
Industry's Contribution to the 2001 Strength through Cooperation Conference

By

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Like all of you, I witnessed the tragic events of September 11, 2001 and have been following the subsequent developments and I am no better equipped than the next person to comment on what happened. I thought the President struck just the right tone the other night when he said:

We are a country awakened to danger and called to defend freedom. Our grief has turned to anger and anger to resolution.

We in the defense industry share that resolution. We understand that the days ahead will be a time when our nation and its allies need us most. Our number one priority will be to provide these governments with the tools necessary to prosecute what the President has called "the first war of the 21st century." I have personally assured the leaders of the U.S. armed services that Lockheed Martin will do whatever it takes to meet their needs.

We also understand that there will be changes in the foreign military sales (FMS) process and we will support this audience in transitioning FMS to reflect the very different world view that has resulted from the events of September 11th.

It is important to note that the Defense Security Cooperation Agency (DSCA) was already engaged in streamlining FMS, and General Walters deserves a great deal of the credit for the improvements that have been made. Examples abound, but perhaps the most illustrative is the reduction in the time needed to secure Letters of Offer and Acceptance (LOA). The average length of time it used to take DSCA to process an LOA was 18 days. The letter had to be physically transported from official to official, with the usual downtime spent in in boxes and out boxes and the time needed to walk the letter from office to office. Since Gen. Walters directed that LOAs be handled electronically, the average period for securing them has dropped to just three days. And the very first electronic LOA was completed in just five hours.

Similarly, the Department of Defense's (DoD) efforts under the broad charter of the Defense Trade Security Initiative (DTSI) to improve export processes is noteworthy. An excellent example of DTSI is the proposal that major programs and projects now need only one authorization which should have the effect of allowing the U.S. government to license major programs one time, at the beginning of the program, rather than through literally hundreds of piecemeal license applications. Obviously, this should prove to be a great advantage for a program such as the Joint Strike Fighter, where international participation is inherently part of the program.

Despite these advances, all of us here could point to numerous ways that the FMS process can continue to be improved and barriers to international cooperation among our coalition partners can be lowered. In the wake of the events of September 11th, it is incumbent upon all of us involved with U.S. technology and weapons systems to develop the tools to enable the strongest possible military coalition to fight this global war against terrorism. I believe the U.S. can do this

while at the same time protecting those technologies necessary to preserve America's unique role as a global military power.

It is increasingly obvious to everyone that we are living through a period of immense and unprecedented change in the international security environment. Paralleling that phenomenon has been a similar sea-change in the global business environment as well, and that is what I would like to focus on for the next few minutes.

Looking back, we can see that the end of the Cold War enticed our governments to reduce expenditures on defense, driving a significant consolidation of our industry. We were forced to adjust to this new reality through an accelerating series of reductions, combinations, and rationalizations.

Consequently, the defense industry of the year 2001 bears little resemblance to that of 1980, 1990, or even 1995. We have built large corporations with great technological depth and with sufficient product diversity to remain profitable and competitive, despite the government's reduced investment in procuring weapons systems. The point is that the changes which have occurred in the defense industry in the last decade were not discretionary. They have been essential to insuring the survival of a robust, if substantially smaller, defense industrial base.

In retrospect, we can see that we made those changes just in time because one of the few areas that has resisted the extreme turbulence in the financial markets over the past two weeks has been defense stocks. Some would ascribe this phenomenon to the prospect of greater defense spending. But equally important is the realization that the defense industry has already endured the difficult consolidation that is now beginning to affect, for example, the airline industry. All told, the industry shed more than 1.5 million jobs in the decade following the end of the Cold War.

Speaking as the Chief Executive Officer of a company that was created in response to these many changes, I can tell you that in order to make progress, we had to break through a mind set that had been built up through the half-century of the Cold War. We finally recognized that our prosperity and our very survival as a company hinged on our ability to satisfy not only our customers, but to satisfy our investors as well. We had to become lean, we had to understand what our true strengths were as a corporation, and we had to focus all our energies on bringing value added to every product we offered. These challenges required a new set of business skills that would work in conjunction with our long-standing technical skills.

Further, I might add that the destruction of the World Trade Center in New York demonstrated with horrendous clarity the true interconnectedness of the global economy. Markets in every part of the world responded to the event by enduring enormous losses in stocks virtually across the board. In other words, globalization is a reality. It is very clear now that we really are all in this together governments, businesses, financial markets and that our entire way of life is at risk if we do not act decisively and collectively.

That may sound like a pessimistic statement, but I am actually cautiously optimistic. I have seen that long-held routines governing how we do business can, because of a sudden change in mind set, suddenly become fluid, allowing inefficiencies rooted in decades of routine to be brushed aside. With this new changed approach, we can then be more productive, more efficient, and, of course, provide better value to our customers. Ironically, there is an example from Lockheed Martin's own experience that demonstrates how breaking a long-held mind set can yield benefits to all parties involved. The example involves our relationship with America's former adversary, the Soviet Union. Today, Lockheed Martin has in place two multi-billion dollar joint ventures with Russia. With separate Russian enterprises, we formed International Launch Services, through which we offer the Proton and Atlas launch vehicles internationally; and we

have an agreement to buy Russia's highly efficient and reliable RD-180 rocket engines and are now installing that engine in our new Atlas V upgraded launch vehicle. Our relationships with Russian companies are authentic partnerships among equals; real, strong and substantial. By using Russian technologies and aerospace workers in a way that benefits their economy and keeps those resources from proliferating to other countries, these programs benefit world stability.

I might say that some find it even more ironic that we have been able to work through contentious commercial cross-border issues with a former adversary an adversary; which, by the way, did not understand the free market system at a time when we still have difficulties setting up significant joint ventures with our traditional allies. These partnerships would have been unthinkable just a few years ago. In the current environment, they are regarded by us as contemporary business practice.

Today, thanks to help from DSCA and the military departments, Lockheed Martin alone has more than 300 partnerships in place, in more than 30 countries around the globe. Our partnership arrangements themselves are now routinely optimized to address the changing needs of our global customers. We obviously need to do more if we are, in the words of President Bush, to direct every resource at our command, including every necessary weapon of war to the destruction and to the defeat of the global terror network.

Let me share with you a couple of examples of what we perceive as innovative international partnering. First, there is the partnership to develop the North Atlantic Treaty Organization's (NATO's) tactical air defense program, known as the Medium Extended Air Defense System (MEADS). The initial phase involves five major tasks. They are divided among integrated product teams that are led by companies from the three countries sharing in the program Germany, Italy, and the United States. The companies leading each team were selected based on merit or their special expertise. Each team also includes people from other companies and other countries. In each aspect of the program, the work is also divided internationally. This approach not only ensures that the best resources available are devoted to each task, but that the labor is shared effectively addressing and resolving any issue of national work share. In addition, there is a greater level of technology sharing than we would have expected under more conventional partnering arrangements. The resulting product will have wider application in the marketplace than it otherwise might have had. It will be more affordable. It will not be duplicated by anything already produced by a national program. The approach taken with MEADS could serve as a model for other programs. It is a new way to form an industrial coalition; dealing with issues of security, technology sharing, and division of labor, while at the same time leveraging the investments of three countries to obtain a system none could procure individually.

Another innovative example is our approach to the Joint Strike Fighter (JSF). We believe JSF will be the multi-role fighter for the 21st century. Because it will be adopted by the U.S. Air Force, Navy, and Marines; by the Royal Navy and Royal Air Force and other NATO allies and friendly nations. The JSF will be the key to greater interoperability worldwide. For the JSF program, Lockheed Martin and our principal partners BAE Systems and Northrop Grumman formed a single team, using what has been called a Best Athlete approach to product development. Under this approach, members of the team are prepared to bring the best available resources from any of the partner companies to bear on a given problem. Work share is not decided and divided in advance. The "Best Athlete" wins major work content share. We created a new team that we believe validates the principle that the whole not only can be, but must be, greater than the sum of its parts. We incorporated BAE Systems' state-of-the-art production tools and short-take-off-and-vertical-landing experience; Northrop Grumman's manufacturing controls, which are among the finest in the world; and Lockheed Martin's proven expertise with Lean Manufacturing. The JSF manufacturing process thus incorporates the best of all three partners. Furthermore, our JSF integrated project teams have been led and constituted by the

personnel with the most-appropriate experience, irrespective of their nationality or company. The result is what we believe is a world-class team that has resolved challenges with real gains in performance.

Now I want to emphasize: Although the examples I have cited involve Lockheed Martin, I am not suggesting that we are unique in developing partnerships. Clearly others in our industry recognize this global imperative. Some of them are our partners. Many of those companies have also developed partnership arrangements separate from the ones they have with us: Thales with Raytheon, BAE Systems with Boeing, EADS with Northrop Grumman to name just a few. At the same time, a number of companies have also opted to expand their reach across the Atlantic by acquiring other companies. General Dynamics took this approach when it bought the Santa Barbara tank plant in Spain. BAE Systems has followed a similar course by adding two companies acquired from Lockheed Martin to their portfolio in the U.S. These and similar transactions have demonstrated the viability of transatlantic ownership as another option. Whatever the method, joint ventures and partnerships, or investing equity in specific companies we in the defense industry have for some time believed that our respective governments must embrace a transatlantic marketplace that is integrated, open, and competitive.

We all want to see that our military alliances, especially NATO, are optimally prepared for whatever security challenges emerge in the 21st century. Governments are forming coalitions to engage those challenges, and the defense companies that support those governments must have the ability to form our own “coalitions.” Transatlantic defense market integration has many advantages. Common requirements would allow larger production runs and equipment that is both less-costly and more-interoperable. Open markets would mean the best, most-affordable technology would be available across the alliance. And it would mean that industry would be more robust, with a more-efficient allocation of research and development resources and sharing of best practices on a transatlantic basis. As compelling as it is, however, this ideal will not be easy to achieve. To be successful, we will need unprecedented cooperation and trust among industry and all relevant agencies of the governments involved. Harmonizing requirements among military services requires a whole new mind set. We must reach a workable accommodation on the kinds and degrees of technology that we are willing to share. We need to address issues of openness, transparency, and reciprocity. All of these impediments require energetic, engaged, visionary leadership in order to reach a viable, real-world resolution. We believe strongly that the men and women in this room can provide such leadership, and we in industry are prepared to follow your lead. Together, we must find ways to make these international partnerships work. The price of failure is simply too high, in terms of higher costs, lost innovation, lower levels of interoperability, and ultimately weaker defenses at a time when we need to bring the very best of our respective technologies to the fore. We must not only remain open to change that is in the best interest of both our Nation and its Allies, we must seek that change. Today we have not just a great opportunity but, quite realistically, an absolute imperative to break through the mind set of recent years in order to achieve our national security goals. We will not be able to do so by nibbling around the edges, we must be bold, we must be focused and we must not stop short of real, basic reform.