

DefenseNews

www.defensenews.com

A GANNETT COMPANY

U.K. PREPS FOR AFGHAN PULLOUT

14



April 16, 2012

EUROPE

Italy Slashes Its Ranks

30 percent of admirals, generals must go; one-third of bases to close. *Page 14*
3 France: Politics stall mega-radio deal.

THE AMERICAS

U.S. Nuke Expertise Fading

Scientists are in short supply in low-priority field. *Page 4*

ASIA & PACIFIC RIM



S. Korea's Naval Ambitions

As neighbors build up forces, Seoul pursues blue-water fleet. *Page 13*
18 India: Systems integrator looks to expand.

MIDDLE EAST

Turkey's Syria Problem

How a buffer zone could lead to war. *Page 6*

INTERVIEW

Gerald Howarth

U.K.'s defense minister for international security strategy sees a future in cooperation with India. *Page 22*



SPECIAL REPORT



Military Space

U.S. seeks competition to lower launch costs. *Page 9*

Getting Programs OK'd – Faster

Pentagon Streamlines Requirements Process

By MARCUS WEISGERBER

Two months ago, top officers and senior U.S. Defense Department officials huddled to discuss a serious matter of national security.

But the meeting was not about Afghanistan, North Korea or even Iran. It was about the requirements for the F-35 Joint Strike Fighter, the aircraft that DoD wants to be the centerpiece of combat aviation for decades. The program, which began in the 1990s, has suffered from multiple years of delays and is billions of dollars over budget.

This meeting was part of an effort to help right the program by reviewing some of the stealth fighter's requirements and deter-



LOCKHEED MARTIN

Cutting Red Tape: The Pentagon shifted requirements for the F-35 Joint Strike Fighter earlier this year under a new process for determining benchmarks for programs.

mine if they were realistic. The participants also wanted to see how slight modifications to those requirements could improve cost, schedule and performance.

In the end, some changes were

made. Whether those alterations solve or mitigate the program's problems remain to be seen.

The F-35 program is one of a dozen that have undergone a re-

See **REQUIREMENTS**, Page 7

Companies Turn Toward Diversification

Once Taboo, Commercial Expansion Becomes Target

By SARAH CHACKO and ZACHARY FRYER-BIGGS

In bracing for another era of tight U.S. federal budgets, here is one thing defense contractors aren't likely to do: adopt the same strategy they used during the post-Cold War drawdown of the 1990s.

The strategy back then was to merge and acquire their way to a leading position in their respective niche markets, such as ground vehicles, surveillance or communications.

Today, many options considered

taboo last time — such as expanding into commercial markets — are on the table.

The prevailing wisdom of the last downturn was best articulated by former Lockheed Martin CEO Norman Augustine, who said that the defense industry's record of diversification was “unblemished by success.”

“We way overlearned that lesson,” said Steve Grundman, Lund Fellow at the Atlantic Council. “That slogan got repeated, and repeated, and Wall Street repeated it. And ever since then, there has

been a nearly unanimous aversion to a defense company diversifying.”

But that aversion is wearing off. Companies are expressing more willingness to move into adjacent nondefense and commercial markets and acquire new capabilities.

General Dynamics, for example, expanded its presence in the growing federal health information technology market with the September acquisition of IT company Vangent. Most of Vangent's work has been with the Health and Hu-

See **DOWNTURN**, Page 6

PERIODICALS-NEWSPAPER HANDLING

(1)

Vol. 27, No. 15 \$4.50 (\$7.50 Non-U.S.)

NEW WORLD STANDARD

The ALL MODE IFF Interrogator



AN/UPX-44



www.telephonics.com

Turkey Closer to Creating Buffer Zone in Syria

Attack Helos, UAVs Could Play a Role

By **UMIT ENGINSOY**
and **BURAK EGE BEKDIL**

ANKARA — Turkey may be preparing for military action against Syria, possibly setting up a buffer zone across the Syrian border on Syrian territory, as the refugee situation has worsened in Syria's civil war.

At the same time, Turkish efforts to spearhead an international coalition against Syria seemed to signal a sectarian proxy war between Islam's two major denominations: the Sunni, as championed by Turkey, and the Shiite, which has been led by Iran.

Turkish Prime Minister Recep Tayyip Erdogan told reporters in Beijing on April 10 that the Syrian Army had violated Turkish sovereignty by firing at a refugee camp inside Turkish territory. A Turkish news agency quoted him as saying, "It's a clear violation. Naturally, we shall respond accordingly." He

said Turkey could set up a buffer zone.

"We don't want to go inside there. But they [the Syrians] shouldn't suspect that if we want to we can't do that," he said. His remarks came one day after the Syrian fire had killed four Syrian refugees and injured a number of people, including two Turkish aid officials.

"If the Turks want to set up a buffer zone or such zone on the Syrian side of the war, it will be a full-fledged war," military analyst Adnan Caglayan said. But if Turkey still wants to make a push, it would rely on its superior air force and tank fleet.

"Turkey could want to borrow a few AH-1W attack helicopters from the United States, the tank killers, if it decides to enter," Caglayan said.

"Another thing it could request is unmanned aerial vehicles, and probably weapons against air defense systems," he said. Turkey has a 910-kilometer border with Syria.

A Turkish Foreign Ministry official said Turkey would welcome a joint action with NATO partners. And although it wants Syri-

an President Bashar al-Assad to step down, U.S. President Barack Obama's administration is highly reluctant to take military measures or seek NATO's involvement against al-Assad's army in a U.S. election year.

It is unknown if Turkey has made any official request for aid from the U.S. or NATO.

Syria promised to stop fighting by an April 12 deadline for a cease-fire brokered by U.N. special envoy Kofi Annan, but reserved the right to respond to any aggression.

There are other obstacles to war. Turkey gets more than 80 percent of its natural gas from Russia, Syria's international protector, and Iran, its regional patron. That supply would be cut off if it attacks Syria, officials said.

In the last decade, Turkey wanted to play the role of the leading Muslim power in the region, but Iran is blocking its ambitions. In response, Turkey is jockeying to be the region's leading Sunni power.

Erdogan made an unscheduled stop in Saudi Arabia on his way from China, where he discussed Syria with King Abdullah. Saudi Arabia is the other major Sunni nation in the

region that supports al-Assad's overthrow.

Foreign Minister Ahmet Davutoglu on April 11 convened top Turkish officials, including senior diplomats and top intelligence and military officials. The diplomats said the military presence at the meeting indicated deliberations on possible contingency planning.

Turkey was scheduled to hold another critical meeting in Istanbul on April 14 between Iran and the P5+1 (the five countries that make up the U.N. Security Council, plus Germany). Another round of talks would be held in Baghdad at a date to be determined later.

"Despite their tensions, a war between Turkey and Iran would be unthinkable. The border between the two states has been unchanged for nearly 300 years, and is very mountainous," Caglayan said.

"The most Turkey could do would be to stay silent in the face of Western attacks against Iran's nuclear facilities," which could be expected following the U.S. presidential elections in November, he said. □

Email: uenginsoy@defensenews.com,
bbekdil@defensenews.com.

DOWNTURN

From Page 1

man Services Department, which awarded the company more than \$260 million in contracts in 2009 and 2010.

Companies also are eyeing commercial markets as opportunities to expand their core businesses.

"In everything that we're looking at these days, we want to make sure that it has a dual purpose to it," said David Melcher, CEO of defense and aerospace firm ITT Exelis, which split off from ITT less than a year ago. "We're not going to be making a big leap away from our core into some commercial discipline that we don't have a lot of grounding in, but we will look at things that have commercial applications."

The commercial aerospace market provides prime opportunities for defense companies, said Grundman, who leads the consulting firm Grundman Advisory.

"In the mid-'90s, when the defense industry was trying to figure out how to restructure, the commercial aerospace business was in a downturn," he said. "Today the commercial aerospace market is on the leading edge of a decade of tremendous growth."

Unmanned vehicles, for example, are a class of technology that will eventually become "indispensable in the affairs of humans," Wes Bush, president and CEO of Northrop Grumman, said in August to the Association for Unmanned Vehicle Systems International.

Unmanned vehicles have been used to crawl through earthquake

rubble in search of survivors, investigate toxic nuclear reactor sites, fight drug smuggling and study the environment, he said.

And it's a technology that is fast emerging on an international scale. Global spending on unmanned systems in the next decade will reach \$94 billion, according to a 2011 report by the Teal Group, a defense and aerospace market research firm.

Picking Lifelines

When the Cold War ended, the Pentagon pressed companies to merge and consolidate on the premise that defense budgets could no longer support an expansive contractor base.

But now, Defense Department officials have said they are not inclined to support mergers of top-tier companies. Still, Exelis' Melcher said some merger activity should be expected.

"[Deputy Defense Secretary Ashton] Carter, I don't think really has a strong opinion about what happens below tier one, so it's very likely that there will be consolidation beyond tier one," he said.

Companies acquire other companies to accumulate specific skills expected to be valuable to government. That can benefit companies with a strong presence in only one or two agencies, said Ray Bjorklund, chief knowledge officer for the market research firm Deltek. But Bjorklund warned company officials looking to gain a presence in new areas to keep a close watch on maintaining the credibility and competencies they've already developed.

"If it isn't what you know best, you again may make some mis-

takes," he said. "This isn't the time to develop a poor past performance record. If you're going to be moving into other areas, you need to do it well."

Drilling Deeper

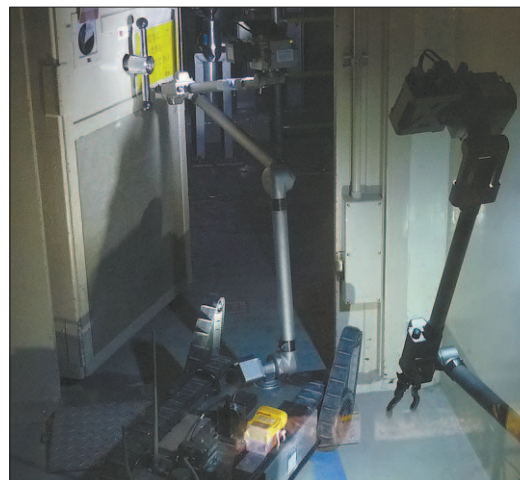
Some companies are planning to hunker down and focus on key capabilities.

"You'll see us, rather than reaching out, probably focusing a little bit, focusing on our core: comnav [communications/navigation] and avionics areas," said Kelly Ortberg, chief operating officer of the Government Systems division at Rockwell Collins.

The company anticipates a decline in defense sales of 2 to 3 percent this fiscal year, but a focus on core capabilities should prevent greater losses, Ortberg said. "We feel pretty well positioned with our legacy platform positions," he said. "We're not immune to [losses caused by a defense downturn], but no one thing is going to be overly critical to us."

Northrop Grumman has consolidated its operational sectors from seven to four over the past eight years, said Susan Coté, vice president of contracts and pricing. The company is now focusing on unmanned aircraft, C4ISR, cybersecurity and logistics, she said. Most of the company's research and development efforts are to make existing programs more affordable and versatile across agencies, Coté said.

For example, Northrop was able



New Uses: The U.S.-made Pacbot checks for damages after the earthquake and tsunami in Japan. Unmanned vehicles show promise among civilian agencies as defense companies look beyond the military market.

to transfer its Battlefield Airborne Communications Node (BACN) from manned aircraft to the Global Hawk UAV. The airborne communications system allows different aircraft to share information from numerous computer and radio systems. Northrop anticipates BACN could be used for ground vehicles and warships as well.

Changes Still To Come

The long-term effects of the upcoming downturn on industry could still resemble changes of the past, experts said. Much of the merger and acquisition activity that became a hallmark of the past downturn took years to develop, highlighted by major consolidations a decade later.

"The last cycle of restructuring basically took 15 years, so we are in

very early days," Grundman said. "The consolidation actions didn't take place until we were 10 years into the cycle, at which point the bottom of the cycle was well within view. The economic logic of the transactions was to consolidate market share just ahead of the turnaround in defense spending."

Companies still don't have a firm sense of where federal spending is heading in the future — they know growth will slow, and perhaps dip, but the pace and angle of decline is unclear and probably will be for some time.

David Berteau, director of the International Security Program at the Center for Strategic and International Studies, said that kind of predictability is crucial for companies trying to strategize for the future. This uncertainty suggests it may be too early for many companies to commit to mergers, acquisitions or divestitures, he said.

"By the time you got to '92, '93, the fidelity of the future defense spending productions was pretty much accepted by everybody as valid, pretty good for planning purposes," Berteau said. "We don't have that fidelity of projection today. We know that it's probably going to go down, but we don't have a visible Pentagon plan that reflects that. This dust still has to settle a little bit." □

Email: schacko@federaltimes.com,
zbiggs@defensenews.com.