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February 2, 2009

Congressional Research Service

Report RS22103

VXX Presidential Helicopter: Background and Issues for Congress

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April 1, 2005

Abstract. On January 28, 2005, Navy officials announced the award of the VXX helicopter contract to Lockheed Martin Corp. Critics of the award have raised concerns about the effect on the U.S. defense industrial base, U.S. trade, and whether Buy American statutes apply. Some question whether the competition was fair. Legislation has been introduced regarding some of these issues.

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CRS Report for Congress

Received through the CRS Web

VXX Presidential Helicopter: Background and Issues for Congress

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Summary

On January 28, 2005, Navy officials announced the award of the VXX helicopter contract to Lockheed Martin Corp. Officials stated that the VXX contract was awarded on a “best value” basis. Opponents of the award raised concerns about the effect on the U.S. defense industrial base, U.S. trade, and whether Buy American statutes apply. Some question whether the competition was fair. Legislation has been introduced regarding some of these issues. This report will be updated as warranted.

Background

On January 28, 2005, Assistant Secretary of the Navy John Young announced that Lockheed Martin Corp. had won a competition against Sikorsky Aircraft Corp. to develop the VXX presidential helicopter. Estimated at \$6.1 billion, this program will replace today’s 13 *VH-3D* and eight *VH-60N* helicopters. Approximately \$1.6 billion has been budgeted since FY2004 to begin buying 23 helicopters. Initial operational capability is planned for 2009. The Navy said the Lockheed approach was chosen because it was the most likely to meet the needs on time and at a lower cost, among other factors. Some criticized the award to purchase Lockheed’s *US101*, partly because the winning team includes foreign companies (from the United Kingdom and Italy). Sikorsky had stated it would build the VXX entirely in the United States. Others report that Sikorsky had higher performance scores.¹ Some allege that the Department of Defense (DOD) awarded the contract to Lockheed Martin’s international team to reward Italy and the UK for their support of the war in Iraq. DOD denies this claim.

¹ Michael Bruno, “After Heated Briefing, Lawmakers Vow to Challenge Navy Over VXX,” *Aerospace Daily & Defense Report*, Feb. 11, 2005.

Potential Issues for Congress

On February 1, 2005, Representative Rosa DeLauro introduced H.R. 459 “Marine One Made in American Act.” On March 1, 2005 Sen Lieberman introduced a related bill, S. 486. As Congress considers these bills, and potentially other legislation on the VXX program, several issues are likely to be raised. First, whether the competition was held fairly, as DOD asserts, or whether there were procedural irregularities, as critics contend. Second, the possible impact the decision might have on the U.S. defense industrial base. Third, and relatedly, the effect the decision could have on U.S. trade. The final issue pertains to compliance with existing Buy American statutes.

Fairness of the Competition. In a January 28 news briefing, Navy officials stated that the VXX contract was awarded on a “best value” basis, and that consistent with government rules, the proposals were evaluated solely on “technical, past performance, experience, and cost factors.”² Some have questioned, however, the relative weight placed on these factors, and whether the VXX needs to be procured on the time schedule DOD desires.

Urgency. Government officials have consistently maintained that principally owing to post-September 11th security issues, replacing the current Marine One fleet is urgent. It has been reported that White House officials urged DOD to accelerate the VXX program, proposing an initial operational capability by 2007.³ Some argue that by responding to this perceived urgency with an aggressive acquisition schedule, DOD has pursued a strategy that is unnecessarily risky. Navy Assistant Secretary John Young commented on the risk associated with pursuing the VXX on an urgent time line: “The requirements of the program are very demanding. The volume of work to be completed in this program is substantial....However, the need to improve the capability and security level provided to the president is urgent and demands that we move expeditiously.”⁴ DOD’s Director of Operational Test and Evaluation reportedly disapproved of the VXX schedule, calling it overly aggressive and inconsistent with “fly before buy principles.” He reportedly found that the VXX test schedule was “not executable.”⁵

The Navy indicated that “The Lockheed streamlining proposal was selected because it was judged more likely to meet these government requirements on schedule, with lesser risk, and at a lower cost....we can’t let the traditional acquisition process impede the need to meet the President’s security requirements now.”⁶ Some believe, however that one outcome of this schedule was to make the competition more favorable to Lockheed Martin and less favorable to Sikorsky.

² DOD News Briefing, John Young, Assistant Secretary of the Navy for Research, Development and Acquisition and Thomas Laux, Program Executive Officer, Jan. 28, 2005 - 5:01 p.m.

³ Christopher Castelli, “Facing Criticism From Christie, Young Defends Rapid VXX Schedule,” *Inside the Navy*, Feb. 7, 2005.

⁴ DOD News Briefing, op. cit.

⁵ Castelli, op. cit.

⁶ DOD News Briefing, op. cit.

Opponents of the contract award argue that the vast majority of presidential helicopter flights are short (e.g. from the White House to Andrews AFB, or to Camp David), and take place in very secure airspace. From their perspective, regular combat air patrols by F-16 aircraft, and standard defensive countermeasures should provide the President with adequate security regardless of the helicopter flown. If improvements to the President's security are urgently needed, critics ask, what is being done to improve security until the VXX is fielded?

Supporters of the Navy's position are likely to argue that a key lesson of the terrorist attacks of September 11th is that tomorrow's security challenges are difficult to predict and that the President urgently needs more capability to address scenarios outside the norm. Also, some argue, the consequences of not providing the President with improved capabilities are potentially dire; such as ineffective crisis response, or even a discontinuity of government. Therefore, they maintain that an aggressive schedule is warranted.

Technical Factors. The issue of the relative weights placed on safety and cabin area features in this competition has arisen.⁷

Sikorsky officials argue that safety considerations were valued less in the competition than other factors, such as cabin size.⁸ According to press reports, Lockheed Martin's helicopter has experienced five "Class A" mishaps; the most serious kind of aviation accident. Sikorsky's helicopter has reportedly never experienced a Class A mishap.⁹ Sikorsky's helicopter has been FAA certified more recently than the *EH-101*, and therefore has had to comply with higher safety standards. Among the *S-92* safety features are fuel tanks external to the cabin area. Lockheed Martin disputes claims that the *US101* is less safe than the *S-92*. Unlike the *S-92*, they say, theirs is a battle tested helicopter designed to military specifications. Further, they say, *US101* is safer than the *S-92* because it has three engines rather than two. In the January 28 news briefing, however, Navy officials said they had no data supporting the argument that helicopters with three engines are safer than those with two. A helicopter with three engines will cost more to operate than a helicopter with two. One source has estimated the *H-92*'s hourly direct maintenance cost at \$900.00 and the *EH-101*'s at \$1,500.00.¹⁰

Industry sources agree that the *US101*'s larger cabin is an advantage over the *S-92*,¹¹ but Sikorsky supporters contend that too much weight was placed on cabin size, some 60% of the technical score, unfairly favoring Lockheed Martin. They maintain the *S-92* met the VXX program's cabin size requirement with a larger cabin than the helicopters it will replace. Considering that the amount of time that the President will spend in the

⁷ John M. Moran, "Size Guided Copter Choice," *Hartford Courant*, Feb. 9, 2005. Michael Bruno, "After Heated Briefing, Lawmakers Vow to Challenge Navy over VXX,," *Aerospace Daily & Defense Report*, Feb. 11, 2005

⁸ Meeting with CRS, Feb. 17, 2005.

⁹ [http://www.nts.gov/nts/query.asp#query_start]. NTSB *Accident Database and Synopses* 1962-Apr.1, 2005.

¹⁰ Conklin & de Decker, *The Aircraft Cost Evaluator*, Spring 2003. [<http://www.conklindd.com/cgi-bin/softcart.exe/?E+scstore>]. (2005 figure for EH-101 \$1,617. H-92 figure unavailable.)

¹¹ Lockheed Martin and Sikorsky meetings with CRS, Sept. 28, 2004 and Feb. 17, 2005.

helicopter is typically measured in minutes, rather than hours, some contend too much weight was placed on the cabin size decision criterion. At the January 28 news briefing the cabin size factor was addressed. John Young said that “both cabins met the requirements, so that wasn’t a total discriminating factor.” Program Executive Officer Thomas Laux, however, said that “the overall size of the 101 clearly was a factor in terms of their capabilities.”¹² Subsequent to the January 28 press conference, Navy officials have denied that cabin size received any more weight in the VXX decision than other technical factors, including safety.

U.S. Defense Industrial Base Issues. The VXX decision may have implications for to the U.S. industrial base such as jobs, and competitiveness.

Jobs Created or Lost Within the United States. The net effect of the VXX award on the number of jobs in the U.S. helicopter industry is unclear. Various estimates put the number of *new jobs* created by the *US101* program at approximately 1,050, in New York and Texas. If Sikorsky had received the VXX contract, it may be that fewer new jobs would have been created in the United States because Sikorsky’s *S-92* is already primarily built in the United States. (The *EH-101*, upon which the *US101* will be built, is today primarily built in Europe.) However, Sikorsky had said it planned to eliminate foreign suppliers and build the VXX entirely in the United States. It is unclear how many U.S. jobs may be affected, if any, due to reduced orders for the *S-92* following the VXX decision. Opponents of the *US101* program say it will send offshore key aircraft design, manufacture and support activities and that new jobs created by the *US101* will be assembly line jobs that do little to sustain or nurture the U.S. industrial base.¹³

Future Competitiveness. One VXX issue frequently discussed is the potential for the award of this contract to influence other military helicopter competitions. Several new military helicopter contracts are expected to be awarded in the near term — potentially up to \$40 billion in value. Prominent among these new programs is the Air Force’s Personnel Recovery Vehicle (*PRV*) which will replace its HH-60G combat search and rescue helicopters. Sikorsky and its supporters say that the VXX contract could harm the future competitiveness of the U.S. helicopter industry. They fear that the VXX will form the basis for the next generation of U.S. medium helicopters; just as H-60 helicopters formed the basis for the last generation. They also argue that the *S-92* is better positioned than Lockheed’s helicopter to compete internationally, due in part to lower costs.¹⁴

Lockheed supporters dispute claims about negative effects the VXX award might have on the U.S. helicopter industry. In his January 28 briefing, Assistant Secretary of the Navy John Young stated that the design and performance demands of presidential transportation are “a fairly unique opportunity ... very different” from other military requirements. There is no guarantee that the winner of the VXX helicopter competition

¹² *DOD News Briefing*, op. cit.

¹³ Dave Ahearn, “Marine One and Buy American: A Debate,” *Defense Today*, Nov. 10, 1004.

¹⁴ The VXX contract is a prestigious award. By choosing a helicopter that was designed and engineered by Europeans, Sikorsky supporters argue, the U.S. Navy is making a vote of “no confidence” in the U.S. helicopter industry.

will win future military helicopter contracts. They further argue that DoD's *Industrial Capabilities Report to Congress* found no major industrial base problems, and dispute claims that the U.S. is too dependent on foreign suppliers.¹⁵ S-92 supporters counter that requirements for military helicopters are fluid, and it is unknown whether the VXX contract is unique, since future helicopter requirements could grow to mirror VXX requirements. Others, argue that Sikorsky is a "shoo in" to win the PRV award, because, after canceling the *RAH-66 Comanche* helicopter, DOD would not risk Sikorsky's future by denying it the PRV contract.¹⁶

"Winner Takes All" Contract. Like many other military procurements, only one company was awarded a contract for Marine One. While funding two or more contracts typically costs more than funding one, in some instances increased cost has been justified to protect the industrial base. Some have suggested that awarding the VXX contract on a shared basis between the two competitors would have helped preserve the U.S. defense industrial base. On the other hand, Sikorsky officials have reportedly said that they hold orders for the delivery of 59 S-92 helicopters with options for another 30.¹⁷

Trade Issues¹⁸. Some suggest that the VXX decision may signal growing transatlantic industrial cooperation, and a more open DOD procurement policy concerning foreign suppliers. Only 4.1% of DOD procurement went to foreign contractors in 2003. On the other hand, this decision could spur some in Congress to support additional restrictions on foreign defense suppliers. Some observers state that if European suppliers are deemed good enough to make the President's helicopter, then the rest of DOD may be more inclined to consider foreign bids for a range of military contracts. Doing so, it could be argued, may make economic sense as foreign contractors increase the supply of contract bids, presenting opportunities to keep down procurement costs, and to take advantage of technology found in a global marketplace. It has been asserted that a more open sourcing policy for foreign suppliers could also make foreign governments more willing to buy from U.S. defense suppliers.

Others suggest that the decision could foster a backlash against a more open policy for defense procurement. Combined with the record U.S. trade deficit in 2004 and the possible European Union's lifting of its arms embargo on China, some worry that the United States could become more dependent on foreign suppliers. Others argue that the U.S. taxpayers who foot the bill for the strongest military in the world should have the right to supply it. Still others raise concerns about the risk of losing proprietary technology by shipping sensitive blueprints overseas and the need to assure tight security for offshore manufacturing and assembly (e.g. "Yankee White" security clearances).

¹⁵ Sharon Weinberger, "Annual Report Paints Rosy Picture of Defense Industrial Base," *Defense Daily*, Mar. 28, 2005.

¹⁶ Robert Wall, "Sea Change," *Aviation Week & Space Technology*, Feb. 7, 2005.

¹⁷ Andrew Doyle, "Sikorsky Shrugs Off VXX Shock," *Flight International*, Feb. 8, 2005.

¹⁸ This section written by Raymond J. Ahearn, Specialist in Trade Relations, Foreign Affairs, Defense, & Trade Division.

Buy American Issues¹⁹. The VXX procurement is subject to two domestic content statutes, The Buy American Act²⁰ and the Berry Amendment.²¹ The Buy American Act attempts to protect domestic labor by providing a preference for American goods in government purchases. In determining what are American goods, the place of mining, production, or manufacture is controlling. The nationality of the contractor is not considered.²² The domestic preference requirement of the act is broad in scope. The federal government is required to buy domestic “articles, materials, and supplies” when they are acquired for public use unless a specific exemption applies.²³ The test of origin is applied to supplies delivered to the government as “end products.”²⁴ Manufactured articles are considered domestic if they have been manufactured in the United States from components, “substantially all” of which have been mined, produced, or manufactured in the United States.²⁵ Substantially all means that the cost of foreign components does not exceed 50% of the cost of all components.²⁶

There are exceptions to the Buy American Act. The act does not apply (1) where its application would be inconsistent with the public interest or unreasonable in cost, (2) to procurement of products for use outside the United States, (3) to products not produced or manufactured in the United States in sufficient and reasonably available commercial quantities and of satisfactory quality,²⁷ or (4) to procurements under \$2,500.²⁸ The Berry Amendment requires that 100% of food, clothing, fabrics, specialty metals, and hand or measuring tools in a DOD procurement be of domestic origin.²⁹ Any VXX fabrics or specialty metals would have to be of 100% domestic origin. The cost of the fabric and specialty metal components are used in the Buy American 50+% determination.

¹⁹ This section written by John R. Luckey, Legislative Attorney, American Law Division.

²⁰ 41 U.S.C. §§ 10a through 10d. For more on the Buy American Act, see CRS Report 97-765, *The Buy American Act: Requiring Government Procurements to Come from Domestic Sources*.

²¹ 10 U.S.C. § 2533a. For more on the Berry Amendment, see CRS Report RL31236, *The Berry Amendment: Requiring Defense Procurement To Come From Domestic Sources*.

²² See, E-Systems, Inc., 61 Comp. Gen. 431 (1982); and Patterson Pump Co., B-200165, 80-2 CPD ¶ 453 (1980).

²³ 41 U.S.C. §§ 10a & 10b. The act applies to leases as well as purchases. National Office Equipment Co., B-191003, 78-1 CPD ¶ 413 (1978).

²⁴ FAR § 25.101.

²⁵ 41 U.S.C. §§ 10a & 10b. This test is only applied to end products or construction materials. A component is of domestic origin if it was manufactured in the United States, regardless of where its components were made. Hamilton Watch Co., B-179939, 74-1 CPD ¶ 306 (1974).

²⁶ FAR § 25.101; and E.O. 10582, 19 Fed. Reg. 8723 (1954).

²⁷ 41 U.S.C. § 10a.

²⁸ Pub. L. No. 103-355, 108 Stat. 3346-7, 103rd Cong., 2nd Sess. (1994) codified at 41 U.S.C. 10a.

²⁹ 10 U.S.C. § 2533a. Exceptions are contained in subsections (c) through (I).