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### **Interview with Northrop Grumman CEO Dr. Ronald Sugar**

#### **Guy Johnson**

Welcome back to Worldwide Exchange here on CNBC. I'm Guy Johnson at the Paris Air Show, and I'm joined now by Dr. Ron Sugar who is the CEO of the defense giant Northrop Grumman. Very nice to see you, sir. I'm sure a lot of our audience will remember the whole debacle, some would call it, about the tanker contract, the mid-air refuelling tanker contract that was for the United States Air Force. You guys won it along with EADS. Political pressure meant that there's now a second round coming through. What can you tell us about that second round, and what can you tell us about your expectations of winning the contract a second time?

#### **Dr. Ronald Sugar**

Well, Guy, you did mention, we did win it the first time around. It was selected as the superior airplane, the best price. We are expecting the next round to start probably in the next couple of months. We expect a draft Request for Proposal to be issued by the Air Force. We'll review that draft, and then from that make comments and have discussions with the Air Force leading up to a final Request for Proposal.

#### **Guy Johnson**

Is it going to be different this time around? From what I've read, there's likely to be more price pressure put onto the contract. It is likely to be determined by price. Does that play to your advantage, or does that work against you?

#### **Dr. Ronald Sugar**

Well, we had the lowest price last time, apparently, according to reports. On the other hand, I think what we're going to see this time is fundamentally similar capabilities as last time but with greater clarity, so there can be no confusion about exactly what's being asked for.

#### **Guy Johnson**

Do you worry about the message coming out of Washington at the moment, the whole sort of 'Buy America' strategy? Obviously you are partnered with EADS, a European company. Is that going to be a bigger factor in this mix?

#### **Dr. Ronald Sugar**

Well, certainly there'll be some political rhetoric around that, but both companies have very strong international content on their aircraft. Our particular effort is to bring a significant number of new jobs to the United States as we bring the effort into the United States.

#### **Guy Johnson**

Just looking at what Boeing could potentially offer up, size last time did work to your advantage. The 767 airframe that Boeing offered up is smaller than the A300 airframe offered by EADS. There's talk that they could put the 777 into the mix. That would obviously give them considerably more scale.

#### **Dr. Ronald Sugar**

Well, they'll have to make their own decisions on that. I think we'll review the Request for Proposal and see what's really specifically being asked for. We don't anticipate a significantly different class of aircraft than what we saw last time, but we'll see what the draft Request for Proposal says.

#### **Guy Johnson**

How quickly will it happen? The war fighters, the guys that are actually at the pointy end of the stick using this kit, need it now.

**Dr. Ronald Sugar**

Well, you know, we have air refuellers that are 50 years old. These are air refuellers that were designed and built in the Eisenhower era. Some of these are getting quite old, so there's a desperate need to replace them. We cannot conduct any kind of military operations around the world to ensure global stability without air refuelling capability, so it is a very urgent priority. Getting on with it sooner rather than later is important.

**Guy Johnson**

Let's just talk more broadly about the whole defense environment at the moment. Talking to the civil guys here, it's a very downbeat story. The sense is that maybe defense is not going to have quite such a good run as it's had recently. The message coming out of Washington - and remember that the U.S. is the biggest defense spender - is that there is going to be a shifting of priorities. How is that going to affect your business?

**Dr. Ronald Sugar**

Well, certainly we're probably not going to see the rate of increase we had in the last several years in terms of the purchase of equipment. However, our best estimate is that over the next several years there will continue to be a demand for equipment. We don't see the defense budget plummeting. We don't see the world threat situation getting easier and much better very soon. We do believe that there will be a variety of systems that are going to have to be acquired. I think a lot of the discussion of the cuts has been decisions amongst various programs, all of which together are not affordable with the defense envelope, and so some decisions have to be made. But for example, for the 2010 budget, we're not seeing a significant change over the 2009; in fact, slightly up.

**Guy Johnson**

Do you expect that you're going to have to seek greater international exposure? Is that something that we're going to have to now see from U.S. companies? Defense budgets around the world are being squeezed. Does competition around the world get tighter as well?

**Dr. Ronald Sugar**

Well, certainly international is important as an adjunct to the business that we perform and the other companies in our industry. We should keep in mind that the United States defense budget is larger, probably, than the aggregate of all the other countries that we can sell to. While we look at the world economy with deficits in all places, there's certainly going to be a deficit issue in the United States, but every other major country in the economic world is going to have the same issues. I'm not sure that there's a panacea to simply say, 'because the U.S. defense budget might be under some pressure, there'll be lots of extra money overseas.' In our case, what we do is we pursue opportunities in specific countries where the systems that we have are very competitive.

**Guy Johnson**

Thank you very much indeed. Dr. Ron Sugar, the CEO of Northrop Grumman.

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