
Army, Industry Weigh U.S. Foreign Market

[The following is a reprint of an article which appeared in the "Defense News Roundtable" section of the *Defense News*, October 28, 1991. This reprint is provided through the courtesy of *Defense News*. Copyright by Army Times Publishing Co., Springfield, Virginia.]

Sweeping reductions in military spending are forcing defense industries in the United States and its allies to seek joint programs and a worldwide customer base. At the same time, government and industry need to more efficiently manage weapons programs to make better use of the money they have available.

But domestic budget pressures have left potential international arms customers struggling to garner the money to pay for sophisticated and expensive weapons. Although U.S. and foreign customers are in demand, they are dwindling. To address these issues, *Defense News* invited nine panelists to an Army roundtable, held on October 8, at the National Press Club in Washington.

Attending were Army Secretary Michael Stone; Gerald Boxall, chairman and chief executive officer of Vickers Defence Systems, Newcastle-upon-Tyne, the United Kingdom; Carl Builder, analyst at RAND Corp., Santa Monica, CA; Gary Diaz, vice president for research and engineering at General Dynamics Land Systems Division, Sterling Heights, MI; Howard Fish, vice president international, at Dallas-based LTV Aerospace and Defense Co; Bob Parker, LTV executive vice president; Jim Tegnalia, vice president for business development at Martin Marietta Electronics, Information and Missiles Group, Orlando, FL; Lt Gen Billy Thomas, deputy commander for research, development, and engineering at the Army Materiel Command, Alexandria, VA; and Jim Turner, executive vice president of General Dynamics Marine Land Systems and Services Group, Fall Church, VA.

The panelists were questioned by *Defense News* staff members led by Executive Editor Rick Bernard. What follows are excerpts from the two-hour discussion.

Question: Foreign sales are becoming more important as the volume of weapon systems needed by the military services decreases. Are we seeing a change in priorities in which the export potential of American weapons will be the chief concern in their development? What are the implications of this shift?

FISH: I think what you are seeing is the beginning of a different attitude rather than a different attitude having arrived. The regulatory environment in the United States for arms sales is the most difficult in the world. In discussions with the U.S. Army, Air Force, and Navy, I find great sympathy and understanding for our position at the highest levels. But what is lacking is a real consolidated policy.

TEGNELIA: There is a lot of discussion about international sales as a buffer for the reduction in the U.S. defense market. My perception of the size of the international sales market is that 10 percent of sales is a reasonable expectation. So when you see the size of the reductions that we're experiencing in defense contracts, that 10 percent of sales is not going to provide that much of a buffer.

Certainly Martin Marietta as a corporation looks to international sales—we're happy to get them when we get them—but it's not going to be any kind of panacea for taking care of business here in the United States.

STONE: Although there are obviously exceptions where I think the overseas market is likely to grow, there are other areas that have been the focus of sales efforts where the picture is changing. You've got countries in Latin America that are grounding C-130 [transport aircraft] because they can't afford to fly them. It's costing them \$1 million a year to try to keep a C-130 in the air. You see countries that would like to replace obsolete equipment, and not have the funds to do that.

So I don't see [international sales] as a substantial safety valve for U.S. industry.

Question: What role does the Army play in foreign arms sales, and is that role increasing?

THOMAS: We are certainly not salesmen. That's not our role. I think we've changed though, to be more like facilitators. There are some markets which are basically sector-dependent, and we can help certain sectors of the industrial base.

FISH: General Thomas' point is precisely what I was trying to pull on a little bit, and that is, we're not salesmen. I say why not?

STONE: Let me see if I can find a common ground. Army people are trained in a lot of things and they are very good at a lot of things. But one of the things they are not trained in is marketing.

What we can do is be much more facilitating, [and] be much more cooperative in the way we work with corporations overseas. I think we should and I think we are.

FISH: Industry has to be the salesmen, and industry has got to be the marketer. But if we can just have more proactive statements, I think we'll be better off.

BOXALL: I could easily make the same speech Mr. Fish just made. The professional staff and ministers in the United Kingdom do make the same speeches that [international sales] are in the national interest. But it's just not to be. For 11 years, we've had a government that has been very *laissez-faire* and it is not prepared to interfere at all. A little after-dinner speech is about as far as you get in London. The real heavy metal is down to industry.

So I reckon it's a pretty level playing field. Germany doesn't have the same problem; in areas of tension, they will not trade. France has its own set of rules that are slightly different from yours and mine. Italy is similar. But in the European scene, if you take the United Kingdom as the world sales leader after [the United States], these speeches are all made.

Question: We often hear American industry point to the British and say the military and industry march hand in hand. Today, we get a very different story.

PARKER: Well, there is a military sales agency in the United Kingdom. We have a program called [the Multiple Launch Rocket System], which has an international selling organization composed of representatives of all countries involved. Guess who is willing to send a brigadier from Desert Storm out on a sales call to Thailand? It was the British.

TURNER: [In the United States], certainly policy statements and positions have changed. But I still think that we have not translated policy statements into procedure for the field. When you get down to the equipment shows and demonstrations, [support] is not where it needs to be [in order] to meet the competition.

THOMAS: We have done some things. The Paris Air Show this year was extraordinarily different from what we have ever done before. We had U.S. soldiers on the ground.

We are sending out catalogs to all the security assistance commands so they know what's available. We're also trying to change the processes. We're working with the State Department and Commerce Department and of course the embassies. I would call all of those facilitating.

Question: Just what is it that industry is asking the government to do?

FISH: [Do something about] research and development recoupment. It amounts to an export tax. It reduces our competitive stance.

I think the support for the Paris Air Show was tremendous. It came at a particularly useful time coming out of Desert Storm. The problem is that we proceeded to take off from that top-notch assistance, the services said, "hey, we can't do a Paris Air Show every time." What we really need is support for Dubai, for Korea, for Turkey, and we don't need a Paris Air Show-type effort.

BOXALL: Research and development recoupment in the United Kingdom again follows the exact same rules. There is no waivering at all so far.

Let me pick up on a more positive point. There are countries that may be more comfortable dealing with a product which has the backing of the U.S. and U.K. governments. So if by [the year] 2000, we're worried about the same risk to our security, it is highly likely we will end up with an international product. That's my forecast.

DIAZ: What is the international customer interested in? What we've seen are customers very interested in the most advanced system. There are a lot of people in the international community that have learned lessons from Desert Storm who believe they want the best product in terms of combat effectiveness.

I think that's something that might have changed in the environment. [Customers] are very sensitive to what worked in the war.

FISH: You're dead right. The product designed specifically for export is a busted flush.

STONE: There's a feeling among a lot of people, particularly true in the Department of State and to some extent in [the Department of] Commerce, that a proactive posture of supporting arms sales overseas represents a coercive element in U.S. policy which is not what we want to convey. I think that's true.

FISH: There's no question. It's very straightforward. Over the years I would say it's almost systematic and culturally directed, particularly at the State Department. And it's understandable. An individual takes his or her initial college examination to become a foreign service officer, and he is concerned about diplomacy, economics and other events around the world.

People [at the State Department] say if we just get rid of these arms sales, we can get on with diplomacy. What they fail to recognize is that arms sales are a currency of diplomacy. It's systemic in the State Department.

Question: Will joint weapon development programs continue to decline?

THOMAS: I just returned from Europe. Everybody is drawing down. But as Desert Storm showed us, we're talking coalition warfare in the future. That requires the ability to develop at least some degree of interoperability, and we remain committed to that.

International cooperation is a way to leverage your money if you can find the right thing to do, whether it is in the technology base or more advanced systems. It may be in the future that the best cooperative agreements are at the component level as opposed to the system level.

STONE: The more partners you have, the more difficult the program becomes. It becomes difficult mainly in administration and all of us around this table have administrative problems. If you're trying to manage an international program with four countries and four competing technologies, it just becomes [problematic]. A lot of people don't want to take on that added burden.

Having said that, the Army remains committed to a number of [international] programs. For example, one in cannon technology involves a British company. [We have] Royal Ordnance working very closely in the development of the M119 Howitzer. That program is coming along pretty well.

At my explicit direction, I will be sending to Europe a small group focused on the possibility of trying to develop some internationalization of the Comanche [U.S. Army next-generation helicopter] program. The team will talk at the highest level to see if we can't put [the Comanche and the Franco-German Tiger helicopter] together.

I am willing to give that a last shot. [President] Henri Martre of Aerospatiale is not very interested in what I'm doing. The feedback from Messerschmitt-Boelkow-Blohm is [that they are not] very interested in what I'm doing.

But we're ready to have another crack at it. I really do believe that there are elements of an international program that deserve Pentagon support and if I continue to think that way, I must put my mouth where my mind is. So we're doing it.

Question: How do you deal with the political forces among Western countries; specifically, the trade agreements in the European Community?

STONE: I don't want to say that Aerospatiale is being obstinate or parochial about this thing because they have their business to run. France is the largest exporter of helicopters in the world today, and they have very good technology. Maybe we can't do anything. The issue of French penetration of U.S. institutions looking for industrial opportunities to prolong technology is not a very happy circumstance for either side of the ocean. It certainly doesn't encourage us to share our technology, and I would think it makes the French a little bit more guarded in their approach.

Question: We have talked about foreign sales. But where is the money going to come from to build these weapons that countries need? What are the budget profiles we'll be looking at, and what does that mean for the U.S. Army and industry? Specifically, what about Armored Systems Modernization and common chassis?

STONE: I think the concept of putting the Army's heavy equipment on common chassis makes elementary sense. There are two problems we've got in doing this. One is clearly that we

do have the funding problem. There are more requirements [for] the program in its present form than we have [funding for]. So we have to restructure that program.

Let me interject one other element that I think we all are alert to and that is the total amount of funding the United States is spending on national defense today. It's down around the 4 percent level of the gross national product; the lowest percentage since [before] the Korean War. There has to be a point in the Defense Department where you turn the decline around and we get expenditure coming up.

So there has to be some sort of fishhook. I would hope that some of these programs that we can't afford today, we will be able to do more robustly seven to eight years from now.

Question: If we do not reach that critical fishhook, at what point do we lose our ability to meet commitments and keep assembly lines open?

STONE: We must come to grips with that. I'm beginning to focus on the 1995-1996 time period. Let's take General Dynamics. [Tank] production for Egypt goes on into 1995. Saudi Arabia and other export orders are expected to come in, and it remains to be seen how much business Congress will fund. But somewhere around 1993, the last U.S. Army tanks come off the line. So I would say the middle of the decade is the critical point that this fishhook has got to start to appear.

Question: Is it practical, in the absence of some international requirement that changes the perception of the American people, to look for increases in the near future?

PARKER: Frankly, I think it will be hard times for four to five years before we see an upturn. We have to work on another element of what we're talking about here. We keep talking about the budget going down. We also have to talk about how do we get more efficient at spending that budget.

FISH: Where is that money going to come from? The last time we went down the line for the fishhook was the 1970s, and we went to the all-volunteer Army. That greatly increased our personnel costs. We had the hollow Army. We had divisions, and we weren't equipping them. This time the Army is doing it differently. That is where part of the money is going to come from [because] 45 cents out of every dollar goes to the troops.

TURNER: We have to look at what we can get for the money we have. International sales provide a broader base to keep the manufacturing and technology base in place. Joint ventures and partnerships, I consider them the dance heading toward rationalization.

The last tank that went down the Detroit production line was a zero-defects tank. The code-writing is so far greater a requirement today than it was when the M1A1 was being put together. What is it going to be with Armored Systems Modernization? So it's extremely critical to keep in place an engineering force and technology base to deal with what's coming.

BOXALL: We're going to keep [the critical mass]. But the Army [in the UK] is coming down from 154,000 to 115,000, and civilians in the Ministry of Defence are coming down in that sort of ratio. We're doing the same.

DIAZ: The one thing the government can do is try to introduce as much stability as possible.

Question: Are we in a period of permanent downsizing, layoffs and cutting back? When industry executives sit around the table, what to you say to each other?

TEGNELIA: Let me give you a statistic which caught my attention. We've been talking about money appropriated by Congress. If you look at obligated funding, the actual amount of dollars that are being spent in the industry, you get a different picture. And this may be frightening. Total obligation authority from 1985 is only down 10 percent. The reason is that there is a time lag associated with expenditures. If that's true, the tidal wave hasn't quite hit the shore.

That gets to the issue of efficiency. It may not mean a lot in terms of the total Army budget. But it may mean the difference between surviving to find the fishhook in industry or not being around because your costs are not competitive.

There are some constructive things that can be done. There are a lot of procurement laws around because of the tremendous emphasis on competition in the 1980s. Those rules have made it very difficult to achieve not only stability but also knowledge industry can use to plan on a long-term basis. Somebody ought to go back and look at some of the laws that are on the books that were really produced for a different time.

Question: What procurement laws would industry start with?

FISH: Progress payments. They've been reduced down to 80 percent. This means industry has to carry 20 percent by borrowing money, and interest is not an allowable cost.

TURNER: The principle involved there was that interest was disallowed as an expense because the government can borrow money and finance contractors cheaper than they can finance themselves. We all found ourselves in a heck of a cash crunch.

FISH: The industry is undercapitalized. One of the ways to help is to go back to 85 or 90 percent progress payments. What is really mindless in my view is on cash foreign sales where the other guy's money is given to the United States, and they still give only 80 percent progress payments instead of the 95 percent we used to have in the 1970s.

STONE: Let me take the other side of that. I think bit by bit we are improving our record. Requests-for-proposal by and large are getting simpler. The [federal acquisition regulations] have been simplified. Third, the number of blue ribbon plant certifications has been increasing steadily every year. Those certifications are the ones where defect-free performance justifies a substantial reduction in in-plant auditing and plant control. Those things are gradually nibbling at this problem.

THOMAS: There are some very discreet actions that are ongoing that address the overall issue of more efficiency. We haven't funded nor have we focused on developing manufacturing processes in this country. We have taken programs into development and production when we didn't know how to manufacture them. That's something we have changed in policy.

Another thing we're doing is taking off military specifications and moving toward commercial and international specifications. Last but not least, we are working with the Commerce Department to look at a different cost-accounting system to allow the integration of defense and commercial [items] on the same production line. That is key to the future, because we have to be able to run a defense and commercial base. It's the cost-accounting system that is the biggest barrier.

PARKER: I think the Army is making some real progress in these areas. It is critical that it gets promulgated to the [lower levels]. There is a whole mindset. There is still an issue between the program management side and functional side in terms of who makes what decision and who takes the risk.

THOMAS: There are a lot of things that can be done that do not require changing law; they just require changing mindset. We have a very structured and purposeful action plan with people on the ground with briefings to [lower-level officers].

But in industry you need to look at it too because I'll tell you we just surveyed industry. We found 30,000 defects per 1,000,000 operations. We can't have that. We need 100 defects per million. Both of us have a lot we can work on in common.