

Global Vision

03
09

THE INTERNATIONAL MAGAZINE FOR BUSINESS EXECUTIVES

\$ 4.50 £ 3.00 € 4.50



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BRIEFING:

The Janes 2009 US Defense Conference

BY JEFFREY BRADFORD PHD



Washington DC played host in early May to the annual conference focused upon defence industry issues organized by defence publication, journalist and consulting company Janes. Along with the main sponsor, transatlantic defence contractor BAE Systems the conference aimed to understand better the role of, and opportunities for, the defence industry under the Obama administration.

Early sessions in the two day conference speakers presented their views of the international security environment faced by the administration and postulated four interesting scenarios which could impact upon current thinking.

The first scenario was concerned with the potential collapse of Russia as it is known today. A combination of demographics, poor lifestyles and a low oil price were suggested as potential comprising a potent mixture which would lead to the population level falling dramatically, placing insurmountable pressure on the authorities to hold the country as known today together.

The second scenario involves the Disappearance of Europe as a serious international security player. Individual countries have been reducing their expenditures and cutting armed forces since the end of the Cold War in 1989. Should this trend continue a point could be shortly reached were the continent cannot meaningfully project power beyond its borders. As the speaker put it succinctly, “no one [in Europe] is likely to be able to do so in the near future, and as a consequence Europe will not be America’s partner of choice”.

The third scenario sought to “think the unthinkable” with regard to the commonly held view of Chinese ascendancy seeing China as potentially falling apart at the seams. A combination of Rapid demographic ageing and a growth rate below 6.5% which is well below the levels driven in recent years offers the potential risk of collapse with possibilities for civil unrest and even break-up of the country as known today.

The last scenario put forward by the speakers focused on the US role in the Western Pacific as being the flashpoint for future efforts. A relatively benign scenario at one level seen as US driven though a stealthy presence. The US Navy fleet of some 500 ships today is anticipated to fall to a number nearer 300 with some risk in the current budgetary environment of further fall to even 200. Challenges in this scenario are maritime and Asian based with the principal threat being the acquisition of the means to enable access denial to the US fleet by

combination of advanced anti-ship missiles, submarines and aircraft.

In terms of the views of the Administration since taking office one of the factors mentioned often was the surprise that despite the change in tone compared with the previous President it had so far translated into little change from others. Cited examples included NATO declining to increase forces, the likes of Iran, North Korea, Russia etc. Turning more towards the defense budget and prospects for US defense contractors the picture compared to 2008 is more downbeat. Entitlement costs for personnel (pensions, healthcare, benefits and so forth) is rising very fast and is politically popular. These costs are contributing to a rapid rise in the Operations and Maintenance (O&M) budget – which casual observers often assume is purely related to military operations. The rising O&M budget in a relatively austere environment is going to translate into cuts in investment in new systems. Such news raises the question as to what innovations could be pursued to help offset this negative development. Firstly, the situation presents an opportunity to reform the standard setting phase of a defence program known as the requirements phase. Typically requirements is concerned with the performance characteristics desired by the military service and although cost is a parameter it is often treated somewhat abstractly by military establishments both in the US and in Europe.

However cost is of considerable importance to the military in ways they sometimes are oblivious to. At its simplest high cost affects the numbers of an equipment which can be ultimately purchased. High cost also increases political oversight and scrutiny, which can have a delaying effect on the procurement. This concept is not new. The US Air Force acquisition of a new munition called JDAM had at the heart of its requirement, “to be a precision weapon costing no more than \$40,000 per unit”. The success of the procurement is such that economies of scale in production have reduced the cost per unit to nearer \$17,000 with no loss in performance.

In terms of the key drivers affecting defence spending in the first term of the Obama administration through 2012, four key issues were identified.

Firstly, government spending controls. At present every hour the US government will spend \$200m. The budget deficit is anticipated to be in order of \$500bn for every year Obama in power, even if he secures a second term of office.

Secondly, inter-governmental politics leaves the Department of Defense somewhat exposed. Without the Cold War threat, DoD is fighting to justify its budget level against a variety of threats, none of which has the magnitude in and of itself to give DoD an advantage in the politics of budget allocation.

Third, increasing personnel cost per member have risen in excess of 45% above inflation in the past decade alone. Congress adds new benefits for service members which increases personnel costs in the budget. Civilian defence employee costs are also up along with the cost of military healthcare which is up 144% since 2000 (of the order of \$80-90bn per annum).

Fourth, there are five extremely large programs making their way through the acquisition system which will absorb a great deal of political effort from both the DoD and the political system. These, couple with the pressure of operations will consume the interest of major players.

Lastly, Secretary Donald Rumsfeld held no meetings with industry during his tenure at DoD. The Obama administration is anticipated to be even more inaccessible which is leading to industry using Congress as the primary means to get their case across – leading to increased tension across the acquisition community.

For the US and international players in the defence industry this is making the business environment tougher than ever. For more details on the Janes US defense conference 2009 and other conferences produced by Janes visit www.janes.com/events/conferences