



Acquisition Research Program:
Creating Synergy for Informed Change

**GLOBAL COOPERATION AND
COMPETITION IN THE DEFENSE AND
AEROSPACE INDUSTRIES**

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PANEL 18, 13 MAY 2010

Report Documentation Page

Form Approved
OMB No. 0704-0188

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1. REPORT DATE 13 MAY 2010		2. REPORT TYPE		3. DATES COVERED 00-00-2010 to 00-00-2010	
4. TITLE AND SUBTITLE Global Cooperation and Competition in the Defense and Aerospace Industries				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School, Monterey, CA, 93943				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES 7th Annual Acquisition Research Symposium to be held May 12-13, 2010 in Monterey, California.					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 24	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

... A CONTINUING PROJECT

- FY07/08: “Echoes across the Pond: Understanding EU-US Defense Industrial Relationships”
- 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 “QUARRELSOME 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
2. THE FIRST BOEING-EADS/NG
COMPETITION ... AND
AFTERMATH (2007-2008)
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**

