

Defense News

www.defensenews.com

A GANNETT COMPANY

SPECIAL REPORT

TOP US R&D PROGRAMS 9



April 21, 2014

EUROPE

New Finmeccanica CEO

Observers wonder if new leader of Italian defense giant will change plans to drop transport group. *Page 18*

15 **Turkey:** New procurement chief.

NORTH AMERICA



African Presence

US troops find deeper, more complex involvement in African mission. *Page 4*

15 **US:** Controlling F-35 costs.

ASIA & PACIFIC RIM



Indian AWACS Dispute

Air Force, state research organization clash over acquisition of radar system. *Page 14*

INTERVIEW

Tomasz Siemoniak

Poland's defense minister discusses the future path for NATO, his interest in seeing a greater US and allied presence in Poland, and military upgrade and acquisition plans. *Page 22*



Sweden's Goals Fuel Saab's Acquisitions Australian Shipyard Is Another Possible Target

By GERARD O'DWYER

HELSINKI — The Swedish government's drive to rebuild core national defense capacities is pivotal to Saab's ambitions to develop a competitive submarine branch and become a major global player in this segment, government and company insiders say.

Saab is reportedly close to agreeing to a takeover price with ThyssenKrupp for shipyards operated by the German group's subsidiary, ThyssenKrupp Marine Systems (TKMS), in Malmö, Karlskrona and Muskö, Sweden.

The acquisition of TKMS' yards is fundamental to Saab's quest to acquire the design and construction infrastructure it needs to secure state contracts ahead of taking over the A26 Next Generation Submarine and Götländ-class fleet modernization programs for a cost of \$3.5 billion.

Capacity acquisition will also be



PH2 PATRICIA R. TOTEMEIER/US NAVY

Eyes on Sub Market: The Swedish diesel-powered attack submarine Götländ and others of its class were built in Sweden by Kockums, now part of ThyssenKrupp Marine Systems. Stockholm supports Swedish company Saab's move to buy the former Kockums from its German owners.

a vital component to Saab's pursuit of an international partner, said Peter Hultqvist, chairman of the Swedish parliament's Standing Committee on Defense (SCD).

"The wheels have turned," Hultqvist said. "The government, possibly in response to Russia's

aggression in Crimea and the Ukraine, has decided that a strong industrial defense capacity that is Swedish-controlled will be the cornerstone that underpins defense policy and future capability."

The government's view is that a *See SAAB PLANS, Page 7*

US Ship Study Likely To Favor Existing Designs

By CHRISTOPHER P. CAVAS

WASHINGTON — Ships that look like littoral combat ships (LCS), but are armed with SM-2 surface-to-air missiles, bigger guns and Aegis combat systems. A gray-hull patrol frigate that takes the hull of a white US Coast Guard cutter and increases its combat power.

With an eye to the international market, shipbuilders Lockheed Martin, Austal USA and Huntington Ingalls have worked to develop more heavily armed versions of ships already in production for domestic customers. Now, ironically,

the proposals might have their best chance yet — as the choice to succeed the LCS as the US Navy's next small surface combatant (SSC).

More than a decade of controversy has dogged the LCS program. Although most cost and schedule issues have been solved, critics still shower officials with now years-old complaints, even though the program is largely on time and on budget. Many critics decry the absence of permanently installed weapons, preferring instead more heavily armed ships.

Those complaints, in many ways, lie behind the Feb. 24 decision by

Defense Secretary Chuck Hagel to cap purchases of ships built to existing LCS designs at 32, and requiring the Navy to evaluate the future of its SSC efforts. What's needed, he said, is "a capable and lethal small surface combatant generally consistent with the capabilities of a frigate." The results, Hagel said, could be modified versions of existing designs, a new design or continuation of the current ships.

The Navy formed a nine-member Small Surface Combatant Task Force (SSCTF) in mid-March to perform the review. The results, *See SMALL COMBATANT, Page 16*

Hunt for Airliner Shows Limits of Satellite Imagery

By ANDREW CHUTER

KUALA LUMPUR — The big question on the minds of industry executives and others attending the Defense Services Asia (DSA) exhibition in the Malaysian capital last week was what effect the crash of Flight MH370 would have on defense spending priorities here.

The disappearance of the Malaysian Airlines Boeing 777 in the southern Indian Ocean is posing questions about the country's military capabilities to track and search for even civilian aircraft, let alone potentially hostile military targets.

Malaysian Defence Minister Datuk Seri Hishammuddin Hussein has already pointed to the need for surveillance improvements and a review of the country's ground-based air radar capabilities following the aircraft's disappearance.

"I think not only Malaysia but the whole world should relook at their defense needs, capacity and capabilities in the context of MH370," he told a press conference as the show opened April 14.

The Malaysian government will likely get the chance to discuss MH370 and wider defense and security issues when US President Barack Obama visits this week as part of a tour that includes Japan, South Korea and the Philippines.

Obama is the first US president to officially visit this moderate Muslim nation since Lyndon Johnson in 1966.

The hunt for answers to any military shortcomings resulting from MH370 is in full swing. Like the search for the airliner itself, the *See LIMITATIONS, Page 6*

PERIODICALS-NEWSPAPER HANDLING

Vol. 29 No. 15 \$4.50

WORLD NEWS

DEFTECH

From Page 6

DEFTECH has its eye on producing composite products for the Boeing F/A-18 Hornet fighter, Bell UH-1Y utility helicopter, AH-1Z attack helicopter, the Saab 2000 ERIEYE airborne early warning and control aircraft and Gripen fighter.

Saab confirmed that it is working on a deal with DEFTECH on the Gripen.

At DSA, Bell Helicopter Textron and Malaysia's DEFTECH signed a "letter of expression of interest" on April 16. Bell Textron sources indicated the letter would best be described in the West as a memorandum of understanding to "seek collaborative projects and look for opportunities here in Malaysia."

"We are looking at what they are doing in their aerospace industry and see where the fit is," a Bell Textron official said. Both companies will explore "high value projects ... to develop new shore- and sea-based operations."

A Bell Textron source said the letter would help pave the way for sales of new AH-1Z and UH-1Y helicopters in Malaysia and the region. The advantage of both helicopters is that they share an open architecture design and have 85 percent commonality, which reduces costs in training, components and support equipment. The company brought an operational UH-1Y to DSA, along with the flight simulator for the AH-1Z.

"The Malaysian Army wants the UH-1Y first and then the Zulu [AH-1Z]," a DEFTECH source said. The UH-1Y can be used as an armed transport and there is a pressing need for both since the Lahad Datu standoff in early 2013 that involved more than 300 militants in Sabah.

"The military had no real capability of putting men on the ground quickly with cover fire," he said.

Textron AirLand hopes to sell the new fixed-wing Scorpion to Malaysia. The aircraft would provide the military with a number of options that were not available to it in Sabah.

The Scorpion can serve as a strike aircraft or a trainer, and can perform intelligence, reconnaissance and surveillance missions.

"It is not a one-trick pony," Textron's Chuck Gummow said.

The aircraft has six hard points on the wings and can carry 3,000 tons of ISR packages under the middle fuselage. At \$20 million per aircraft and an operating cost of \$3,000 per flight hour, the Scorpion has a lot of potential in the marketplace, he said. □

Email: wminnick@gannettgov.com.

SAAB PLANS

From Page 1

Swedish-controlled submarine capacity is the best means to release TKMS' (formerly Kockums) dormant potential to produce world-class subs and surface naval vessels. It will also enhance Sweden's ability to pursue international contracts, such as Australia's proposed \$37.5 billion Future Submarine program, Hultqvist said.

Anders Carp, senior vice president and head of Saab's Nordic and Baltic market area, said that the company is looking to increase its presence in Australia and has not ruled out bidding for the Australian sub-builder ASC.

"We are impressed by the company [ASC]; they have built up a very good business there, both with submarines and the Air Warfare Destroyer. But we need to look into that when it happens," said Carp, who also is in charge of Saab's corporate responsibility for government affairs.

The Saab-Australian connection had earlier been flagged by Lena Erixon, the CEO of FMV, Sweden's defense materials procurement agency.

"It is possible that the work may also be shared with Australia and Poland. In Australia, there is considerable interest in a partnership regarding submarines," Erixon said.

The Royal Australian Navy's (RAN) existing fleet of six Collins-class submarines are based on a Kockums design. This fact, coupled with the state-held ASC's service and maintenance contracts with the RAN, has added a new dynamic to the prospect of a future Saab bid for ASC, which continues to be the subject of sale rumors.

ASC officials have not commented.

Australia has a requirement for 12 large conventionally powered submarines under Project Sea 1000 (Future Submarine). The choice has been narrowed to either an evolution of the Collins boat or a new design.

Saab, says Carp, is interested in both options.

"Sea 1000 is one of the largest and most interesting programs and it's Australia's biggest program ever," Carp said. "Being in the defense industry, you'd be kind of stupid not to be interested in it."

Saab sees synergies between Sweden's A26 program and Australia's Sea 1000 Future Submarine project, and is examining a possible partnership with ASC on new submarines and the upgrade of existing boats.

Another possible fit is Sweden's planned midlife upgrade on its three A19 Götland-class subma-

rines and the Australian Service Life Extension Program (SLEP) for its six Collins-class boats in the same time frame.

Saab and ASC constitute natural partners, Carp said.

Defense cooperation, including collaboration on submarine capability, was discussed when FMV officials visited Australia in recent months. Japan is also exploring cooperation with Australia.

Troubled Relationship

The emergence of Saab as a global player in submarine production would not be possible unless the company had the "wholehearted support" of the Swedish Cabinet, said an insider at FMV.

"Soon after ThyssenKrupp bought Kockums in 2005, there was a sense that the state had missed the opportunity to safeguard submarine building in Sweden," the FMV insider said. "These fears intensified when Kockums' project bidding role was removed to Germany at a time when it was working on bids for the Australian program as well as the prospective \$4 billion Ula-class replacement program in Norway."

The government's unease over

Saab's acquisition plans "may be a reasonable Swedish solution, but it is not a good European solution ... There are six submarine-producing nations in Western Europe, which is unsustainable."

Christina Balis
Avascent

ThyssenKrupp's ownership of Kockums increased when the company name was changed to ThyssenKrupp Marine Systems in 2013 and the German parent signaled its intent to move large-scale submarine production out of Sweden, said Allan Widman, the Liberal Party's spokesman on defense and a member of the Standing Committee on Defense.

"ThyssenKrupp proposed a massive reorganization under which its yards in Sweden would build mini-sub of under 1,000 tons," Widman said. "The A26 has a 1,900 tonnage. The alarm bells really began to ring at FMV and in government when ThyssenKrupp refused to either commit to building the A26 in Sweden or deliver a fixed project price," said Widman.



ROYAL AUSTRALIAN NAVY

Aussie Connection:
Royal Australian Navy Collins-class subs Dechaineux, Waller and Sheehan sail in formation during a 2013 exercise. The Collins subs are based on a Kockums design.

ThyssenKrupp's original interest in acquiring Kockums was to "gain control" over a competitor on the submarine market, one German naval analyst said.

"Now there will be a competitor on the market again, which is not under control," he said, adding that the Swedish naval sites being pursued by Saab do not "possess the same level of experience and knowledge as ThyssenKrupp's facilities in Germany. Saab will have to build up much of the technology again."

The collapse in the relationship between ThyssenKrupp and Sweden's Ministry of Defense culminated with FMV, under armed escort, turning up at TKMS' Malmö headquarters on April 8 to "secure" classified documents, intellectual property and blueprints related to the A26 and its stealth Stirling air-independent propulsion engine.

"The raid incident is very strange, very unusual," said Gunnar Hult, a defense-political analyst at Sweden's National Defense College. "It has long been thought in Sweden that ThyssenKrupp acquired Kockums to remove a competitor. What is somewhat surprising now is that ThyssenKrupp decided to negotiate with Saab, who may become a competitor. I wouldn't be surprised if there are lots of calls between the Swedish and German governments about such a strategic matter."

'Not a Good European Solution'

Saab's ability to do a deal with ThyssenKrupp would inject new life into a Kockums in decline, said Luc Viellard, a director of strategic studies and solutions at the French consulting firm Compagnie Européenne Intelligence Stratégique. "Saab would add one more competitor to the European and the world market," said Viellard, who noted that a Saab acquisition of Kockums could pose a threat, or an opportunity, for French submarine builder DCNS.

However, Christina Balis, the head of European operations at consulting firm Avascent, said Saab's acquisitive intent "may be a

reasonable Swedish solution, but it is not a good European solution." A Saab takeover, she observed, would only further delay much-needed industry consolidation across the European naval sector.

Other European countries, said Balis, could use the Saab-Kockums case to justify a similar national approach toward the creation of larger industrial conglomerates, based on a vertical integration of domestic capabilities.

Similar developments, Balis said, are underway in France and Spain, with Paris favoring Thales to increase its 35 percent stake in DCNS, while Madrid is pushing for a consolidation of shipbuilder Navantia and technology company Indra.

"Vertical makes very little business sense. There are six submarine-producing nations in Western Europe, which is unsustainable," Balis said.

The political aim may be to protect jobs, but without sustained demand, both long-term employment and capabilities are put at risk, she said.

Submarine production in Europe is centered on companies based in France, Germany, Britain, Italy, Spain and Sweden.

Saab's takeover talks with ThyssenKrupp have also raised eyebrows in Italy.

"It seems strange — not from an industrial point of view, since Saab has produced naval combat systems, but from a national point of view," an Italian defense industry analyst said. "There has been an attempt to consolidate the defense sector in Europe, but that requires a consolidation of demand. What we are seeing here goes against that trend."

Italy's Fincantieri has built submarines for Italy at its yards in Italy in cooperation with ThyssenKrupp, using German intellectual property while producing Italian variants on models. □

Tom Kington in Rome, Albrecht Müller in Bonn, Nigel Pittaway in Melbourne, Australia, and Pierre Tran in Paris contributed to this report.