

DEFENSE INDUSTRIAL INITIATIVES CURRENT ISSUES

No. 6: The VH-71 and the Industrial Base (03/06/2009)

Defense acquisition problems made the news at President Obama's recent budget summit, when Senator McCain reportedly pointed out the expense of the proposed VH-71 Presidential Helicopter Replacement, a program now estimated at more than \$13 billion. President Obama has told Defense Secretary Robert Gates to put the new helicopter "on hold."¹

The VH-71 was one of the first high-profile US acquisition programs in which European firms played a prominent part. Using a European manufacturer for the program could enable the Pentagon to enlarge its supplier universe. It could also reduce tensions over defense trade with Europe, with which the United States has historically run a \$2-3 billion annual surplus.² Most importantly, the Defense Department could gain the benefit of using an already-developed commercial aircraft. But these objectives can only be met if the US acquisition system works well enough to make it worthwhile for foreign manufacturers to participate.

The VH-71

The aircraft is based on the EH101/AW101, a \$57 million helicopter produced by Italian-British company AgustaWestland and in service for years commercially and with several European militaries. Lockheed Martin of the US is the prime contractor, with AgustaWestland and Bell Helicopter of the US as the main subcontractors. This marked a change for the US: Sikorsky, a Connecticut-based unit of United Technologies, had built the presidential helicopters since the Eisenhower administration.



Prototype VH-71 during flight testing.

Source: Department of Defense, Sgt. Donald Bohanner.

Originally budgeted at \$6.1 billion for 28 aircraft, about 12 months ago the Defense Department told Congress that the projected cost had reached \$11.2 billion, an unprecedentedly high \$400 million per helicopter, and reportedly the total has risen since to \$13.4 billion.³ The original cost reflected advanced defensive and communications systems deemed necessary after 9-11. As described in a recent Defense Science Board report, the cost increase resulted from the difficulty of meeting design changes and aircraft performance requirements on a relatively compressed timetable – the first five helicopters were slated to enter service by 2010, after beginning development in 2005.⁴ Work on the second batch of 23 aircraft has been suspended, and whether to continue is the question.

³ M. Thompson, "[How the White House Choppers Spiraled Out of Control.](#)" *Time.com*, February 25, 2009.

⁴ Defense Science Board Task Force on Integrating Commercial Systems into the DoD, *Effectively and Efficiently, Buying Commercial: Gaining the Cost / Schedule Benefits for Defense Systems* (Washington: Office of the Secretary of Defense For Acquisition, Technology and Logistics, February 2009).

¹ CNN Political Ticker, "[Gibbs: Obama puts new presidential helicopters on hold.](#)" *CNN.com*, February 24, 2009.

² CSIS analysis based on USITC database (International Trade Commission).

Competition and the Industrial Base

The point here is not to decry the program's cost, but rather to consider how this episode may affect the future ability of the US to buy military systems.

The 1990s saw the consolidation of the US defense-industrial base. Fewer large programs were initiated, and the number of potential prime contractors fell, a natural, business-driven reaction. But fewer manufacturers meant fewer bidders and less competition for large programs.

One approach to retain the benefits of competition has been to open US defense procurement to selected suppliers outside the US. By broadening the pool of available bidders, the Defense Department could get the advantages of economic competition and more innovation. This approach poses a potential political challenge, partially mitigated by a greater opportunity for US manufacturers to sell overseas.

For this approach to provide enduring competition and innovation, the Defense Department must be able to award contracts in a manner viewed as fair and then insure that the resulting programs can be completed.

Why the VH-71 Matters

Cancelling or shrinking this program will save money in the short run, though a solution will still need to be found for the current, aging presidential fleet. But if this experience sours AgustaWestland or other foreign manufacturers on participating in US contracts, the goal of access to a broader supplier base and its attendant benefits will not be reached. Foreign companies will not compete for a contract unless they think they can win and successfully perform it, and they will not be able to do so unless they can be properly incorporated into the acquisition process.

To keep the Europeans interested is not a sufficient reason to continue the VH-71 program. Rather, this episode underscores the need to reform the defense procurement system. Increasing competition and

spurring innovation by using qualified foreign companies – while opening overseas opportunities for American manufacturers – are worthwhile goals. But they will not be met if potential suppliers are scared off by the inability of the US defense procurement system to award and execute contracts properly.

- Matthew Zlatnik