

Defense budget cuts won't hurt Sikorsky

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Article Last Updated: 10/25/2008 04:12:35 PM EDT

WASHINGTON -- The pressure will be on the Pentagon to shrink its budget no matter who takes the White House this November but that should not lead to cuts in spending any time soon on Sikorsky Black Hawks.

Defense analysts anticipate that a weakened economy, combined with massive federal commitments to bail out financial institutions, will have the next president and Congress looking for ways to cut spending in large weapons systems that are not crucial to the wars in Iraq and Afghanistan.

While that may hit new aircraft programs, it would not likely lead to a slowdown of production at Sikorsky Aircraft in Stratford, Conn. The company's UH-60 family of military utility helicopters is in high demand for cargo and personnel transport in both Iraq and Afghanistan.

"The big bailout is bound to take resources that may have otherwise gone to defense spending. It will definitely have an impact. But, helicopters are one of the higher priorities for the military because of the type of operations they are involved in and the flight hours they are putting on the helicopter fleet," said Raymond Jaworowski, a senior aerospace analyst at Forecast International in Newtown, Conn.

The Pentagon recently launched a multi-year program to upgrade its fleet of utility helicopters that will keep Sikorsky busy for the foreseeable

future. In all, the military could order as many as 1,200 Black Hawk models.

Last December, Sikorsky received the largest order in its history -- a \$7.4 billion, five-year contract to make and maintain 537 Hawk-variation helicopters for the Army and Navy. If the services exercise contracts for 263 more aircraft, the contract could be worth \$11.6 billion.

Sikorsky broke into the top 10 defense contractors this year, tallying \$3.1 billion in military orders largely for its Army and Navy Black Hawk variants, according to a recent computer-assisted analysis by Aerospace Daily. Boeing topped the list with \$9 billion.

"We consider Sikorsky's future pretty bright," Jaworowski said.

Three shifts of workers are now on the floors and are expected to complete 200 helicopters this year, including military and commercial models. It takes about one month to assemble a UH-60M, the Black Hawk, and about two months to assemble the MH-60R Seahawk, said Sikorsky spokesman Paul Jackson.

Jeff Pino, the company president, said last December that Sikorsky had added 223 assemblers as well as doubled its number of salaried workers and bolstered its second-shift management team.

Some aerospace trade publications, however, have raised red flags for Sikorsky -- noting that Pentagon officials are proposing major future reductions in the helicopter program. As drafted, the Army's Program Objective Memorandum for fiscal 2010-2015 would begin reducing the annual purchase of Black Hawk UH-60M helicopters by 15 in fiscal 2010 -- and overall by 321 -- for a savings of \$6.6 billion, according to Aerospace Daily.

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The memorandum is still an internal Pentagon document subject to changes and congressional input.

In July, Sikorsky publicly lowered its estimate for UH-60M orders to "about 1,000" aircraft.

"With the economy in the proverbial pooper," defense budgets can only go down, Michael N. Farage, Sikorsky's director of Air Force programs, said during the Air Force Association's recent annual meeting in Baltimore, according to the Politico newspaper.

Rep. John Murtha, D-Pa., said this month that weapons systems programs are going to face stiff competition under either an Obama or McCain administration. And, Army Chief of Staff Gen. George Casey said he's ordered his staff to examine all Army proposed procurement programs and study what size force it would need in the future.

"The new president is going to be forced to look at health care for everyone, Medicare, Social Security and the military -- as we wind down from Iraq -- is going to be off the front page," Murtha said during WUSA's "This Week in Defense News" broadcast on Oct. 5.

Richard Aboulafia, vice president of analysis at Virginia-based Teal Group, said military spending and aftermarket sales and service would definitely keep Sikorsky busy in 2009. He expects military orders will remain robust for the foreseeable future.

The U.S. military's fleet of helicopters is in need of replacement and is "relevant" to the type of warfare it is likely to encounter in the near future, Aboulafia said.

Congress last month approved a spending bill for the current 2009 fiscal year that included: \$1.05

billion to build 31 MH-60R Navy Seahawk helicopters; \$927.45 million to build 63 Army Black Hawk helicopters; \$470.46 million to build 18 MH-60S Navy Knighthawk helicopters; and \$570.48 million for research and development of the Navy's CH-53K heavy-lift helicopter.

"There is no question that in a prolonged economic downturn there will be pressure on the Defense Department but rotor craft are as close to a safe haven as you are going to find," Aboulafia said. "Cuts are more likely to come out of heavier and newer strategic systems rather than replacements for a strategically relevant system."

Loren Thompson, a defense analyst with the Lexington Institute, said Sikorsky is "very well positioned" for the next several years.

"The kinds of wars we are facing really put a premium on our ability to land anywhere, which means rotor craft are in demand," he said.

"The Army and Marine Corps have an urgent need for new helicopters to replace their aging fleets. Their replacements will likely move to the top of the priority list under the next administration whether it is Obama or McCain." Unlike some of his colleagues, Thompson does not anticipate the military will cut back much on its weapons procurement program because of the economy. In fact, pressure will be on to keep programs funded by lawmakers who represent workers in those defense districts.

Thompson said the military should also be able to free up cash to purchase new weapons systems as it begins to reduce operational costs associated with Iraq and Afghanistan.

The annual Pentagon orders for helicopters have increased substantially from a decade ago, when Connecticut lawmakers lobbied heavily to get them

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to purchase at least 36 Black Hawks a year. Funds were tight until the Army cancelled its \$39 billion Comanche program in 2004.

When the program was cancelled, President Bush and the other officials promised that money would stay in the Army's aviation program, and the Black Hawk order is a result.

The MH-60R, which is replacing the Navy's current fleet of SH-60B and SH-60F helicopters, is primarily designed to serve an anti-submarine and surface warfare mission. Secondly, it will be used for search and rescue and transport. The MH-60S helicopter was designed for troop transport, airborne mine countermeasures and other support missions.

Sikorsky is also gearing up to replace the Marine's fleet of heavy lift helicopters and has bid on a \$15 billion program to supply the Air Force with a fleet of search-and-rescue helicopters.

In April 2006, Sikorsky signed a \$3 billion multi-year contract with the Marines to develop its next-generation heavy lifter, the CH-53K Super Stallion. The service should start receiving the first of 156 CH-53Ks in 2015. Once in full-rate production, the aircraft procurement rate will ramp-up to approximately 24 aircraft per year.

And Sikorsky still hopes to land a Pentagon contract for its HH-92 Super Hawk, which lost a bid to be the next Marine One helicopter.

The Super Hawk is one of three helicopters in the running for the U.S. Air Force's \$15 billion combat, search and rescue helicopter program. The other competitors are Boeing and Lockheed Martin.

The Air Force last week delayed the award of the disputed contract until next year, claiming it needed

more time to pick a winning team.

Boeing Co. won the initial contract, but the program has been on hold for two years after Lockheed Martin Corp. and Sikorsky challenged the deal.

The Air Force had planned to pick a winner by December.

As for future contracts, the Army still hopes to move ahead with its Joint Heavy-Lift program but will have to wait until the Pentagon completes a study on what kind of aircraft it believes is needed to ferry troops and equipment into future battlefields.

Paul Bogosian, Army program executive officer for aviation, said the Army continues to favor a "vertical lift" solution.

Until a program is formally launched, the Army, Navy and Defense Advanced Research Projects Agency are expected to fund technology demonstration contracts with potential bidders. Sikorsky has proposed building a "high-speed lifter" that would utilize counter-rotating coaxial-rotor technology based on a demonstrator that recently completed a successful test flight.

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