GLOBAL COOPERATION AND COMPETITION IN THE DEFENSE AND AEROSPACE INDUSTRIES

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PANEL 18, 13 MAY 2010
**Global Cooperation and Competition in the Defense and Aerospace Industries**

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**7th Annual Acquisition Research Symposium to be held May 12-13, 2010 in Monterey, California.**
A CONTINUING PROJECT

- FY08: “New Patterns of Rivalry and Collaboration in the US and European Defense and Aerospace Industries” (last year’s Symposium)
- FY09: “Global Cooperation and Competition in the Defense and Aerospace Industries” (today)
- FY10: Emerging Patterns in the Global Defense Industry (in progress)
OUTLINE

• INTRODUCTION
• KC-X COMPETITION
• AIRBUS A400M DEVELOPMENT
• EMERGING (OR NOT) NORDIC DEFENSE BLOC
• CONCLUDING THOUGHTS
KC-X COMPETITION AND THE “QUARRELSONE COMMITTEE”

AN INTERESTING CONFLUENCE OF TRENDS

• INCREASING CONCENTRATION IN THE INDUSTRIAL BASE … ONE US SUPPLIER
• GLOBALIZATION … EADS ENTRY INTO NORTH AMERICA
• CORPORATE STRATEGY
• INTERNATIONAL PARTNERSHIPS
• NEW PARADIGMS … MODEL III VS. SOVEREIGN MONOPSONIST
PREVIOUS DISCUSSIONS OF KC-X

• 07/08: EADS CORPORATE STRATEGY
• 08: EADS VS. BOEING … ORIGINAL KC-X COMPETITION, AND AFTERMATH
  – NEED TO RECONSIDER THE STANDARD MODEL
• 09: EVALUATING PARADIGMS: SOVEREIGN MONOPSONIST VS. MODEL III
ALLISON’S MODEL III: GOVERNMENT POLITICS

• POLICY OUTCOMES DRIVEN BY THE “PULLING AND HAULING” OF DIVERSE FACTIONS WITHIN THE GOVERNMENT

“Sometimes one group … triumphs over other groups …. Equally often, however, different groups pulling in different directions produce a result … distinct from what any person or group intended.”

• MODEL III ADVOCATES EMBRACING MANY COMPLEXITIES
ESSENTIALS OF MODEL III ANALYSIS

• WHO ARE THE PLAYERS?
• IN WHAT CONTEXTS ARE THEY OPERATING?
  – PAST HISTORIES
  – IMPORTANCE ASSIGNED TO THE ISSUE AT HAND (COMMITMENT)
  – OTHER ISSUES ON THE AGENDA
  – RELATIVE BARGAINING POWER
• WHAT’S THE NATURE OF THE PLAYING FIELD (“ACTION CHANNELS”)?
  – WHO GETS TO PLAY?
  – WHAT RULES GOVERN PLAYERS’ INTERACTIONS?
  – WHAT DETERMINES WHEN A DECISION IS REACHED?
MODEL III PROPOSITIONS

• OUTCOMES A FUNCTION OF …
  – PLAYERS’ RELATIVE SKILLS
  – POWER (SITUATIONAL)
  – COMMITMENT
  – GAME “INFRASTRUCTURE”

• … AND FACILITATED BY CLEAR RULES AND WELL-ORGANIZED ACTION CHANNELS

• TWO POINTS OF COMPARISON
  – WELL FUNCTIONING: CUBAN MISSILE CRISIS OF 1962
  – DISFUNCTIONAL: SREBENICIA MASSACRE OF 1995
THREE EPISODES

1. KC-767 LEASE-BUY PROPOSAL … AND UNTIMELY END
3. THE SECOND COMPETITION (2009- )
THE FIRST COMPETITION (2007-2008)

• PLAYERS
  – INDUSTRIAL: BOEING, EADS, NG
  – POLITICAL: BOEING FACTION, EADS-NG FACTION, FREE AGENTS

• GAME NARRATIVE (VIEWED FROM OUTSIDE)
  – RfP(JAN 07): EADS-NG OBJECTS; RFP REVISED
  – AWARD (FEB 08) TO KC-330; BOEING PROTESTS
  – GAO SUSTAINS THE PROTEST (JUN 08)
  – ABORTIVE RECOMPETITION (2008) … BOEING THREATENS NOT TO RESPOND TO NEW RfP
COMMENTS

• REDISTRIBUTION OF POWER … TOWARD THE INDUSTRIAL PLAYER
  – SUCCESSFULLY INFLUENCED RfPs AND COURSE OF COMPETITION

• MULTIPLE VETO HOLDERS

• POSSIBLE TO REACH A RESULT NO PLAYER INTENDED … DOING NOTHING IN THIS CASE
ASSESSING THE PARADIGMS

• “QUARRELsome COMMITTEE” IS A BETTER CHARACTERIZATION OF THE US GOVERNMENT THAN “SOVEREIGN MONOPOLIST”

• MODEL III IS REASONABLY GOOD WAY TO SYSTEMATIZE THE QUARRELsome COMMITTEE PERSPECTIVE
  – A DISFUNCTIONAL GAME STRUCTURE
A400M DEVELOPMENT OUTLINE

• GENESIS OF THE PROJECT
• RECONCILING GLOBALIZATION AND REGIONAL AUTONOMY
  – STRUCTURE OF THE ENTERPRISE
  – THE ENGINE CHOICE
• RESULTING DIFFICULTIES
• CONSEQUENCES FOR THE A400 PROGRAM
A400M OVERVIEW

• A EUROPEAN CONCEPT, THROUGH A CONSORTIUM OF SIX NATIONS

• EADS’ FIRST AIRCRAFT SPECIFICALLY DESIGNED FOR MILITARY USE
  – INTENDED AS A HERCULES/TRANSALL REPLACEMENT
  – FIXED PRICE “COMMERCIAL” CONTRACT
  – AMBITIOUS SCHEDULE
THE ENGINE DISASTER

• CUSTOMERS REJECTED AN AVAILABLE PRATT & WHITNEY
• … IN FAVOR OF A EUROPEAN PRODUCT DEVELOPED ESSENTIALLY FROM SCRATCH
• SOFTWARE CERTIFICATION PROBLEMS … RESULTING IN COST, PERFORMANCE AND SCHEDULE PROBLEMS
LESSONS LEARNED

• LACK OF LEAD NATION, OR CLEAR RESPONSIBILITIES, A KEY INGREDIENT FOR FAILURE

• OUTSOURCING CAN BE TAKEN TOO FAR (B787), AND SO CAN AUTARKY (A400M)

• POLITICALLY-DRIVEN WORK SHARING FUNDAMENTALLY INCONSISTENT WITH FIXED PRICE ARRANGEMENTS
NORDIC DEFENSE BLOC (OR NOT): ATTRACTING VS. CENTRIFUGAL FACTORS

BACKGROUND

• COMMON HISTORY AND CULTURE
• HISTORICAL GRIEVANCES
• MORE RECENT DEVELOPMENTS
  – NORDIC COUNCIL (FROM 1950s)
  – VARIOUS ORGANIZATIONS FOR DEFENSE COOPERATION
  – STOLTENBERG REPORT (2008): ADVOCATED COMMON NORDIC ACTION ... IN PURSUIT OF COMMON INTERESTS AND WITHIN LARGER GROUPINGS (E.G., EU, NATO, UN)
COUNTRY PERSPECTIVES: DENMARK

- COOPERATION WITH NORDIC NATIONS INTERESTING
- ... BUT SO IS COOPERATION WITH OTHER NATIONS (E.G., UK, GERMANY, US)
- GROWING INTEREST IN ARCTIC REGION
- NEED FOR F-16 REPLACEMENT
FINLAND

- WWII COOPERATION WITH SWEDEN
- NON-ALIGNMENT FOR COLD WAR …
- POST COLD WAR
  - PfP
  - MILITARY MODERNIZATION (E.G., F-18s)
  - PEACEKEEPING OPERATIONS
  - CONTINUING LACK OF SUCCESS IN ESTABLISHING A NORDIC BLOC
FINLAND (CONT.)

• COMMON CULTURE AND TRUST NOT ENOUGH; NOT A SUBSTITUTE FOR BINDING SECURITY GUARANTEES (LIKE NATO)

• SOME POTENTIAL FOR USEFUL COOPERATION IN MILITARY SUPPORT FUNCTIONS

• NEED TO REPLACE F-18s … BUT NOT SOON
NORWAY

- RELATIVE USEFULNESS OF NORDIC VS TRANS-ATLANTIC SOLIDARITY TESTED BY JSF-GRIPEN COMPETITION TO REPLACE F-16s … AND COOPERATION WITH SWEDEN FOR OTHER PROCUREMENTS
- PfP HELPFUL IN BUILDING FOUNDATION FOR JOINT NORDIC OPERATIONS (E.G., BETTER SWEDISH INTEGRATION)
- NORDIC COOPERATION PROMISING FOR COST SAVINGS IN MILITARY SUPPORT FUNCTIONS
SWEDEN

- PfP “TRANSFORMATIVE” … OPENING TO NATO COUNTRIES
- GROWING INTEREST IN REGIONAL SECURITY ARRANGEMENTS
- SELLING THE GRIPEN … AND ASSOCIATED EXPORT CONTROL PROBLEMS
UNDERLYING DEVELOPMENTS IN THE GLOBAL DEFENSE INDUSTRIAL BASE

• TWO ONGOING RMAs … WITH NEW PLAYERS
• SIZE AND COMPLEXITY OF DEFENSE SYSTEMS VS. NATIONAL SOVEREIGNTY
• GLOBALIZATION OF THE DEFENSE AND AEROSPACE INDUSTRIES
• CONSOLIDATION AND SHAKEOUT OF DEFENSE INDUSTRIAL FIRMS
SOME CLOSING THOUGHTS

• KC-X: A CONFLUENCE OF TRENDS LEADS TO A DISAPPOINTING PROCESS … AND NO RESULT

• A400M: PROBLEMS A NATURAL RESULT OF THE PROJECT’S STRUCTURE (ESPECIALLY THE POLITICAL ASPECTS)

• NORDIC BLOC: A COMPLEX SITUATION, WITH COUNTRIES ATTRACTED BOTH TO THE REGION AND ALSO TO OTHER PARTNERS