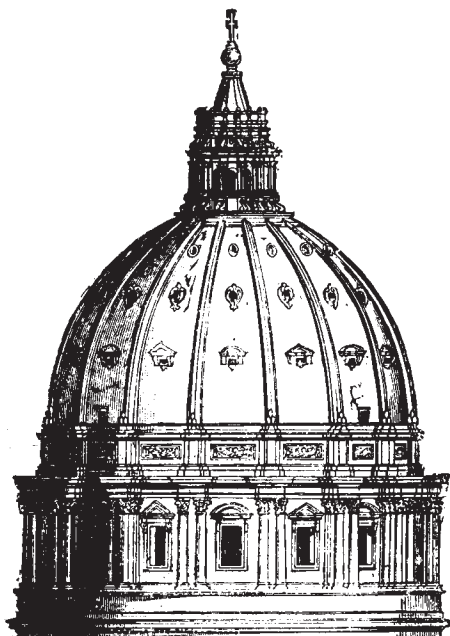


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# Medium Extended Air Defense System

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## Medium Extended Air Defense System

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### INTRODUCTION

The Medium Extended Air Defense System (MEADS) was created in 1995 to replace aging missile defense systems in the U.S., Germany, and Italy. Cost overruns, delays, and underperformance have cast doubt on its ability to achieve this goal. Further, the current global economic climate makes additional investment in the program impractical. Although diplomatic and contractual concerns need to be taken into consideration, the best course of action would be for the allies to collectively cancel the program.

### BACKGROUND

MEADS is a missile defense project among the U.S., Germany, and Italy that is meant to provide the ability to counter low and medium-altitude tactical ballistic missiles, cruise missiles, unmanned aerial vehicles, and other airborne weapons.<sup>1</sup> The U.S. would use MEADS to replace the MIM-104 Patriot missile system, which has been in use for decades. Germany intended to use MEADS to replace its Hawk system, while Italy wished to replace its Nike Hercules system.<sup>2</sup> The 2005 Memorandum of Understanding (MOU) signaling the start of the program requires the U.S. to fund 58 percent of the development costs, with Germany covering 25 percent and Italy paying 17 percent.

The system was to be built by MEADS International, a joint venture composed of Lockheed Martin; LFK-Lenkflugkörperysteme; and MBDA, which is owned by BAE Systems, European Aeronautic Defense and Space Company, and Finmeccanica. The proposed cost for the design and development phases of the program was \$3.4 billion, but MEADS quickly encountered several delays and cost overruns.<sup>3</sup> Although the U.S. has already spent \$1.9 billion on the initial design and development phase, the program still requires an additional \$2.8 billion just to complete this stage of the project. Procurement of the originally proposed 48 units was estimated at \$13.7 billion.<sup>4</sup>

Because of extensive problems with cost overruns and delays, by February 2011 the U.S. had nixed plans to continue the final development and procurement phases of the MEADS program,<sup>5</sup> choosing instead to cease

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<sup>1</sup> “Reducing the Deficit: Spending and Revenue Options,” Congressional Budget Office, March 2011, <http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf>, p. 96.

<sup>2</sup> “Beyond Patriot? The Multinational MEADS Air Defense Program,” Defense Industry Daily, accessed on November 2, 2011, <http://www.defenseindustrydaily.com/34b-development-contract-signed-for-meads-0639/>.

<sup>3</sup> Ibid.

<sup>4</sup> “Defense Acquisitions: Assessment of Selected Weapons Programs,” Government Accountability Office, March 2011, <http://www.gao.gov/new.items/d11233sp.pdf>, p. 111.

<sup>5</sup> Jill R. Aitoro, “Lockheed Martin slams move to nix \$3.4 billion program,” *Washington Business Journal*, June 24, 2011, <http://www.bizjournals.com/washington/print-edition/2011/06/24/lockheed-martin-slams-move-to-nix.html?response=no&page=all>.

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funding after fiscal year (FY) 2013.<sup>6</sup> The President's FY 2012 budget funded a "proof of concept" through FY 2013, capping the cost at \$804 million, and requested \$406.6 million of that amount for FY 2012. The FY 2013 Department of Defense (DOD) budget request included \$400.9 million for the program.

The funding for the proof of concept phase would bring the amount committed to the MEADS program to the \$4 billion level (in equivalent 2004 U.S. dollars) agreed to in the 2005 MOU.<sup>7</sup> This level of commitment is supposed to "provide a meaningful capability for Germany and Italy and a possible future option for the U.S.," and allow the partners to harvest technology from the program.<sup>8</sup>

The Army wanted to cancel MEADS in March 2010, but the Pentagon has been reluctant to scrap it because of the high termination fees associated with unilateral withdrawal from the project.<sup>9</sup> In testimony before the House Armed Services Committee on March 2, 2011, Army Secretary John McHugh defended the decision to continue funding the proof of concept phase while cancelling procurement thereafter, stating that the program was "underperforming" and expressing doubt that MEADS was anywhere close to completion.<sup>10</sup> Independent estimates of what the U.S. would have to pay its partners in order to unilaterally terminate MEADS before the completion of the research and development phase fall between \$800 million<sup>11</sup> and \$1 billion, although no official number has been released.<sup>12</sup>

### INTENDED MILITARY SIGNIFICANCE

MEADS was designed to drastically cut strategic lift requirements, logistics and operator workloads, and to increase the level of surveillance and intercept capabilities as compared to the Patriot.<sup>13</sup> Unlike the Patriot, MEADS was intended to provide 360-degree coverage, and be able to deploy quickly from transport vehicles and aircraft.<sup>14</sup> This level of maneuverability was meant to allow the system to keep up with fast-moving ground forces, while the separate radar and launcher sites would

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<sup>6</sup> Daniel Strauss, "White House threatens to veto Defense bill," *The Hill*, June 23, 2011, <http://thehill.com/homenews/administration/168139-white-house-threatens-2012-defense-appropriations-bill-veto?page=2#comments>.

<sup>7</sup> "Medium Extended Air Defense System (MEADS) Fact Sheet," Office of the Secretary of Defense, accessed on November 1, 2011, [http://www.acq.osd.mil/docs/U%20S%20\\_MEADS\\_Decision\\_Fact\\_Sheet\\_Feb\\_11\\_2011.pdf?transcriptid=4648](http://www.acq.osd.mil/docs/U%20S%20_MEADS_Decision_Fact_Sheet_Feb_11_2011.pdf?transcriptid=4648).

<sup>8</sup> Ibid.

<sup>9</sup> Craig Whitlock, "Pentagon resists Army's desire to stop development of MEADS missile system," *The Washington Post*, March 9, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/03/08/AR2010030804865.html>.

<sup>10</sup> Kate Brannen, "U.S. To Spend \$800M as It Leaves MEADS Program," *Defense News*, March 2, 2011, <http://www.defensenews.com/story.php?i=5849845>.

<sup>11</sup> Loren B. Thompson, "Patriot Versus MEADS: Time To Call In GAO," The Lexington Institute, May 6, 2011, <http://www.lexingtoninstitute.org/patriot-versus-meads-time-to-call-in-gao?a=1&c=1171>.

<sup>12</sup> Colin Clark, "\$2B Plus Cost Rise Doomed MEADS," *DOD Buzz*, February 15, 2011, <http://www.dodbuzz.com/2011/02/15/2b-plus-cost-rise-doomed-meads/>.

<sup>13</sup> "Medium Extended Air Defense System (MEADS) Fact Sheet."

<sup>14</sup> "Medium Extended Air Defense System (MEADS)," MissileThreat.com, accessed on November 2, 2011, [http://www.missilethreat.com/missiledefensesystems/id.34/system\\_detail.asp](http://www.missilethreat.com/missiledefensesystems/id.34/system_detail.asp).

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decrease the likelihood of detection.<sup>15</sup> In short, designers intended MEADS to far exceed the capabilities of the Patriot. However, the military value placed on MEADS has changed due to concerns over the program's capabilities, spiraling costs, and increased emphasis on finding savings within the DOD budget.

### **COST OVERRUNS AND DELAYS**

MEADS' problems are legion. The program has been plagued with cost overruns of nearly \$2 billion and is 10 years behind schedule.<sup>16</sup> Future costs would include several hundred million dollars to establish interoperability with Army command and control systems, and \$100 million for testing costs, which have not been budgeted.<sup>17</sup> While the cost overruns in the MEADS program exceed the 25 percent threshold necessary for a contract to be terminated under the Nunn-McCurdy Amendment, MEADS' status as an international agreement means it is not subject to Nunn-McCurdy.<sup>18</sup>

A March 9, 2010, *Washington Post* report quoted an internal U.S. Army memo asserting that the program "will not meet U.S. requirements or address the current and emerging threat without extensive and costly modifications." The article also noted that former Undersecretary of Defense for Acquisition, Technology and Logistics John Young, Jr. believes that MEADS poses a dilemma for the Pentagon, which is attempting to preserve a weapons program that is not fully funded, has large reported termination costs, and is no longer wanted by the Army.<sup>19</sup>

In addition, a March 2011 Congressional Budget Office (CBO) report recommended terminating MEADS in favor of continuing production of the Patriot.<sup>20</sup> CBO urged the U.S. to turn to "harvesting MEADS technologies and improving the Patriot program it was designed to replace."<sup>21</sup> The Government Accountability Office's (GAO) annual report on DOD weapons programs in March 2011 noted problems with MEADS, including that it "is at risk of not meeting several technical performance measures...."<sup>22</sup>

There is, of course, no certainty that funding for MEADS will truly cease after the designated \$804 million is spent on the program through FY 2013. When asked by Senator Mark Begich (D-Alaska) at a hearing of the Readiness and Management Support Subcommittee on March 29, 2011, whether he could

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<sup>15</sup> Ibid.

<sup>16</sup> Clark, "\$2B Plus Cost Rise Doomed MEADS."

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Whitlock, "Pentagon resists Army's desire to stop development of MEADS missile system."

<sup>20</sup> "Reducing the Deficit: Spending and Revenue Options."

<sup>21</sup> Ibid.

<sup>22</sup> "Defense Acquisitions: Assessment of Selected Weapons Programs."

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guarantee that the estimated \$804 million would be sufficient to complete the research and design phase of MEADS, Undersecretary of Defense Robert F. Hale stated he could not agree with that assessment.<sup>23</sup>

### CONGRESSIONAL ACTION

Congress has challenged President Obama on the issue of continued funding for MEADS. The House-passed FY 2012 National Defense Authorization Act directed \$257.1 million to the program, which was matched by the House version of the FY 2012 DOD Appropriations Bill. This amount was \$149.5 million below the administration's request. The Senate Armed Services Committee (SASC) went a step further by zeroing out all funding for MEADS in the Senate version of the FY 2012 National Defense Authorization Act, citing the need to pursue a less expensive alternative.<sup>24</sup> However, Senate appropriators disagreed, and fully funded the administration's request in the Senate version of the FY 2012 DOD Appropriations Act.

In response to the SASC zeroing out funding for MEADS, key actors within the Pentagon who favored full funding for MEADS attempted to secure funding in the Senate in the days leading up to the release of the defense appropriations bill. Army General Peter Chiarelli and Navy Admiral James Stavridis sent letters to key members of Congress expressing their support for the program. General Chiarelli sent letters to eight members of the House and Senate Armed Services Committees and the House and Senate Defense Appropriations Subcommittees citing the high cost of unilateral withdraw from the international agreement, and stating that the cost "would likely fall upon the Army and consume resources currently programmed for other important Air and Missile Defense programs."<sup>25</sup> Admiral Stavridis submitted a letter to Senate Appropriations Committee Ranking Member Thad Cochran (R-Miss.) stating, "Over the past two years, the U.S. has repeatedly urged our Allies to share in the cost burdens associated with ballistic missile defense. An early termination of this program would prevent our Allies (specifically Germany and Italy) from receiving the necessary technology to acquire a system capable of enhancing their national military capabilities."<sup>26</sup> Admiral Stavridis' position as head of the U.S. European Command likely contributed to his writing of the letter.

In the end, MEADS received \$390 million – or \$16.6 million less than the administration's request – in the FY 2012 conference version of the DOD appropriations bill, passed in an omnibus measure

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<sup>23</sup> Hearing of the Readiness and Management Support Subcommittee of the Senate Armed Services Committee, "Department of Defense Efficiencies Initiatives," March 29, 2011, hosted by Citizens Against Government Waste, [http://www.cagw.org/assets/reports/hearing\\_of\\_the\\_readiness\\_and\\_management\\_supp.pdf](http://www.cagw.org/assets/reports/hearing_of_the_readiness_and_management_supp.pdf).

<sup>24</sup> U.S. Senate Committee on Armed Services, "Senate Committee on Armed Services Completes Markup of National Defense Authorization Act for Fiscal Year 2012," June 17, 2011, <http://armed-services.senate.gov/press/NDAA%20FY12%20Markup%20Press%20Release.pdf>.

<sup>25</sup> Letters from U.S. Army General Peter W. Chiarelli to various members of Congress, hosted by *Washington Business Journal*, accessed on November 1, 2011, [http://www.bizjournals.com/washington/fedbiz\\_daily/Chiarelli-letter.pdf](http://www.bizjournals.com/washington/fedbiz_daily/Chiarelli-letter.pdf).

<sup>26</sup> Jill R. Aitoro, "Defense officials urge Congress to fund MEADS development," *Washington Business Journal*, September 20, 2011, [http://www.bizjournals.com/washington/blog/fedbiz\\_daily/2011/09/defense-officials-urge-congress-to.html?page=all](http://www.bizjournals.com/washington/blog/fedbiz_daily/2011/09/defense-officials-urge-congress-to.html?page=all).

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with eight other appropriations bills. The conference version of the FY 2012 National Defense Authorization Act approved this same amount.

### CURRENT STANDING WITH ALLIES

As late as July 2011, Italy and Germany were still urging the U.S. to continue with full funding for MEADS. During that month, attachés for Germany and Italy wrote letters to then-Deputy Secretary of Defense William J. Lynn and then-U.S. Undersecretary of Defense for Acquisition, Technology, and Logistics Ashton Carter pressing for continued funding for MEADS.<sup>27</sup> Although Germany earlier made it clear that it had no interest in continuing MEADS beyond the research and development phase, the July correspondence indicated Germany would not agree to joint termination.<sup>28</sup> By October, policymakers in that country had changed their minds and agreed to joint termination of MEADS.<sup>29</sup> Should Italy follow suit, the termination costs to be paid to partners would cease to exist, although termination costs to the contractors might still apply.<sup>30</sup> Some have argued that discontinuing funding for MEADS would irrevocably alter defense procurement cooperation between the U.S. and Europe, but this seems unlikely given the skepticism with which Germany and Italy view MEADS, and the close partnership the U.S. has with European nations on other defense projects.

### CONCLUSION

The failure of MEADS to deliver on its promised capabilities leaves the U.S. and its allies in a difficult situation. The U.S. has three options. First, the Pentagon could unilaterally cut funding for the program and lose out on the research already completed and its rights to the program. Second, the DOD could finish the proof of concept phase, hoping that technology materializes with which it can update existing missile defense systems, while negotiating the cessation of MEADS with its partners. The final option would be to complete the full research and development of MEADS despite the enormous cost and uncertainty that the finished product would justify large-scale procurement.

As Germany and Italy appear wedded to funding the proof of concept through FY 2013, the U.S. may not have much choice but to go along with that plan. If the unofficial estimate of unilateral termination costs

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<sup>27</sup> Jill R. Aitoro, "Italy joins Germany in pressing DOD for MEADS funding," *Washington Business Journal*, July 19, 2011, [http://www.bizjournals.com/washington/blog/fedbiz\\_daily/2011/07/italy-joins-germany-in-pressing-dod.html?page=all](http://www.bizjournals.com/washington/blog/fedbiz_daily/2011/07/italy-joins-germany-in-pressing-dod.html?page=all); Letter from Italy to Deputy Secretary of Defense William J. Lynn, hosted by *Washington Business Journal*, accessed on November 2, 2011, [http://www.bizjournals.com/washington/fedbiz\\_daily/ItalyLetter-MEADS.pdf](http://www.bizjournals.com/washington/fedbiz_daily/ItalyLetter-MEADS.pdf); Letter from Germany to Undersecretary of Defense Ashton Carter, hosted by *Washington Business Journal*, accessed on November 2, 2011, [http://www.bizjournals.com/washington/fedbiz\\_daily/GermanyMEADSLetter.pdf](http://www.bizjournals.com/washington/fedbiz_daily/GermanyMEADSLetter.pdf).

<sup>28</sup> "Beyond Patriot? The Multinational MEADS Air Defense Program."

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

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of between \$800 million and \$1 billion is accurate, this exceeds the \$790.9 million the administration intends to spend over FYs 2012 and 2013. Funding the proof of concept does promise some benefits for the U.S. It would enable the U.S. to harvest technologies that could be used to modernize the Patriot, allowing the U.S. to recoup some of its investment. It would also allow the U.S. the right to procure MEADS units in the future, should it deem this necessary.<sup>31</sup>

One option would be for the U.S. to negotiate an agreement with its allies to collectively withdraw from the MEADS contract, either before or immediately following the proof of concept period. This would save each country additional expense on a program that is unlikely to come to fruition. At a minimum, the GAO should undertake a study to determine the costs associated with various options, including the precise cost of a unilateral withdrawal from the contract and the termination fees owed to contractors. More information is needed to make the right choice on an issue of such importance. The U.S. should explore all options before determining the most sensible way to recover as much value as possible from MEADS, an enormously expensive project that has provided only limited value.

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<sup>31</sup> Baker Spring and Michaela Bendikova, "Medium Extended Air Defense System: A Good Next Step," *The Foundry*, September 20, 2011, <http://blog.heritage.org/2011/09/20/medium-extended-air-defense-system-a-next-good-step/>.