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## **Weapons Suppliers Selling Abroad Arizona Defense Contractors Try to Diversify Amid Cuts**

**By  
Andrew Johnson**  
*Arizona Republic (Phoenix) Contributing Author*

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Arizona defense contractors have prospered from the wars in Iraq and Afghanistan during the last seven years, capturing billions of dollars in Pentagon contracts for missiles, helicopters, soldier vests, radios, and other equipment.

The Defense Department's budget for fiscal 2010 is lower than the current year's funding levels and includes major cuts to larger scale missile-defense, aircraft, and vehicle programs. That trend, combined with long-term plans to scale back the wars in Iraq and Afghanistan, has Arizona contractors increasing their focus on selling weapons internationally. Demand for everything from upgraded missiles and revamped helicopter engines to body armor in India, Japan, United Arab Emirates, and other nations could help the Defense Department's largest contractors—and some of the state's biggest employers—diversify.

Even though the U.S. Defense budget may be flattening somewhat and . . . reprioritized, we still have a lot of commercial customers overseas that . . . have a number of security needs and requirements, said Taylor Lawrence, President of Raytheon Missile Systems in Tucson.

The defense and aerospace industry provides more than 57,000 jobs paying an average annual salary of more than \$67,000, states a study released by Arizona State University last year. The Pentagon has spent about \$10 billion to \$12 billion annually in Arizona in recent years, mostly for weapons and aircraft-related programs. Raytheon, which employs about 11,500 Arizona workers, manufactures warheads, launch equipment, and related technology. The company is a winner and loser under the proposed fiscal 2010 Defense budget, which the Senate Appropriations Committee unanimously approved Thursday, sending it to the Senate floor. The House passed its version in July [2009].

The 2010 budget provides the Defense Department \$636.3 billion, including \$128.2 billion for operations in Iraq and Afghanistan. That is down from the current budget of more than \$660 billion, including supplemental war funding approved during the summer.

Raytheon's cuts include the termination of a multiple-kill vehicle, which would launch missiles into space to crash into enemy missiles, and the Kinetic Energy Interceptor, a land-based missile-defense program on which Raytheon was partnering with Northrop Grumman. The cut to the interceptor program reduced the company's order backlog by about \$2.4 billion to \$7.6 billion in the second quarter, according to a Securities and Exchange Commission filing.

Raytheon was disappointed by the cuts but sees opportunities domestically and overseas, Lawrence said, adding threats posed by Iran and North Korea have prompted increased neighboring countries' interest in its technology. On Thursday [2009], the company announced a \$77.4 million contract to produce infrared-guided missiles for South Korea and Taiwan. The contract was awarded

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by the U.S. Air Force as a foreign military sale, a transaction in which another country purchases U.S. equipment through the Defense Department.

As of September 1, [2009] foreign military sales were \$35.1 billion, said Paul Ebner, spokesman for the U.S. Defense Security Cooperation Agency. With September's sales figures remaining, the current fiscal year's total could top the \$36.4 billion in foreign military sales in fiscal 2008. Defense analysts expect the trend to continue but stress numerous factors play a role in the transactions.

International sales are not mutually exclusive, nor do they happen just because domestic business doesn't happen, said Howard Rubel, a stock analyst who tracks the industry for research firm Jefferies and Company Incorporated in New York. It is all a function of the threat or the desire by certain international partners of the United States to add systems to their defense establishment or their defensive organization, he added.

Still, overseas sales likely will increase given tensions over nuclear threats in North Korea and Iran.

We are seeing a lot of global opportunity right now, said Joe Coltman, Vice President of Personnel-Protection Systems for BAE Systems Inc.

BAE, a subsidiary of London-based BAE Systems PLC, employs about 530 workers in Phoenix. It makes armor vests and personal restraints for aircraft and ground vehicles. Soldier equipment has to be replaced over time, which is prompting some foreign countries to replenish their supply, Coltman said. International sales are not a new focus for BAE's U.S. operations or Raytheon. Coltman said the company predicted declines were coming domestically a few years ago and fine-tuned its strategy accordingly.

It is not a knee-jerk reaction to a [U.S.] reduction that we are seeing today, he said.

A major market BAE is targeting is India, where the company is seeing increased orders.

Terrorist attacks and greater border strikes have caused them to rethink the protective level for those troops, Coltman said.

International sales at Raytheon Missile Systems' parent, Massachusetts-based Raytheon Co., were \$1.2 billion, or 20 percent of net sales, in the second quarter. A year earlier international sales were \$1.1 billion, or 19 percent of net sales. Raytheon's Tucson operation has avoided layoffs in response to program cuts thus far by moving people to other projects but is concerned the cuts could affect employment down the road, Lawrence said.

Right now we're managing it; but, again, until we know the final budget numbers . . . we will not know for sure, he said.