastly complicating the uncertainty surrounding the F-35 is the role of international partners. Individually, none of the eight nations is expected to take even 5% of the planned production run. But they need aircraft early. Currently, the F-35s they have agreed to purchase in the low-rate initial-production phase are comparable to those of the Air Force. From the start, large orders have formed the basis for the F-35's affordability. The following stories examine possible options if the program falters.

Super Options

Boeing offers a catalog of new capabilities for its F/A-18 variants

DAVID FULGHUM/ST. LOUIS

Future aerial combat that pits the U.S. against advanced aircraft, missiles and air defenses—produced by what many defense officials contend are near-peer nations, such as China or Russia—could require more stealth aircraft than the U.S. can muster.

The shortage might be the result of shrunken defense budgets in coming decades, and it also may be driven by the inability to transfer aircraft to some distant battlefield in time to deter military adventurism in Asia, Africa or the Middle East. Such a deficiency kept U.S. F-22 units based on the East Coast from participating in the Libyan campaign.

Stopgap measures could include upgrading less stealthy, conventional aircraft such as the F-15, B-1, F/A-18EFs, F-16s and EA-18Gs to penetrate further into a foe's most lethal threat rings. To avoid making such a foray a suicide mission, those aircraft could combine reduced signatures, electronic attack, directed-energy weapons, cyberoperations and standoff missiles to increase their striking range and penetration capabilities.

Lockheed Martin and other proponents of the Joint Strike Fighter claim that the F-35 performs that mission,

noting that it is the only true "fifth-generation" fighter designed from scratch to meet the requirements the U.S. Air Force insists will be needed in the most lethal threat environments.

But legacy fighter manufacturers, and Boeing in particular, have been trying to counter the argument that there is no adequate substitute. And with the JSF almost certainly among the top 10 targets for congressional budget-cutters, rivals to Lockheed Martin may have a fighting chance to try to make their case.

Evidence of the search for stealth alternatives is emerging as new standoff weapons—such as Boeing's Champ missile that carries a Raytheon Ktech-built high-power microwave warhead—near operational readiness.

In addition, Boeing is offering a line of upgrades for international variants of its F/A-18E/F Super Hornets and F-15C/Es that the U.S. military will envy and may well adopt as its budgets shrink.

Among those options for the Super Hornet is a stealthy weapons bay that can be attached to the exterior of the aircraft, says Mike Gibbons, Boeing's F/A-18 and EA-18 programs vice president. Historically, any exterior payload—fuel tanks, weapons or sen-