

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring Michael Turner, Chief Executive Officer,
BAE Systems**

May 10, 2006

the UK industry, like in the U.S., went through a huge consolidation process, including, in our case, as Vernon said, the merger in 1999 of British Aerospace and GEC Marconi Electronic Systems to form the foundation of what is now BAE Systems. In the U.S. in 1999, we had about 18,000 people across 25 states, with a turnover of about \$2 billion a year — including the then recently acquired Tracor Corporation.

That was just a start of our presence in the U.S. Since then, we have acquired over a dozen further properties — including Sanders, Lockheed Martin Control Systems, 5 DigitalNet — and, last year, United Defense. Today, BAE Systems is very much a global enterprise: sales of nearly \$30 billion a year, operations across five continents, customers in 130 countries, and a significant presence in defense systems in the air, land, and sea domains, employing some 100,000 people worldwide. And, very importantly, we operate, and are recognized as a domestic defense supplier, in six home markets — the U.S., UK, Sweden, South Africa, the Kingdom of Saudi Arabia, and Australia.

Underpinning the global presence is our core strategy of being the premier transatlantic defense and aerospace company. In the U.S. we now have a business that turns over some \$10 billion a year, and employs 38,000 people in 36 states. We are involved in key programs for the Department of Defense, where we now rank as the 7th largest contractor, and for the intelligence and other federal agencies.

Foreign direct investments accounts for over 5 million jobs in the United States, with a payroll of over \$300 billion. The UK alone has total assets valued at over \$250 billion, resulting in over 1 million jobs for Americans. Obviously foreign direct investment helps to bolster the economy of this country. Likewise, U.S. companies like to invest abroad, and they do so in trillions rather than millions or billions of dollars. Notions of “us” versus “them” have limited applicability in the global economy. Although we are headquartered in London, almost 50% of our shareholders are American, 26% of our revenues come from sales in the U.S., and almost 40% of our 100,000 employees are in the U.S. When we invest in the U.S., we create jobs, we enhance performance, and we invest in R&D for the future. Open markets help us all.

We, Americans and Brits, share common values in the all-important field of defense and security — the first priority of Government. We share values of liberty, free speech, democracy, economic freedom, and free trade. We recognize that sometimes we have to fight for those values, and when we do so, we often fight together. That is why the U.S. and the UK have, over many years, established ways of sharing the most sensitive intelligence information.

Our societies also value public education, healthcare, and other social welfare considerations. These social expenditures mean that defense and security are always under pressure — perhaps more so in the UK than in the U.S. And very much so in the rest of Europe, where I fear social security is more highly rated than national security. So it is essential that we address our defense needs with efficiency and effectiveness.

Here in the U.S., now our biggest home market, BAE Systems has been warmly welcomed by the Department of Defense as an investor in the U.S. defense industrial base. I believe we are seen as an effective owner of key capabilities and we have a successful track record of: growing the business organically, as well as by acquisition, investing in our businesses, with increased funding for research and development, creating new jobs — more than 2,000 last year — and, most importantly, performing for our customers. Our businesses in the U.S. operate at some of the highest levels of security. We conduct business with many parts of the intelligence community, and support the Department of Defense in some of its most sensitive and classified programs. From electronic warfare to imagery exploitation, we are a leader in the market. We are allowed to operate in the most sensitive areas of national security under the terms of a Special Security Agreement — SSA. This provides for the U.S. business to be run in the U.S. under U.S. law and led by U.S. citizens. The British members of the corporation, me included, get to see the financial results; but many areas of technology, product, and program are not visible to us.

The UK is the oldest ally of the U.S., not just because of a shared history, a shared language, and very similar political and legal systems. The UK and the U.S. are allies because, as I said earlier, they see the world in the same way. That means that our two countries share a vision of the threats to our way of life and have a similar, robust approach to dealing with them.

The evolution of ever more sophisticated systems and network centric warfare capability means that, if the U.S. and the UK are to continue to operate together around the world in order to defeat terrorists, and any others who want to destroy our way of life, then it is vital that the two Armed Forces are also able to continue to seamlessly share intelligence and fight together. I do not believe that this can be done just by U.S.-based companies making the systems and the British Armed Forces simply buying them. The UK is a proud nation and insists that its Armed Forces retain their independence. But this is not just national pride. The UK has different ways of operating. For instance, it cannot afford to copy exactly the U.S. doctrine of overwhelming scale and firepower. As well as operating alongside the U.S., UK forces undertake a range of operations where the U.S. may not choose to be engaged, or may choose to concentrate on different roles. That means that UK-based industry has to have sufficient domain knowledge to ensure that the equipment of the UK Armed Forces can be supported, modified, and sustained independently.

Those are fundamental reasons why we support and seek a high level of technology sharing between our two nations, something that is proving extremely difficult to achieve. Without technology sharing, BAE Systems, as a large and very capable U.S.-UK defense and security company on both sides of the Atlantic, cannot optimize the industrial and technological strength we have in the two countries. The same applies to several large U.S. corporations. I know that we are duplicating research between the two parts of our company in the U.S. and the UK. I know that there are projects in the U.S. that would benefit from UK expertise and vice versa. I know that being allowed to put the best brains and experience in the two parts of the company together would deliver better outcomes. Exactly the same applies to major U.S. corporations, including Lockheed Martin, General Dynamics, and Raytheon. But the security requirements, regulations, and the concerns of Congress, militate against working across this divide.

The UK remains committed to a strong defense capability — to acting as peacemakers, alongside the U.S. — not just as peacekeepers coming along after the main event. Time and again, the UK and the U.S. really have stood shoulder to shoulder in facing peace and security challenges around the world.

But to go on doing this — to go on being a capable partner of choice for expeditionary warfare — the UK Armed Forces rightly need the best kit, and they need to be fully interoperable with the U.S. Forces. The UK needs to have the ability to optimize the performance of equipment within its operational doctrine and with existing systems, to be able to upgrade and modify it to meet urgent operation requirements. If the U.S. cannot find a way to share technology, then, speaking more as an individual British citizen rather than CEO of BAE Systems, I am concerned about the consequences.

It is in America's interests that Britain is able to continue to support, in the interests of security, freedom and democracy around the world, operating together as a Force for Good in the world. Being isolated, even when doing the right thing for the future benefit of world peace and security, is not a good place to be. To have a politically and militarily strong ally alongside is a great advantage, especially an ally who recognizes that it is sometimes necessary to go to war to secure peace and security. As Winston Churchill said, "There is only one thing worse than having allies — and that is not having allies."

I think it is very important that our two countries, and maybe only our two countries, share the really highest level of technology and sensitivity, so that we can do things together around the world. I believe we need each other.