

# Global Suppliers Still Coming to America

By Christopher P. Cavas 4:10 p.m. EDT June 29, 2015



(Photo: Christopher P. Cavas/sfaff)

WASHINGTON — The world's largest defense spender is bound to attract companies eager for a piece of the action, and increasingly, foreign-owned businesses are creating US-based subsidiaries to compete for Pentagon dollars.

While American politics often keeps foreign-owned companies from competing as prime contractors, there are plenty of roles still to be had. Those issues were addressed last week at a unique forum in Washington sponsored by the Atlantic Council.

"Every one of these companies is a great defense company creating business opportunities in the United States," moderator Steve Grundman told a select audience June 24, as he introduced the US-based presidents and chief operating officers of four major European corporations.

First up was Michael Andersson, head of Saab North America.

"Our strategy is to act global and offer it local. That's the strategy we had to deploy to grow our businesses globally," Andersson said.

He ticked off the company's six operating businesses in the US, four of which are defense businesses operating under a special security agreement. The defense businesses, focused on training, management products, radars and support operations, are located in four states. But Swedish-based Saab, with about 15,000 employees worldwide, is shooting higher as well.

"We partner with US interests to win programs in the US and internationally," Andersson said, emphasizing the company's teaming with US prime Boeing to compete for the US Air Force's T-X aircraft trainer.

Siemens USA, a US subsidiary of German-based Siemens AG, is a much larger operation with, Judy Marks, president and CEO of Siemens Government Technologies, said, more than 50,000 Siemens employees in the US — in every state and Puerto Rico.

"We go to market here as an American company," she said, noting that in 2014 Siemens as a whole "did about \$22 billion in the US," of which about \$5.2 billion was in US-made goods exported internationally.

"We think we bring the scale," Marks said. "If something needs to be built here, we've got the manufacturing to do 'made in America,' 'built in America.' If not, we bring the scale and the investment of a global corporation."

Thales USA operates about eight business units in the US, said President and CEO Alan Pellegrini, with about 3,000 employees spread over 20 states. Globally, French-based Thales is split about evenly between defense and commercial products, but only about 30 percent of its US-based businesses focus on defense.

Specializing in space, aviation, ground transportation (train and metro rail), communications and security (cyber and physical), and defense, Thales does about \$2 billion annually in US activities, he said.

"We also do a substantial amount of exporting from the US," Pellegrini added.

"Our primary strengths in defense are communications and electronics," Pellegrini said. "We also partner very assertively with large primes and integrators. We try to bring to their portfolio technology that will help them differentiate."

Safran USA, said CEO and President Peter Lengyel, adheres to its French parent's adage — "we do everything on the plane except for the plane." With manufacturing or assembling facilities in about 25 states, the US division makes aerospace items including aircraft wiring, power distribution systems and engine nacelles, but its biggest concentration is in security products.

"We are number one in biometrics — FBI fingerprinting," Lengyel said, "and number one in explosives trace detection."

Of the parent company's \$20 billion in 2014 revenue, he said, about one quarter, or around \$5 billion, came from the US-based businesses.

A key to foreign-based success in the US is an approach that lowers ambitions from going after the prime contractor spot to more of a partnership role, Pellegrini said.

"In the past, the ambitions for Thales in the US from a defense perspective perhaps were a bit more grandeur," Pellegrini said. "By the time I took [this] role, I think we took a very pragmatic approach here in the US," focusing more on a niche role. "We believe we can grow as a defense business in the US with a focused kind of approach — working with the US government directly where it makes sense, but also relying on partnerships.

"There have been attempts to be larger by some companies; there've been attempts to play in the same league with the Lockheed Martins and others," Pellegrini observed. "And I think that's a tougher challenge than really playing to your strengths as a foreign company."

Foreign-based partners also provide an opportunity for US companies to open an avenue to export markets.

"I sense that companies like ourselves are relatively attractive to US partners right now," Pellegrini said. "With shrinking defense markets here, to some extent they look at us as a channel to market in some parts of the world."

"Partnerships go both ways," Andersson agreed. "One great example is the Gripen fighter; it's up to 40 percent US content. Another is the T-X US Air Force trainer program. That's a global market."

As for dealing with the US government, the CEOs echoed the concerns of US-based defense contractors.

"What industry wants is clarity, that we understand the regulations, we don't want to take any risks," Andersson said. "There is room for interpretation in the current regulations. The devil is in the details, and here it's about the implementation."

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