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usage, but not those that are service unique. These “non-SMCA” items constitute a significant percentage of all munitions produced, and therefore significantly affect the industry.

Nevertheless, inclusion of non-SMCA items in the munitions database is optional. At this time, the Army and Marine Corps have opted in, but the Navy and Air Force have not. It appears that they have declined because of a dispute over who will pay the attendant administrative costs if they do participate. Prompt resolution of this matter by the office of the secretary of defense would be helpful.

Tactical missiles are not classified as ammunition, and are budgeted in separate accounts not subject to SMCA authority. On the other hand, they require components that are produced by the munitions industry, and are dependent on the sector’s continued viability. As with non-SMCA items, inclusion of tactical missiles in the munitions database would be a positive step, and should be considered by the office of the secretary of defense.

From the outset, the SMCA’s assessment capabilities were planned to be used routinely in the annual budget formulation process. Instead, the decision was taken to revise the Joint Conventional Ammunition Policy and Procedure to require such usage, on the grounds that adoption would be faster and easier. Publication of the revision has now been in process in this joint arena for more than two years. Speedy completion would be a positive step.

The industry must leverage technology. Adequate support of relevant technologies provides a significant multiplier effect, reducing the cost of munitions. It also fosters retention of highly trained engineers and scientists in a field that requires many years to achieve full productivity.

The Defense Department and the military services support a number of manufacturing technology programs that seek affordable, timely production and sustainment of defense systems. A program tailored to the specific needs of the munitions industry should be devised and funded. In particular, the application of improvements to production lines during periods of shutdown would provide cost and efficiency benefits.

Continued support of research-and-development funding for munitions related projects will ensure that the United States retains its technological edge well into the future.

Today, budget cuts are already being felt and some capabilities and workforces are being pared back. Impending cuts will bring more of the same. Defense officials must become, and remain, sensitive and

responsive to the difficulties encountered by munitions manufacturers. They should be proactive in asking for information, looking for signs of distress and seeking opportunities that will provide assistance in cases where intervention is warranted.

The United States must support international sales to allies. The services are moving to ensure that plans for munitions buys include adequate consideration of the continued health of the industrial base. This is not the case when international sales of munitions are being considered. In some cases, increases in production levels represented by those sales, when added to U.S. requirements, can be enough to ensure continued viability. Conversely, disapproval of international sales can diminish the ability of the industry to support U.S. forces adequately.

Further, the reluctance of the U.S. military to permit companies to sell ammunition with new capabilities or state-of-the-art technology to even its closest allies is counterproductive. It frustrates efforts to foster interoperability with allies, leaves markets open to technologically equivalent competitors and forfeits opportunities to reduce the costs of U.S. production.

A new Defense Department initiative seeks to ensure that new munitions development efforts include concurrent pursuit of designs for exportability. This is welcome and will be beneficial in the future, provided that the initiative remains adequately funded. Existing ammunition products, however, do not benefit from this effort.

It is imperative that sustaining critical munitions production capabilities become a prime consideration in decisions concerning international sales, especially during periods of reduced U.S. funding.

Requirements calculations and budgetary plans for fiscal year 2015 and beyond must be consistent with efforts to achieve a right-sized munitions industrial base. Without an assured, capable and efficient supply of munitions, armed forces and their weapon platforms are of little use. **ND**

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Opportunities Abound in NATO Defense Market

VIEWPOINT

BY KATERINA WRIGHT AND ALEKSANDAR D. JOVOVIC

European defense, a traditional high-value market for transatlantic players, continues to be challenging. Facing similar sequestration initiated cuts in the United States, defense firms have become accustomed to news of stagnant investment, equipment and personnel reductions, and uncertainty about future requirements across the European continent.

And yet, amidst these market pressures, industry on both sides of the Atlantic can find both a dose of certainty and growth in perhaps a pleasantly surprising partner: NATO.

Kicking off a series of awards, Lockheed Martin Corp. was given a contract valued up to \$100 million in September to design the active network infrastructure for the new NATO headquarters in Brussels, while ThalesRaytheon Systems secured \$180 million this June to enhance NATO’s air command and control system. In an era of austerity, NATO is offering real and significant opportunities in the near future.

Two buyers of particular interest to industry, aptly hidden behind bland acronyms, are NCIA (NATO Communications and Information Agency) and the NSPA (NATO Support Agency). NSPA managed more than 24,000 contracts valued at more than \$2.85 billion in 2012, and a nearly identical sum in 2011. NCIA has recently announced more than \$1.3 billion — and up to an additional 30 percent in smaller awards — in opportunities over the next two years.

The biggest investment area under the latter organization is the communication infrastructure services segment, driving roughly \$1.1 billion in future business opportunities. Two major programs fuel much of this spending — the upcoming NATO satellite communications program valued at \$680 million over the next 15 years, and the NATO communications and infrastructures program, a best-value award estimated in the range of \$77 million.

Additionally, the NCIA operates multiple small-scale programs that are well suited for specialized firms looking for entry opportunities in the areas of cloud

computing security, data security, mobile device security, malware analysis and cyber-intelligence.

One of the largest and most talked about opportunities on the horizon is the upcoming information-technology modernization program estimated at \$240 million over five years. The first work package is the heart of the project, providing for data center consolidation, the new NATO private cloud, the bulk of hardware and the core integration and program management.

A number of other opportunities can be found in the areas of command and control — investments in chemical and biological defense, environmental functional services, maritime C2 and GIS tools — intelligence, surveillance and reconnaissance, counter explosive solutions and functional services for electronic warfare. Air C2 segments include software-based elements, support and enhancements to NATO's air command-and-control systems and ballistic missile defense support, upgrades and communications programs.

Navigating NATO, however, requires patience, and may prove particularly challenging given current reorganization efforts, which involve a dizzying array of agencies. The NCIA was created in July 2012 as the fusion of NATO CIS Services Agency and NATO Consultation, Command and Control Agency, as well as the NATO Air Command and Control System Management Agency, the active layered theater ballistic missile defense program office, and disparate information technology support functions of NATO headquarters and other agencies.

Similarly, in July 2012, the former NATO Maintenance and Supply Agency, the NATO Airlift Management Agency and the Central European Pipeline Agency merged to form the NATO Support Agency. While the new structure should allow for greater efficiencies and centralization of business opportunities, it also leads to short-term challenges.

In the aggregate, NATO still faces some gaps in cohesion and communication across program areas. Delayed implementation or absence of opportunity portals and online information is partially a victim of this latest reshuffling, and NATO has been notorious about delaying requests for proposals and bid awards. As with any major organization, approval and authorization channels require time, and programs are often subject to scope revisions and clauses to mitigate potential risk. Defense companies must appreciate the importance of patience and process.

Firms on both sides of the Atlantic are not sitting idle on the sidelines, and com-



petition is intensifying. The ballistic missile defense systems engineering and integration contract, for example, has attracted more than 80 prospective bidders from 15 nations. There are more than 10,000 firms registered with NATO, around 800 registered with the NCIA alone. Multinational primes, European majors and specialized subcontractors are eyeing opportunities, attracted by the agency's recent adoption of "best value" contracting, aimed at the greatest overall benefit in an acquisition when balanced against costs. This offers an alternative to the traditional preference for "lowest cost, technically compliant bids."

To best position within NATO, primes and their partners must demonstrate and ensure interoperability in theater. Following recent alliance operations, many member countries have become increasingly frustrated after investments in national-level systems have failed to effectively operate or share information with their allied partners. Member nations, as a consequence, are looking to implement NATO capability for national use. This top-down versus bottom-up approach to interoperability places responsibility on NATO to provide plug-and-play systems to ensure capability is delivered and accessible to all members.

Primes should think through their supply chain from both a business development and an implementation perspective. Unlike in the United States, where set-aside allocations ensure small business access and participation, NATO has no such benchmarks

or quotas. Moreover, published prime contract award data suggests that a select few countries — the United States, France, the United Kingdom and Belgium — dominate both the number and value of awards, with many smaller countries reporting no prime contract intake.

As primes often default to the same preferred partners, they should seek a partner diversification strategy — with teammates from smaller, underrepresented member nations, and specialized, innovative firms.

While growing diversity of subject matter experts can lead to integration challenges, if primes can proactively address and mitigate this risk, more effective cooperation can be achieved.

Though NATO will face budget pressures alongside its members and organizational transition poses some near-term challenges, industry is increasingly looking to NATO as an attractive business partner. Primes are finding that the benefits, beyond just additional source funding, are twofold: Visibility with 28 member states and access to a new network of partners and teammates for future innovation and development, with possibilities extending even beyond the alliance. **ND**

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