Poland has sticker shock over 'unacceptable' price tag for Patriot buy

By: Jen Judson 7 hours ago



US troops from the 5th Battalion of the 7th Air Defense Regiment emplace a launching station of the Patriot air and missile defence system at a test range in Sochaczew, Poland, on March 21, 2015 as part of a joint exercise with Polands troops of the 37th Missile Squadron of Air Defense that is to demonstrate the US Armys capacity to deploy Patriot systems rapidly within NATO territory. AFP PHOTO / JANEK SKARZYNSKI (Photo credit should read JANEK SKARZYNSKI/AFP/Getty Images)

WASHINGTON — Poland has been pushing toward a purchase of a medium-range air-and-missile defense system for many years, settling on an unprecedented configuration of the Patriot system, but was surprised by the high price tag presented when the U.S. State Department cleared the sale of half of the Patriots Poland plans to buy.

According to the Defense Security Cooperation Agency, when it notified Congress last month of the potential sale, the deal could cost the country $10.5 billion for four systems — that is roughly 37 billion zloties — which already exceeds by 7 billion zloties what Poland has said it would spend on the entire program.

The DSCA announcement only marks the progress in the first phase of the acquisition. Poland would like to see a second round of Patriot systems with a 360-degree detection capability and the first four retrofitted with the new radar in a subsequent deal.

[*US State Department clears Poland's $10.5B request to buy Patriot*]

"The high cost came as a surprise for us," Bartosz Kownacki, secretary of state in Poland's Ministry of National Defense, told Defense News in a Dec. 5 interview in Washington.

"The price is indeed unacceptable for us even in the view of the significant financial assets that we allocated for the technical modernization of the Polish Armed Forces," he said through a translator. "We cannot simply afford to spend that much money on the procurement of two batteries and [Patriot Advanced Capability]-3 missiles for such an amount of money."

The offer from the U.S. included 16 missile launchers, four sector radars and 208 PAC-3 Missile Segment Enhancement (MSE) missiles.

The possible sale is a long time coming with Poland and the U.S. struggling through complicated negotiations over the past several years.

Poland began its "Wisla" competition to procure a medium-range air-and-missile defense system many years ago, ultimately choosing Patriot in 2014 but, instead of simply buying what Raytheon had at the ready, the country decided it wanted a command-and-control system for Patriot that is still in development by the U.S. Army and Northrop Grumman called the Integrated Battle Command System (IBCS) along with a new radar down the road.

[*Poland signs memo with US outlining road map to buy Patriot, but no done deal yet*]

Instead of opting for a simple foreign military sale like Romania did recently when purchasing Patriot, Poland is, in a sense, creating its own integrated air-and-missile defense program.

[*It's official: Romania signs deal to buy US missile defense system*]

Poland has also been adamant about creating quality defense work for its industrial base and has demanded certain offsets to ensure growth in its defense industry.

"We will be doing thorough analyses of the draft Letter of Agreement once it is sent to us," Kownacki said. Looking at his watch, he said he expected the draft LOA could be sent at anytime and could even be delivered during the interview.

The cost estimate for the Patriot deal was the topic of discussions held this week during Kownacki's trip to Washington. "We simply cannot accept such financial conditions, we will be working hard on reducing it, we will be conducting a line-by-line review," he said. "We understand to reduce it more than one meeting will be required, maybe two or three meetings will be required to negotiate an acceptable, reasonable price."

Kownacki added that there are other elements of the deal that came as a surprise as well. "For instance, the price of offset," he said. While some companies involved with the deal gave reasonable prices for offset, "there is one company which presented an unacceptable offset for us and conditions we cannot accept," he said.

And even with the companies that offered reasonable deals, Kownacki said, there will still be an effort to negotiate the price down further.

Kownacki added it's possible that over the course of the negotiations it will turn out that some of the high prices were presented to the country due to a misunderstanding of its offset regulations. Poland changed its offset regulations and there are a number of elements that may not be understood, he said.

While the price tag for the first round of Patriots should be higher because of some up-front costs that cover the program as a whole, it should still be proportionately smaller than what Poland plans to spend over the entire life-cycle of the program, Kownacki said.

"Of course we can't foresee by how much we will manage to lower the price, nonetheless, the U.S. Administration as well as the companies are aware that we need to reduce this price," he added. "I am confident that we will manage to reach our goal, our objective, and we are currently finalizing the project so we are in the last stage of negotiations."

[*Poland Wants Patriot With Different Battle Command System*]

Some analysts in Poland are more than skeptical that the price tag can be reduced enough so the country doesn't exceed the 30 billion zloties for which its has budgeted to cover the entire program.

The U.S. cost estimate already exceeds the limit set by Poland by 20 percent, Marek Swierczynski, of Poland's Polityka Insight, points out in a recent report. "So it will be good if the first phase negotiations will end at 30 billion zloties," he writes.

He calculates that if the second phase of the program reflects the first phase in numbers, the costs could be "colossal." For example, the price of one Lockheed Martin-manufactured PAC-3 MSE for the U.S. Army is $5.7 million and, with the offset Poland wants, the cost could rise to $8 million, Swierczynski notes. The PAC-3 order is already reduced to a minimum so there is little wiggle room for price there. And he also writes the low-cost SkyCeptor missile that Poland wants to manufacture as part of the program is currently a wild card, falling in the second phase of the procurement.

Swierczynski suggests that if Poland wants to get the cost down significantly "it has to say goodbye to the prospect of technological leaps in radar or rockets. And that was the most important thing in the industrial part of the Wisla program."

The future 360-degree radar's cost is also an unknown because Poland won't know what it is buying for some time.

And adding IBCS to the Patriot system is an additional cost, yet it doesn't appear to be the reason for the enormous cost of the first phase of the program. Northrop Grumman confirmed to Defense News that IBCS actually makes up less than 15 percent of the total acquisition cost for the Wisla FMS acquisition.