GE's Jet-Engine Dogfight

With Eye on Its Future, Company Pushes for Rival Programs for New Fighter

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The future of General Electric Co.'s fighter-jet engine business is once again up in the air.

The Defense Department is squaring off with Congress over whether a GE-led team should continue to develop an engine for the U.S. military's most-sophisticated fighter plane, the F-35 Joint Strike Fighter. GE and its supporters in Washington argue that a second engine is needed to a rival engine effort by Pratt & Whitney in order to create competition, give the military a ready alternative and save money in the long run.

IN THE SKY

- **Seeking Alternative:** GE and Rolls- Royce are counting on Congress to thwart Pentagon efforts to cut a second engine design for the F-35.
- **Cutting Edge:** GE is counting on the work to keep it competitive in fighter technology.
- **Budget Blues:** Military budget pressure has led to cuts that reduce defense industry competition.

But the Pentagon, which is struggling to keep its development costs in check, hopes to kill the GE program as part of a larger effort to save $1.8 billion over the next six years. Both GE and Pratt, a unit of United Technologies Corp., have been lobbying fiercely on opposite sides of the debate.

Staying on as part of the program is particularly important for GE if it wants to be able to remain a viable competitor in the prestigious military engine business. GE reaped $3.5 billion in aviation sales to the U.S. military last year.

That's a small amount for the Fairfield, Conn., conglomerate, and losing the business wouldn't have an immediate impact. But the Joint Strike Fighter, being built by Lockheed Martin Corp., is likely to be the last major new fighter program this decade. Assuming a price of $9 million per engine and significant international sales, GE estimates it could stand to lose out on an estimated $30 billion over three decades, and its military jet-engine business could fall behind significantly.

GE's partner, Rolls-Royce PLC, won't disclose the revenue at stake. "In our experience, competition always benefits the customer by providing better products, better service, at a lower cost," said Mark Rhodes, the top Rolls-Royce executive with the GE/Rolls team.

GE's efforts mark the new arithmetic defense contractors face in dealing with the Pentagon, which is dealing with budget pressures and rising expenses from the war in Iraq. In certain areas, like jet engines and rockets, the government has propped up competing efforts to spur greater efficiency and alternatives. But that approach is falling out of favor, leaving companies to fight for bigger slices of a slower-growing pie.

The fight over the engine tests both the strength of GE's argument and its political clout. Backing from the House of Representatives and significant support from well-positioned senators will help its effort. But this second challenge in two years marks increasing pressure on the program.

Last year, Congress gave a boost to the GE/Rolls-Royce team when it set aside $340 million to pay for development of its engine. For fiscal 2008, the House has lined up $480 million to keep work on the second engine project going. The Senate is expected to take the issue up after the recess.

Although thousands of Joint Strike Fighters will be bought in the coming decades, initial orders have been pared back in the face of budget pressures. Originally, the U.S. planned to buy some 3,000 planes, but that number shrunk as development costs grew. The Government Accountability Office said in March that the Pentagon could end up spending more than $276 billion on the development and purchase of about 2,400 jets through 2027, or roughly $115 million per plane. Keeping them in the air will add an additional $347 billion, according to the GAO.

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