

“ It is staggering to see how much sequestration has stifled creativity, innovation and creative solutions. I’m just amazed to see how incredibly far-reaching this has been. ”

Q&A

NVTC sat down with EADS North America Chairman of the Board and CEO Sean O’Keefe to discuss the disruptive effects of sequestration, risk-taking and innovation, and why the time is right for contracting reform.

By Allison Gilmore

nvtc How will uncertainty and the contraction in federal spending affect the government’s ability to accomplish its priorities, innovate and prepare for future challenges?

Sequestration is the most disruptive event that has occurred in modern history as it pertains to contracting activities and functions of the government. It is unbelievable; this is beyond comprehension to come to this level of complete stalemate.

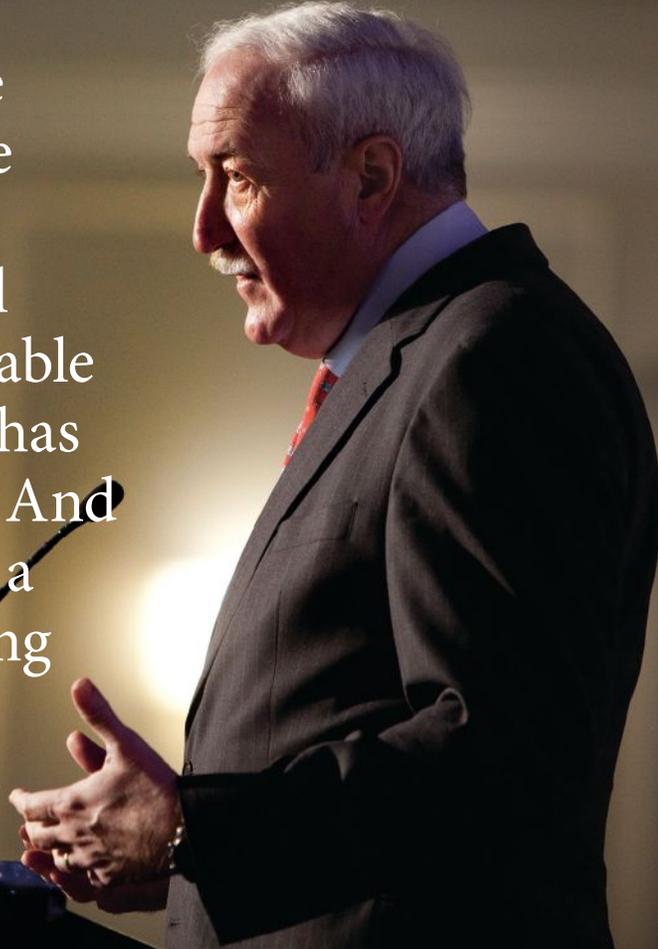
And it has had the effect that everything has seized up. As a consequence, the basic fundamental structure and business of governance has broken down. It is just absolutely incomprehensible that this could be so self-inflicted and yet tolerated by the institutions of leadership in this country. It is just absolutely incredible.

nvtc So let’s play prognosticator here a little bit. Now that sequestration has occurred, when they find a solution, can government and the way it functions recover?

I am constitutionally an optimist. But I’m having a hard time really seeing a recovery where we’ll be able to say, “Okay that’s behind us, now let’s move on.” It is staggering to see how much this has stifled creativity, innovation and creative solutions. I’m just amazed to see how incredibly far-reaching this has been.

So how do you put the toothpaste back in the tube? It is incredibly difficult to do so. I think this will play out over some period of time post-

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sequestration and any number of different things could occur. But the deed is done at this point and the trust and confidence in the United States government as a full faith and credit, reliable bedrock institution has been compromised. And that is, in my mind, a very difficult standing to put it.

It's now a case of do the country's leaders have the wherewithal or the means to actually deliver on what they're agreeing to. It is a real challenge going forward. The reason why you see so much liquidity just completely bottled up in this country right now is that no one trusts that this is going to be the economic policy and monetary policy going forward. So why should they invest? If you put money in one place you may find it was the exactly wrong place to put it.

And that is happening writ large for corporations and small businesses. Every one of them is withholding decisions right now because you just simply can't trust the institution in terms of what the policy is going to be and what the framework and regulatory environment is going to be for business. It's completely broken down and that is a real tragic case. That will stifle economic activity and creativity in the marketplace more than any single variable.

nvtc Besides removing the government's budget uncertainty and fixing the problem, what other things can we be doing to keep the country competitive, particularly within the technology community?

It's tough because most companies like mine will take risks, make investments and do it without a guarantee of having it be reimbursed or financed by the government. We do that with regularity because that's what you need to do in order to develop technologies, develop applications and come up with a better solution to a problem. Over time, that will work its way through.

The entire commercial aviation business is built on that model. Every new aircraft and every new innovation, we're financing it with the anticipation that it's going to be so good that it'll be bought in great volume for all time forward. That's clearly what's happening on the commercial side right now. We've made a lot of investments and that has paid off.

On the government side, the constant issue that we're dealing with as a corporation right now is everybody's thinking twice and three times and maybe four times about whether to invest anything when you don't see any prospect that there is a likelihood, not a certainty, but even a prospect that you may

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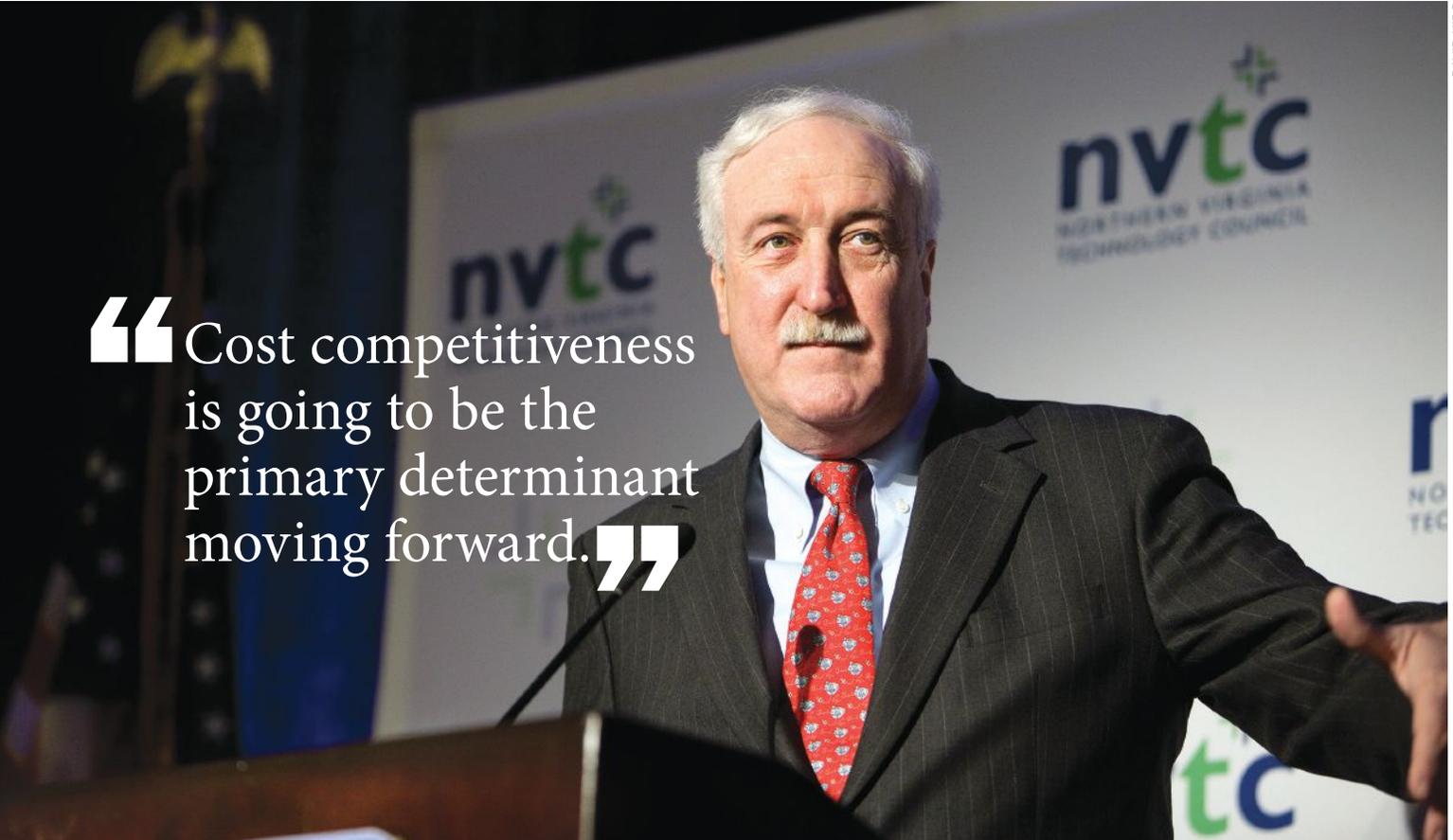
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“Cost competitiveness is going to be the primary determinant moving forward.”

recover it. You may get a better idea and a better technology to development, but if you can't employ it for the purposes that are being articulated by the public customer, then it really deters that kind of investment.

What you'll see more and more are companies that will respond to requests or invitations from the public sector to look at different technology developments in order to yield a result or a product, and it will be done only on the condition that the United States government picks up the entire risk associated with doing it. You're going to see a greater and greater propensity to move in that direction because what's the point if there's no reliability of a prospect, not a certainty, of recovering any of what you'd invest.

nvtc Are there any upsides or opportunities in today's landscape?

Sure. In the future, I think we'll see fewer and fewer programs that will call for more and more aggressive kind of innovation or technology change. So that means if you're already in the market space and you have a viable commodity or valuable service, there's an opportunity to really participate in a cost competition environment.

Cost competitiveness is going to be the primary determinant moving forward. I view that as a potential upside to the extent there is a demand for certain commodities that will be driven on a large scale by cost competitiveness.

The other upside that I'm hopeful we'll see some progress on is coming to grips with how difficult it is to do business with the United States government. On average, it's 20 percent more expensive to sell an identical commodity to the U.S. government as what you'd sell in the commercial market space because you don't have to carry the overhead that's attendant to doing business with the U.S. government.

I've served in a public service capacity many times in my lifetime, so I can easily defend the value of some of the public policies that create some of this cost differential. It's understandable because the government is trying to be as fair, open and inclusive as possible in the contracting environment. That said, the differential shouldn't be on the range of 20 percent minimum. That's just way out of whack.

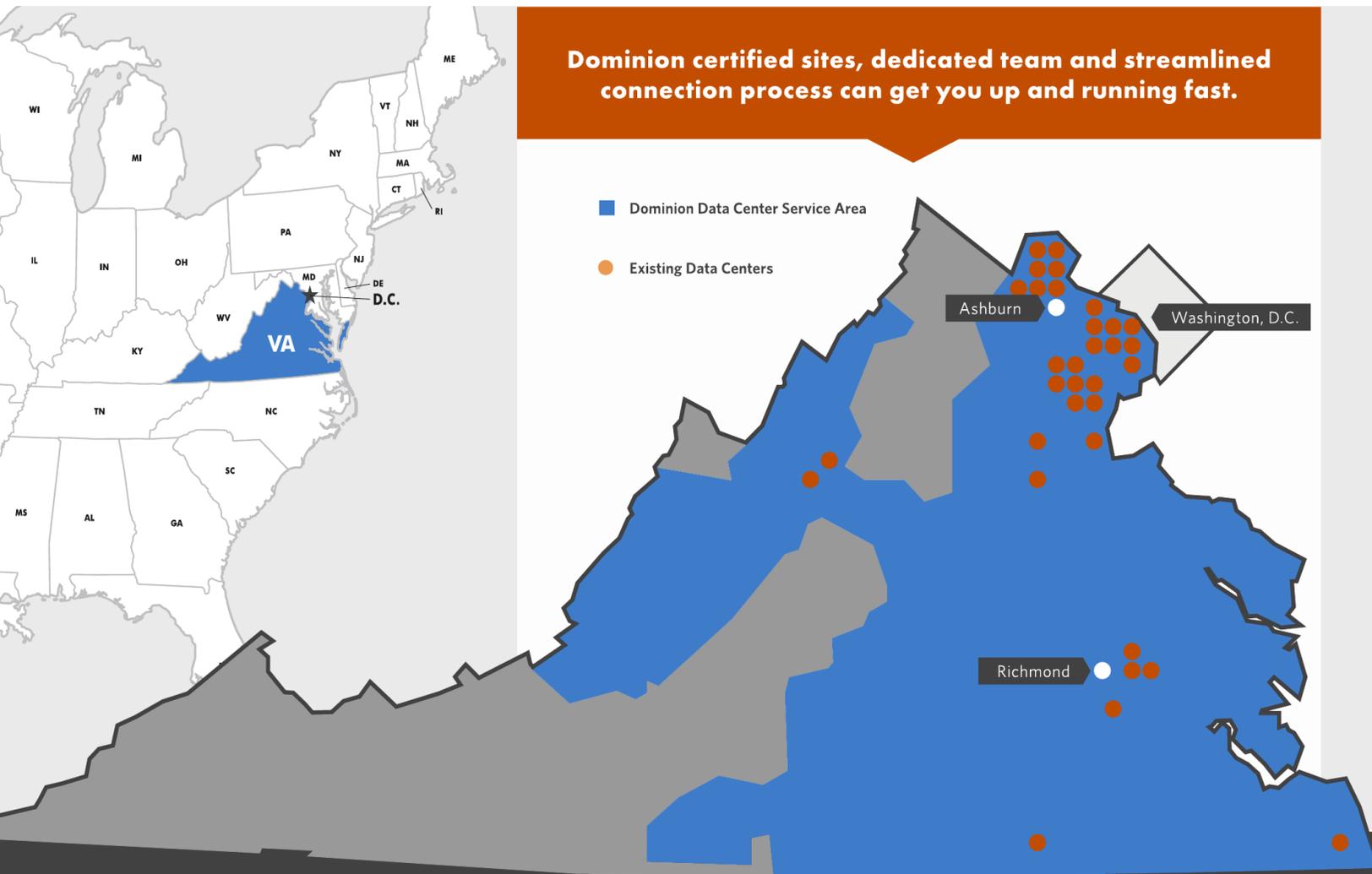
An awful lot of that is relative to how you have to structure companies in order to interface with the U.S. government. It is a very expensive proposition, relatively speaking.

There's a fair amount of opportunity coming to clear out the underbrush, or government leaders will come to the realization that you've got fewer and fewer options to choose from because fewer companies are going to want to participate.

I'm seeing that now in my capacity as the chairman of the National Defense Industrial Association, which is the trade association for all the companies that do business in the defensive security market space. With greater and greater frequency, we're

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seeing fewer and fewer companies that really want to put up with the vagaries of what it takes to respond and deal with and work through U.S. government related contracts. And that’s going to just intensify.

So that’s going to be a downside consequence, but I’m getting the sense that the senior leadership in the administration are so cognizant of it that they will be more willing to begin taking down or removing some of those barriers to entry.

nvtc So the upside hopefully would be some sort of contracting reform that makes the system more inclusive and allows those smaller companies to stay in the field?

That and it will be an introspection of trying to examine all the things that are currently required in the contracting environment. Can anybody pass the quiz and remember why some of those requirements are in place? And if you can’t, then you’ve got to remove one. It’s going to be that common sense approach to saying, if you can’t remember why it’s there then why maintain it?

nvtc EADS is one of the world’s largest aerospace companies. What is your company doing in the aerospace field now and what trends do you see shaping the future of the industry?

We are a 75 percent commercial company and the other 25 percent of our business is with governments around the globe. We’re seeing a robust commercial market space right now because there are opportunities to replace more expensive operating assets, like aircraft, and do so now with a higher degree of a reliability that those operating costs will decline and decline quickly. So, as a consequence, demand is way up and we’re look-

ing at a multi-year backlog right now that is, if not unprecedented, sure is pretty rare. It has not always been so and certainly in the last 10 years we’ve seen the opposite in some periods.

For that reason, our company has really looked to create a strategy which balances against cyclicity. In various market groups, companies are trying to figure out a way to not be so dependent on one cycle that your fate, fortune, future ... success or failure all rides on it.

And that’s what we’ve been trying to achieve now for the better part of a decade and we’re actually looking at how you balance that going forward. What market segments are going to be the best kind of balance relative to our core competency, our expertise, and our greatest success which is in the commercial aerospace market space? And how do we then transport our core competency to multiple different markets and how do you reshape it in order to be successful in those different markets?

We are really going through a major effort to review and recast that strategy so we’ve got a going forward plan. Particularly at a time when it’s been so successful thus far, let’s think about how do we keep that going and sustain it relative to some of the market shifts that would otherwise make that more problematic.

nvtc Are there any other topics you’d like to discuss?

We’re in a tough sledding environment. But when you create an environment in which doing business in the same manner becomes the definition of insanity, it motivates folks to look a different way and look a different direction and figure out how to conquer those limitations.

I can only dimly imagine what some of those solutions might be, but it is characteristic and culturally descriptive of Americans to work through adversity by finding a different solution to the problem in a way that avoids the hurdles, the challenges and the impediments that dominate the way you did business.

That means there’s the potential for a technology competency resurgence in this country that is going to be different than the one that we see today. And it’s going to be created a different way — it’s going to be created for different reasons and potentially even financed through different means — and I don’t know what those are.

But we’re going to move off some of our traditional absolutes of how we typically have done business in modern history to create new technologies and to provide innovative solutions, on a different path and in a different direction. What that’s going to be is hard to imagine. But it’s an exciting prospect. It means there’s a lot of uncertainty but also a lot of dynamism. **nvtc**

Allison Gilmore is NVTC’s director of communications and public relations.