



Atlantic Council

SCOWCROFT CENTER
FOR STRATEGY AND SECURITY

ISSUE BRIEF

Una Squadra Vincente: The US-Italian Defense- Industrial Partnership

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Introduction

As the United States continues to orient its defense strategy and policy toward great-power competition, it will need to more closely integrate its own defense-industrial base with those of its allies, including Italy. This imperative, articulated in William Greenwalt's 2019 Atlantic Council report, *Leveraging the National Technology Industrial Base to Address Great-Power Competition*, is critical to confronting the multifaceted threats posed by China and Russia and addressing US national security needs in an age in which US military and technological advantages are being challenged.¹ More robust defense-industrial integration will not be possible, however, unless Washington maintains secure supply chains with key allies—and, as one of the authors argues separately in a 2021 Atlantic Council issue brief, *The Security of Defense Trade with Allies*, enhancing contact, contracts, and control in supply chains will be essential to signaling the strength of the US alliance network and ensuring the provision of defense goods and services in times of crisis or conflict.²

This issue brief builds upon the work of these two earlier publications and launches a series of case studies exploring defense-industrial relationships between the United States and its allies, starting with Italy. This paper focuses on the US-Italian partnership to enable policymakers to better understand this relationship, leverage it more comprehensively to meet key strategic objectives, and secure the supply chains necessary to ensure US national security, in accordance with the recommendations of the earlier papers.³

Italy has long been an export customer of American armaments manufacturers, but during the past twenty years, Italy's own defense-

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- 1 William Greenwalt, "Leveraging the National Technology Industrial Base to Address Great-Power Competition: The Imperative to Integrate Industrial Capabilities of Close Allies," Atlantic Council, April 2019 available at: <https://www.atlanticcouncil.org/in-depth-research-reports/report/leveraging-the-national-technology-industrial-base-to-address-great-power-competition/>.
- 2 James Hasik, "The Security of Defense Trade with Allies: Enhancing Contact, Contracts, and Control in Supply Chains," Atlantic Council, July 2021 available at <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/the-security-of-defense-trade-with-allies/>.
- 3 Security of supply is the conviction that the goods and services commensurate with a government's security commitments will be available when its foreign and military policies demand action.

industrial capabilities have proven important to American customers as well. In the process, Italian firms have become integral to the US defense-industrial supply chain. Italian firms have acquired American subsidiaries, and American firms' Italian subsidiaries. In armored vehicles, fighter aircraft, and surface warships, Italian-American trade has increased the extent of the market, lowering prices and producing valuable technologies. Recently, the financial value of the US market has been underscored by Italian investments, both political and financial. Since the end of the Cold War, Italian governments have largely chosen the Atlanticist path in their defense-industrial relations; the US government would do well to consider the value of that long-standing commitment.

Italy's Defense and Defense-Industrial Capabilities

Italy is one of the founding members of both the European Union (EU) and NATO and has had a “strong and enduring relationship with the United States” since the end of the Second World War.⁴ This is shown, among other indications, by the fact that Italy is home to eight different US military bases and installations, which cumulatively host about 12,000 US troops—the fourth-largest deployment of US troops worldwide after Germany, Japan, and South Korea.⁵ Italy itself has a sizable military, including approximately 184,000 troops, regular and reserve—a force roughly comparable to that of the United Kingdom (UK), which has approximately 195,000 troops.⁶ Many Americans and even Italians do not appreciate how, for many years, this force has been globally employed to contribute to United Nations as well as NATO operations that further international security and stability. Italy went to war on behalf of the United States in Afghanistan in 2002,

and again joined the reconstruction and stabilization effort in Iraq from late summer 2003 through December 2006. As of August 2020, Italy was “engaged in 36 international missions . . . with 7,488 soldiers deployed in 24 host countries.”⁷ “Italy is the second-largest contributor to NATO military missions and operations after the United States, underlining the high value that Rome attributes to transatlantic relations.”⁸

In terms of its gross domestic product (GDP), Italy remains one of the ten-richest countries in the world,⁹ despite suffering several economic setbacks during the past thirty years. In particular, it never fully recovered from the 2008 financial crisis; its GDP is still lower than the country's pre-crisis level, and Italy was struck particularly hard by the 2020 COVID-19 pandemic, in terms of both related fatalities and decreased GDP.¹⁰

Thus, Italy's military spending, although still in the top fifteen budgets globally, does not reach the same level as that of other US allies: \$26.8 billion (US) in 2019, compared with \$48.7 billion for the UK. Italy's lower spending—which has decreased by 11 percent in nominal terms since 2010—is the result of both a lesser commitment of its GDP (1.4 percent vice 1.7 percent in the UK) and Italy's anemic economic growth during the past two decades.¹¹ Italy's military situation also suffers from a demographic weakness arising from the combination of a low fertility rate—from 2015 through 2020, averaging 1.33 in Italy versus 1.75 in the UK—and net emigration.¹²

International media coverage of Italy generally focuses either on the infighting among major political parties and the resulting high turnover of governing coalitions, or the economic sectors that are considered quintessentially

4 Jeffrey P. Bialos, Christine E. Fisher, and Stuart L. Koehl, *Fortresses and Icebergs: The Evolution of the Transatlantic Defense Market and the Implications for US National Security Policy*, vol. 2 (Country Studies), Center for Transatlantic Relations, Johns Hopkins University, 2009, 399.

5 These are the Aviano Air Base, the Ghedi Air Base, the Naval Air Station, the Sigonella Naval Support Activity, the Naples Naval Support Activity, the Naples Department Gaeta, the US Army Garrison Caserma Ederly, and the and the US Army Garrison Camp Darby Military Community.

6 *UK Armed Forces Quarterly Service Personnel Statistics 1 October 2020*, UK Ministry of Defence, 17 December 2020, 1.

7 Gabriele Abbondanza, “Italian Peacekeeping Missions: Vast, Praised and Underused,” IAI Papers, vol. 20, no. 20, Istituto Affari Internazionali, October 2020.

8 Edita Sabbatini, “Armament and Transatlantic Relationships: The Italian Perspective,” Armament Industry European Research Group, paper no. 50, Institute for International and Strategic Affairs, May 2020, 7.

9 Data from the World Economic Outlook Database, International Monetary Fund, (accessed February 24, 2021) available at: <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases/#sort=%40imfdate%20descending>.

10 Daniele Franco, “L'economia italiana e la pandemia,” *Intervento alla 52a Giornata del Credito Roma*, November 5, 2020; and Ylenia Gostoli, “Italy's Economy Is Under Pressure as Pandemic Continues,” *Foreign Policy*, December 9, 2020.

11 Nan Tian, Alexandra Kuimova, Diego Lopes Da Silva, Pieter D. Wezeman and Siemon T. Wezeman, “Trends in World Military Expenditures, 2019,” Stockholm International Peace Research Institute, April 2019, 2-4.

12 United Nations Department of Economics and Social Affairs, World Population Prospects database, accessed on 20 February 2020, available at: <https://population.un.org/wpp/Download/Standard/Population/>. A wider gap is shown when consulting the individual nations' data directly, though possibly on different baselines. Refer to information from the Italian Istituto Nazionale di Statistica (<https://www.istat.it/en/archive/births>) and the British Office of National Statistics (<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/conceptionandfertilityrates>, data from England & Wales only, 2019).



The MH-139A Grey Wolf lands at Duke Field, Florida on December 19, 2019, before its unveiling and naming ceremony. The aircraft, produced by Leonardo and originally labeled the AW139, is set to replace the Air Force's fleet of UH-1N Huey aircraft and has capability improvements related to speed, range, endurance, and payload. Source: US Air Force photo by Samuel King Jr., DVIDS, <https://www.dvidshub.net/image/6003327/grey-wolf>.

Italian, such as food, fashion, and interior design.¹³ Less well observed is the fact that Italy is the second-largest manufacturing power in Europe (after Germany). Its automotive industry alone comprises global brands such as Stellantis (the recently merged Fiat-Chrysler and Peugeot) and Pirelli; sports car producers Ferrari, Maserati, and Lamborghini; and motorbike producers Ducati, Aprilia, and Cagiva. Accordingly, machinery and metals production also play a significant role in the Italian economy, representing about 25 percent of the country's GDP and almost 30 percent of Italian exports.¹⁴

Among integrated and high-technology industries, aerospace is the largest in Italy.¹⁵ Therefore it is not surprising that, with a strong industrial base, Italy's defense industry counts both global prime contractors, such as Leonardo; Fincantieri; Iveco Defence Vehicles (a subsidiary of CNH Industrial); Avio Aero; and MBDA, as well as a multitude of small- and medium-sized subcontractors specializing in high-quality subsystems and components.¹⁶ The Italian defense-industrial base, to a large degree, stems from companies that were created in the 1870–1914 period, when Italy experienced the first wave of industrialization. This is the case, for example, with Fincantieri, which derives from Ansaldo; Avio Aero,

¹³ The Economist Intelligence Unit, *Italy Market Outlook* (London, UK: the Economist, 2020).

¹⁴ By machinery and engineering products the authors of this brief mean turbo-machinery, electro-optical, electro-mechanics, precision machining, materials, construction vehicles, cars, and others. The authors use data before the pandemic. See Manola Pira, "Ecco come e dove esportano le aziende italiane," *Start Magazine*, July 24, 2019.

¹⁵ "La Centralità della Relazione Transatlantica tra Italia e Stati Uniti per il Settore Aerospace & Defense," white paper, American Chamber of Commerce in Italy, November 2020, 9; hereafter, "La Centralità"

¹⁶ Iveco Defence Vehicles is an independent company that is fully owned by CNH Industrial.



Freedom-class littoral combat ships USS Sioux City (LCS 11) and USS Milwaukee (LCS 5) moor alongside one another during a nesting evolution on Naval Station Mayport, Florida. The Freedom-class littoral combat ship was designed by Lockheed Martin, Fincantieri, and Marinette. Source: US Navy photo by Mass Communication Specialist Seaman Marianne Guemo, flickr, <https://www.flickr.com/photos/usnavy/46755226534/>.

from Fiat; Iveco Defence Vehicles, from Lancia (now part of Stellantis); Aermacchi (part of Leonardo), and Piaggio Aerospace, from Piaggio.¹⁷

During the past thirty years, the structure of Italy's defense industry has featured progressive concentration, joint-venturing, and internationalization. Through several mergers and acquisitions from the 1990s, a multitude of smaller firms consolidated into a few larger ones, namely Leonardo, Fincantieri, and Iveco Defence Vehicles. In turn, most of Leonardo's production has come to be managed through joint ventures with other European companies: Eurofighter GmbH (with BAE Systems and Airbus) for the Typhoon fighter jet, ATR (with Airbus) for turboprop aircraft, MBDA (with BAE Systems and Airbus) for

missiles, Telespazio (with Thales) for space launch, Thales Alenia Space (with Thales) for satellites, and Avio (with investment firm Space2) for turbine and rocket engines. Additionally, Italian defense companies have expanded their presence abroad through the acquisition of foreign firms, and in three main markets: the United States, the UK, and Poland.¹⁸

Even so, only two Italian firms—Leonardo and Fincantieri—are among the largest military suppliers globally. For Italy, these two firms are very important, although they account for less than three percent of the sales of the *Defense News* Top 100 Defense Companies. No other Italian companies are found on that list, which encompasses firms with at least \$820 million in annual sales.

¹⁷ Vera Zamagni, *The Economic History of Italy 1860-1990* (Oxford, UK: Oxford University Press, 2003), 75-109, 157-182; and Gianfranco Lizza, "L'Industria Italiana della Difesa nei 150 anni dell'Unità d'Italia," *Studi e Ricerca Socio-Territoriali* Vol. 1, 2011, 83-98.

¹⁸ Alessandro Marrone and Alessandro R. Ungaro, "Relations between the United States of America and Italy in the Post-Cold War Period: A Defence Industrial Perspective," *Chahiers de la Méditerranée* Vol. 88, June 2014, 157-181.

First is Leonardo—ranked thirteen on *Defense News* magazine's list of the Top 100 Defense Companies—which earned \$11,109 million in revenue in 2019 from defense contracting. That figure represents about 72 percent of the company's total revenue in 2019 of \$15,430 million—thus Leonardo is highly dependent on its defense revenue. However, such sales are not supported solely, or even substantially, by its home market, which accounted for just €2,224 million in 2019, or 16 percent of its total.¹⁹ Apart from the aforementioned joint ventures, Leonardo's core competencies span a broad range of niches in which the company is competitive worldwide. First and foremost, Leonardo is known for its rotorcraft division (previously branded as AgustaWestland), for which it is one of the four largest companies in the world.²⁰ Moreover, Leonardo is an established producer of artillery and munitions (still sometimes branded as Oto Melara) and of a highly successful jet-trainer, the M-346, that has been sold to Greece, Israel, Poland, and Singapore, as well as other countries. Finally, through the production of space launchers and systems, Leonardo is a key partner for space programs such as Galileo and Copernicus and for Rosetta missions, as well as for the International Space Station.

Shipbuilder Fincantieri is number fifty-eight on the *Defense News* list, with \$1,683 million in revenue in 2019 from defense contracting—specifically naval shipbuilding and repair. That figure represents about 26 percent of the company's total revenue in 2019 of \$6,548 million; thus it is less dependent on defense contracts than Leonardo. Fincantieri—one of the largest shipbuilders in Europe and in the world—is known, in particular, for its highly regarded frigates and destroyers. In sum, Italian defense companies have significant rotorcraft, artillery and munitions, and naval capabilities to offer other markets.

Italian Demand for American Armaments

During the Cold War, as with most NATO allies, defense-industrial relations between the United States and Italy were mostly one-sided. The latter produced much of its own armaments, while receiving technology and weapons systems from the former.²¹ This defense-industrial relationship took many different forms, including Italy's purchase of American weapon systems such as the M47 Patton tank; the acquisition of key subsystems, such as radars and sonars, for Italian-made platforms; licensed production of American systems, such as Aeritalia's production of Lockheed's F-104S Starfighter; or a transfer-of-technology agreement aimed at strengthening the Italian defense industry, such as with the creation of a subsidiary of Raytheon in Sicily.²²

Italy's purchasing became more open in the early 1990s and came to display “an historic Italian Ministry of Defense preference for US hardware and software and training,” particularly for interoperability.²³ By the 2000s, however, American firms were experiencing more competition for sales, which more often required Italian industrial participation.²⁴ Since then, the United States' high-profile sales to Italy have mostly been of aircraft and guided weapons. The aircraft have included F-16A/B fighter jets (leased to replace those F-104Ss), CH-47 helicopters (assembled locally by Agusta, now Leonardo Helicopters), C-130J cargo aircraft, RQ-1 and MQ-9 attack drones, KC-767 refueling tankers, and G550 signals intelligence aircraft. The guided weapons have included FIM-92 Stinger and Patriot Advanced Capability (PAC)-3 air defense missiles, GBU-31 and GBU-32 Joint Direct Attack Munition (JDAM) bombs, BGM-71 TOW and AIM-65 Maverick anti-tank missiles, AIM-120 advanced medium-range air-to-air missiles (AMRAAMs), and AIM-88 High-speed Anti-Radiation Missiles (HARMs).²⁵

19 See Leonardo's 2019 annual report, *2019 Integrated Annual Report*, for the details. For the placement of these two firms, the authors of this brief take the assessment of influential trade magazine *Defense News*, in its Defense News 100 database. See <https://people.defensenews.com/top-100/>. Slightly different figures have been calculated by the Stockholm International Peace Research Institute, but they support our case. See Aude Fleurant, Alexandra Kuimova, Diego Lopes Da Silva, Nan Tian, Pieter D. Wezeman And Siemon T. Wezeman, “The SIPRI Top 100 Arms-Producing and Military Services Companies, 2018,” Stockholm International Peace Research Institute, December 2019, 9, 10.

20 The other three are Airbus Helicopters SAS (France), Bell Helicopters (US) and Boeing (US). See *Market Research Report*, “Global Helicopter Market Trends—Global Forecast to 2025,” August 2020, 1.

21 Bialos et al., 399.

22 See Otto J. Scott, *The Creative Ordeal: The Story of Raytheon* (New York, New York: Atheneum, 1974), 329, 370-371.

23 Bialos et al., 411.

24 Bialos et al., 399, 407, 412, 443.

25 Stefano D'Urso, “Italy Plans To Buy New Gulfstream G550s For SIGINT (Signal Intelligence) Missions,” the *Aviationist*, 11 December 2020. Agusta was one of the predecessor firms of AgustaWestland, now Leonardo Helicopters.

The Italian Side of the American Defense Supply Chain

During the last thirty years, Italian companies have also come to play a bigger role in US defense acquisition, and Italy has proven to be a reliable partner for the American defense-related supply chain. This is the case not only when considering the behavior of individual firms, but also the policies and measures adopted by the Italian government to support the Italian defense industry in meeting its obligations toward its American counterparts. This has taken six forms.

First, Italian companies have won or co-won contracts for the provision of specific platforms and weapons, sometimes establishing production facilities in the United States. Some of these projects have fared better than others, but the trend has been positive for the US-Italian relationship.

- ◆ In 1985, the US Army chose Beretta's 92F 9-mm pistol as its standard sidearm, ultimately to equip all the US armed forces. Although opening the competition to foreign offerors was seen by some as a favor to Italy, which had recently agreed to host American nuclear-armed cruise missiles in Sicily,²⁶ Beretta nonetheless established an American subsidiary and manufactured most of the handguns in Maryland. The weapon served in this role until 2017, when it was replaced by Sig Sauer's P320 9-mm pistol.²⁷
- ◆ In 2005 the US Navy chose AgustaWestland's AW101 helicopter as the president's personal transport in "one of the first high-profile US acquisition programs in which European firms played a prominent part."²⁸ Lockheed Martin served as the prime contractor, substantially to integrate sensitive American communication systems; the actual aircraft were to be manufactured in Italy. AgustaWestland had delivered its airframes according to its contract, but

the overall program experienced delays and rapidly escalating costs as the US government imposed excessive requirements for military payloads not in the original solicitation.²⁹ In June 2009, the Navy Department canceled the contract.³⁰ In June 2011, the nine already-built aircraft were purchased by the Canadian Department of National Defence, as sources of replacement airframes, or just spare parts, for its very similar CH-149 Cormorant search-and-rescue helicopters.³¹

- ◆ In 2007, the US Air Force and Army chose the C-27J airlifter from Alenia Aeronautica (later merged into Leonardo) as their Joint Cargo Aircraft, both to augment the Air Force's C-130s and to replace the Army's old Short C-23 Sherpas. L3 Communications served as the prime contractor, installing American electronics on the mostly Italian-built aircraft. The services bought thirty-eight, but in 2012 they retired these aircraft because they were no longer deemed necessary given the drawdown in military operations in Afghanistan and Iraq. Some of the aircraft were transferred to Special Operations Command and the US Coast Guard.³²
- ◆ In 2018, Iveco Defence Vehicles, in partnership with BAE Systems, won the Amphibious Combat Vehicle (ACV) contract from the US Marine Corps to replace that service's fleet of 870 amphibious tractors. The Iveco SuperAV is an original design that takes advantage of the H-shaped 8x8 transmission and independent suspension of the Iveco-Oto Melara *Centauro/Freccia* family of wheeled fighting vehicles.³³ In October 2020, Iveco and BAE delivered the first eighteen ACVs. In November, the Marines declared their initial operating capability, and in December, they approved full-rate production.³⁴

26 Harvey Simon, "Buying the Beretta: The Army's Dilemma (A)," case no. C15-88-848.0, Harvard University Kennedy School of Government, 1988, 2.

27 Matthew Cox and Hope Hodge Seck, "Army Picks Sig Sauer's P320 Handgun to Replace M9 Service Pistol," *military.com*, 19 January 2017.

28 Matthew Zlatnik, "The VH-71 and the Industrial Base," *Defense Industrial Initiatives Current Issues*, no. 6, Center for Strategic and International Studies, 6 March 2009, 1.

29 Bettina H. Chavanne and Michael Bruno, "President Publicly Reconsiders Marine One Helo Effort," *Aviation Week & Space Technology*, 24 February 2009.

30 Stephen Trimble, "US Navy terminates VH-71 presidential helicopter contract," *Flight Global*, 2 June 2009.

31 David Pugliese, "Obama's choppers purchased for parts for Cormorants," *Victoria Times-Colonist*, 26 June 2011.

32 Aaron Mehta, "US SOCOM To Get 7 C-27Js From USAF," *Defense News*, 1 November 2013; and Jon Hemmerdinger, "US Coast Guard to acquire USAF's remaining C-27J Spartans," *Flight Global*, 6 January 2014.

33 Alberto Scarpitta, "SUPERAV/ACV: Un mezzo anfibio anche per le forze italiane?," *Analisi Difesa*, October 8, 2018.

34 Jen Judson, "Marine Corps' amphibious combat vehicle reaches full-rate production," *Defense News*, 12 December 2020.

- ◆ In 2018, the US Air Force selected Leonardo's AW139 to replace its aging UH-1N (Bell) Twin Huey helicopters, an aircraft it has given the American designation MH-139A Grey Wolf. The service plans to order eighty-four of the aircraft for two rather different missions: ferrying security forces amongst the US Air Force's widely separated ballistic missile silos in the Great Plains and providing transport for senior government officials (though not the president) away from Washington, DC in emergencies.³⁵ Boeing is serving as the prime contractor, integrating specialized military communications gear. The aircraft are being manufactured at Leonardo's factory in Philadelphia—originally opened to build the AW101—and which employs over 500 people.
- ◆ In January 2020, the US Navy selected Leonardo's AW119 Koala as its new training helicopter, giving it the American designation TH-73. The Navy ordered thirty-two that month and another thirty-six in November 2020, toward a possible target of 130 aircraft. The TH-73 is replacing the TH-57 (Bell 206) Sea Ranger as the training aircraft for the helicopter pilots of the US Navy, US Marine Corps, US Coast Guard, and several other NATO military forces. The first was delivered in January 2021.³⁶ The aircraft also are being manufactured in Philadelphia.

In addition to its several aforementioned military programs, Leonardo Helicopters has been a supplier, for some decades, to the Federal Bureau of Investigation, New York City Police Department, Los Angeles City Fire Department, Maryland State Police, Miami-Dade Fire Department, New Jersey State Police, and United States Border Patrol.³⁷

Second, Italy has joined the American-led multinational cooperation program for the F-35 Lightning II Joint Strike Fighter. Notably, Italy is one of only two countries outside the United States that hosts a production site. The plant is in Cameri, a small town between Turin and Milan, with a

manufacturing tradition in aerospace dating back to 1909. Cameri serves as a final assembly and check-out (FACO) facility for aircraft destined for Italy and the Netherlands, and as a European regional heavy airframe Maintenance, Repair, Overhaul & Upgrade (MRO&U) center for F-35s. The plant hosts several important subfacilities, such as an anechoic chamber for stealth testing. In addition, Italy participates in the Joint Strike Fighter (JSF) supply chain by providing components, including actuators (by the company Secondo Mona), electro-hydrostatic actuation systems (Moog Italia), radio-frequency transmission lines and sets (Vitrociset), advanced rail launchers (Area), fuselage remote unit components (Area), nose-gear up-locks (Leonardo Aircraft Division and subsidiaries), wings, electro-optical vacuum cells, emergency radios, frequency preselectors, landing-aid down-converters, cockpit lighting and panels (Leonardo Airborne & Space Systems and its subsidiaries), bulkheads and components for the wings (LMA Aerospace Technologies), components for landing gear (Magnaghi Aeronautica), and the provision of additional services and products for the FACO facility and MRO&U center.³⁸

Third, as part of the internationalization strategy, some Italian companies have entered the American defense market by acquiring US defense companies. Most prominent among these initiatives was the 2008 acquisition of DRS Technologies by Leonardo, which is now doing business in the United States as Leonardo DRS.³⁹ Its notable products include electrical power and propulsion technology for naval vessels; infrared, radar, electro-optic, electronic warfare, air defense, and active protection systems for ground vehicles; and rugged computing and communications terminals.⁴⁰

In 2009, Fincantieri acquired Marinette Marine Group and its shipyards; the company is involved in two large shipbuilding programs. Fincantieri's success in these endeavors stems from several factors, including its worldwide leadership in marine technologies (including cruise ships), its decade-long expertise in medium-sized

35 Valerie Insinna, "The Air Force picks a winner for its Huey replacement helicopter contract," *Defense News*, 24 September 2018.

36 "Leonardo: US Department of Defense exercises options for 36 TH-73A helicopters," Leonardo press release, 13 November 2020; Garrett Reim, "US Navy picks Leonardo TH-119 for next helicopter trainer fleet," *Flight Global*, 13 January 2020; and Dominic Perry, "Leonardo hands first TH-73A trainer to US Navy," *Flight Global*, 10 June 2021.

37 "Air Operations—AW139 Helicopter." *lafd.org*; "Maryland State Police unveil new medevac AW139," *helihub.com*; "Miami-Dade County—Fire Rescue," *www.miamidade.gov*; "Fifth and final AW139 delivered to New Jersey State Police," *helihub.com*; "CBP Air and Marine Acquires Helicopters for Border Security Mission," *cbp.gov*

38 Lockheed Martin, "Made in Italy, delivered to the world," <https://www.lockheedmartin.com/f35/global-enterprise/italy.html>, last accessed September 27, 2021 and others "Business Networks to Fly High," *Platinum—Expo 2015 The Big Challenge*, 2015, 71-72

39 Paolo Biondi and Robin Pomeroy, "Finmeccanica to buy DRS for \$5.2 billion," *Reuters*, 12 May 2008.

40 Review of DRS's website at <https://www.leonardodrs.com>.



Unit members of the North Dakota Air National Guard, Fargo, North Dakota, get their first look at a C-27J Spartan aircraft upon landing at Hector International Airport, by L-3 Platform Integration, Alenia North America, and the companies' joint venture, Global Military Aircraft Systems (GMAS), at the Fargo Air National Guard Base. The familiarization tour is to help unit members of the North Dakota Air National Guard get acquainted with their future aircraft and planned mission begin in 2013. The C-27J is a mid-range, multifunctional and interoperable aircraft able to perform logistical re-supply medical evacuation, troop movement, airdrop operations, humanitarian assistance and homeland security missions for the US Air Force. Source: Department of Defense photo by Senior Master Sgt. David H. Lipp, flickr, <https://www.flickr.com/photos/usairforce/5094172478/>.

advanced warships, and the solid designs on which its recent warships are based:

- ◆ In 2004, the US Navy awarded a team of Lockheed Martin, Fincantieri, and then-independent Marinette a contract to build the *Freedom* class, one of its two classes of littoral combat ships. Construction of the sixteenth and final ship, the USS *Cleveland*, is scheduled to begin soon at Marinette's yard in Wisconsin.
- ◆ In 2020, Marinette won the contract for the *Constellation* class, the next generation of frigates for the US Navy, with a design based on that of the Franco-Italian *fregata europea multi-missione* (FREMM) ships. The FREMM—one of the most capable

and versatile frigates in the world—already serves in the navies of Italy, France, Morocco, and Egypt.

Fourth, American companies have acquired defense contractors based in Italy. These are mostly small and medium-sized enterprises that specialize in high-technology niches. Prominent examples are Calzoni, which builds submarine masts, acquired by L3 (now L3Harris Technologies); and Avio Aero, which specializes in aeroengines and materials, acquired by Carlyle Group, and was subsequently sold to General Electric. Avio Aero, in the meantime, had also acquired ELV, the producer of the VEGA space launchers, a niche producer whose capabilities are used by Arianespace and are tailored for small satellites.

Fifth, Italian small-and-medium enterprises are an integral part of the supply chain of the US defense industry, filling particular niches.⁴¹ Magnaghi Aeronautica, based in Naples, for instance, produces landing gear for several military platforms such as the F-35 and the AH-64 Apache (as well as for the MH60R Seahawk for the Danish Royal Navy).⁴² Similarly, Logic, a defense electronics company based in Milan, has been a long-term partner of Boeing in producing engine control systems for helicopters, specifically the CH-47 Chinook and the CH-46 Sea Knight.⁴³ Along the same lines, LMA aerospace technology, a metallurgy company based in Turin, has provided machined metals and titanium components for the C-27J and the F-35.⁴⁴

Sixth, further upstream, Italy is the fourth-largest global producer of machine tools, just ahead of the United States. In contrast to the United States, however, Italy is a major net exporter of those tools. The sustained American trade deficit in this industry has seemingly been a grave and chronic concern of the US defense establishment since the 1980s. However, except for China, the major exporters—Japan, Germany, Italy, South Korea, Taiwan, and Switzerland—are all US allies; thus the issue is less troubling.⁴⁵

Reliability of the Italian Supply Chain

To date, Italian defense companies or subcontractors are not known to have ever violated commitments to the US government or American defense companies in the provision of systems, subsystems, or components. Delays have arisen either because of lengthy authorization processes or logistical and technical problems, but neither of these is extraordinary in the defense industry. Moreover, Italy's security-of-supply arrangement with the United States commits its government and industry to upholding the country's contracts with the US government and US industry in times of crisis.⁴⁶

Several other agreements render any political interference in the Italian industrial cooperation with the United States very difficult to implement. For instance, European countries have agreed to a code of conduct pertaining to weapons sales; they are committed to share information about any request for a sale that does not receive authorization from their home government. Declining an authorization for sales triggers a mechanism that binds other European countries to not sell such weapons to the third country involved in the original arms sale. The purpose of this agreement is to avert a perverse competition among European countries by raising the legal and political costs of action. Declining the authorization raises the matter to the European level, thereby potentially (if temporarily) halting trade from other European countries to the United States.

But even more important is the commitment of the Italian government and defense industry to the security of the US defense supply chain, as epitomized by the response to the COVID-19 pandemic. It shows the effort and steadfastness of the Italian government to keep the aerospace and defense industry working in order to meet its deadlines and obligations. Italy was the first country after China to experience an outbreak of infections, around mid-February 2020, which quickly overwhelmed hospitals.⁴⁷ Italy found itself in uncharted territory when it faced the pandemic—in terms of which measures to adopt, whether a national lockdown was a viable option, how to treat patients, how to ease pressure on hospitals, how to protect medical personnel, and other issues.⁴⁸ Moreover, from the very first outbreaks, Italy faced significant shortages in key supplies—i.e., disinfectants, protective equipment, masks, ventilators, and chemical reagents for testing, among other items—that hampered its attempt to contain the pandemic.⁴⁹ Finally, Italy was one of the most heavily hit countries in Europe and in the world, with the number of infections and COVID-related deaths increasing at an alarming rate. One Italian county,

41 Marrone & A. Gilli, 2020, 9.

42 "La Centralità..." 20.

43 "La Centralità..." 21-22.

44 "Business Networks to Fly High."

45 See Scott Lincicome, *Manufactured Crisis: "Deindustrialization," Free Markets, and National Security*, policy analysis no. 907, Cato Institute, January 2021, 40–41, especially note 179.

46 For more details, see James Hasik, "Securing Defense Trade with Allies," Atlantic Council, forthcoming.

47 Peter S. Goodman and Aaron H. Maines, "'Not Just an Italian Problem': Coronavirus Threatens Europe's Economy," the *New York Times*, February 25, 2020.

48 For instance, at the time the outbreak of infections emerged in Italy, some politicians across Europe were still not taking the pandemic as a serious threat, when Italy when on national lockdown, some countries were still pursuing a strategy of "herd immunity."

49 "Perché non stiamo facendo più tamponi?," *Il Post*, April 4, 2020.

Bergamo (north of Milan), for several months suffered the highest lethality rate in the world.⁵⁰

For these reasons, Italy was also the first country to implement a national lockdown, at the beginning of March 2020.⁵¹ However, the Italian government granted an exception to aerospace and defense companies as well as to companies considered strategically important, as long as they received authorization from local government agencies (*prefetture*) and complied with the new “Corona rules.”⁵² Remarkably, the first clusters of contagions in Italy took place in Lombardy, Italy’s richest region, and spread to the rest of the industrial heartland in northern Italy, leaving relatively untouched the central and southern part of the country.⁵³ As a result, many facilities of prime contractors (such as Iveco Defence Vehicles in Vittorio Veneto) as well as of their suppliers in the Italian north were in the epicenter of the pandemic. In these areas, the local authorities responsible for granting exceptions to the lockdown were busy with the emergency and with implementing the restrictions; they soon found themselves overwhelmed by requests for exceptions.⁵⁴ Moreover, the worsening of the situation throughout April and May 2020 forced the Italian government to update its regulations frequently, adding uncertainty and bureaucratic delay. The process was very demanding, both logistically and organizationally, for companies as well as local authorities.⁵⁵ Nonetheless, aerospace and defense companies in Italy, as well as their suppliers, managed to remain open.

Two prominent examples, the ACV and F-35 programs, illustrate Italy’s ability to sustain production even in the face of the pandemic’s devastation. Iveco Defence Vehicles managed to meet its commitments to BAE Systems to supply the hull and related parts of the ACV,

from its facilities in Bolzano and Vittorio Veneto, both in the north of the country. The F-35 program has received a lot of negative press in Italy since its inception, with recurring calls for its termination.⁵⁶ In particular, one of the two parties of the governing coalition during the pandemic has been outspokenly critical of Italian participation in the JSF.⁵⁷ Moreover, the government’s decision to grant an exception to the lockdown to aerospace and defense companies channeled immediate attention to the F-35 FACO facility, by both Christian Democratic and post-communist media.⁵⁸ Nonetheless, the national government actively worked to keep open the Cameri facility—also in the north—thus exposing itself to potential bad press and malaise in the coalition parties.

The Financial Value of the US-Italian Relationship

In this context, the visit in February 2021 of the Italian aircraft carrier *Cavour* to Norfolk for F-35B testing is a reminder of how the US-Italian defense-industrial relationship has endured, despite occasional challenges.⁵⁹ At the same time, that warm relationship is reinforced by the practical financial interests of Italian defense contractors in maintaining and expanding their businesses in the United States.

Consider again Leonardo. Fully 98 percent of its nearly 50,000 staff members are employed in just four countries: Italy, the UK, Poland, and the United States. Although that is the order in which the countries are presented in the company’s marketing literature, the American market is easily the largest and the most important to the company. In 2019, Leonardo’s sales in the United States of €3,982 million accounted for 29 percent of its turnover—just under twice its sales in Italy. The UK is also an important

50 Jason Horowitz, “The Lost Days That Made Bergamo a Coronavirus Tragedy,” the *New York Times*, November 29, 2020.

51 “Latte To Go: Italy, The First Country In Europe to Enter Lockdown, Starts To Emerge,” the *Economist*, March 9, 2020.

52 “Coronavirus, 3 Milioni di Lavoratori a Casa,” *Il Sole 24 Ore* (March 13, 2020); and Joe Gould and Aaron Mehta, “F-35 Work Continues In Italy Despite Coronavirus Lockdown,” *Defense News*, March 10, 2020.

53 The first recorded cases of COVID-19 were in the Lombardy region in mid-February 2020. Soon, contagion spread throughout the region and then to counties in neighboring regions, Veneto, Emilia-Romagna, and Piedmont. These four regions together form the so-called “Po valley,” Italy’s industrial center. “How Italy’s Economic Heartland Became Ground Zero to The Deadliest Coronavirus Outbreak in Europe,” *CNBC News*, April 26, 2020.

54 See, for example, Valentina Errante, “Coronavirus, stop solo al 2% delle aziende. Il Viminale: fare più verifiche,” *Il Messaggero*, April 16, 2020.

55 Aerospace and defense companies had to ask directly for authorization from the authorities in the town where the production side is located, as well as ask for authorization for their suppliers from authorities in the town where the supplier is located.

56 See for example “Difesa, Pd: ‘No acquisto di F35’. Ma M5S: nessun taglio, Napolitano vera sentinella,” *La Repubblica*, March 19, 2014.

57 Steve Scherer, “Italy’s 5-Star is growing threat to F-35 purchase,” April 9, 2013; Tom Kingdon, “Italy’s anti-establishment Five Star party would scrap F-35 program,” *Defense News*, May 11, 2017; and “M5S contro gli F-35: Conte d’accordo sulla rinegoziazione,” *Il Sole 24 Ore* (October 6, 2019).

58 See, for example, Luca Liverani, “Coronavirus. Ma le industrie delle armi restano in funzione, ‘perché essenziali,’” *Avvenire*, March 25, 2020; and “F35 ‘attività essenziale’: a Cameri ricomincia la produzione,” *Il Manifesto*, March 30, 2020.

59 Megan Eckstein, “Italian Aircraft Carrier ITS Cavour Visits Norfolk Ahead of F-35B Testing,” *USNI News*, 16 February 2021.



Marines with Amphibious Vehicle Test Branch, Marine Corps Tactical Systems Support Activity, drive a new Amphibious Combat Vehicle (ACV) ashore during low-light surf transit testing at AVTB Beach at Marine Corps Base Camp Pendleton, California, on December 18, 2019. The test was designed to assess and verify how well Marines can interface with the vehicle and operate at night. The ACV, produced by Iveco Defense Vehicles in partnership with BAE Systems, is an eight-wheeled armored personnel carrier designed to fully replace the Corps' aging fleet of Amphibious Assault Vehicles. *Source: US Marine Corps photo by Lance Cpl. Andrew Cortez, flickr, <https://www.flickr.com/photos/usnavy/4924932816/>.*

market, with €1,405 million in 2019 sales (10 percent), but it is clearly not in the same category. Polish production of helicopters is important to Leonardo, but Polish sales are not even separately described in the published accounts.⁶⁰

The company's US sales are substantially through subsidiary DRS, whose annual revenues were about \$2,780 million in 2020, with earnings of perhaps \$200 million.⁶¹ Not counting DRS's exports from the United States, this figure would account for only slightly over half of Leonardo's revenues in America, which indicates that the size of the company's exports to the US are significant.

Returns on the company's sales in the United States are much better than those in Italy, so DRS actually holds most of the financial value of the entire group.

In 2020, Leonardo's overall financial position deteriorated, largely because of the COVID-19 pandemic. In 2019, earnings before interest and taxes (EBIT) were €1,153 million. In the first nine months of 2020, however, although Leonardo's revenues dropped only slightly, its net debt almost doubled, while its EBIT margin fell by 39 percent. Its creditworthiness rating has concomitantly been downgraded by all three leading rating agencies.⁶²

60 See Leonardo's 2019 annual report, available at <https://www.leonardocompany.com/documents/20142/0/ANNUAL+FINANCIAL+REPORT+per+sito+con+opinion.pdf/>.

61 Dunn & Bradstreet estimates these as \$2.78 billion. See https://www.dnb.com/business-directory/company-profiles/leonardo_drs_inc.ef3f230c86eefc366b1a67a9fa1d7004.html; the profitability estimate is from an anonymous equities analyst in "Leonardo plans to list up to 30% of DRS in New York—sources," Reuters, 24 February 2021.

62 See Leonardo's 2019 annual report and its "Results at 30 September 2020," available at <https://www.leonardocompany.com/documents/20142/11606807/Results+at+30+September+2020.pdf/4cb234cd-b6a7-59b4-2167-288f8a66bba3?t=1604598339072>.

In turn, earlier this year, Leonardo explored a partial floatation of its DRS subsidiary through an initial public offering and separate listing on the New York Stock Exchange.⁶³ In launching this process, the company noted that it intended “to retain majority position consistent with its strategic objectives of maintaining a significant exposure in the United States, a strategically important market.”⁶⁴ Although public offering was eventually withdrawn, the initiative nonetheless illustrates an important dynamic in the US-Italian defense-industrial relationship.

Consider next the second-largest firm, Fincantieri. As noted above, its subsidiary, Marinette Marine, will be building the US Navy’s new frigates, possibly the largest-ever contract win for an Italian company in US defense contracting. Although the FREMMs are highly regarded ships, the company won with a surprisingly low price, below the independent cost estimates of the Congressional Budget Office.⁶⁵ That was an aggressive bid from a company that lost 3 percent of revenue in 2019, after a profit margin of just 1 percent in 2018.⁶⁶ The explanation lies in the company’s celebratory press release, which credits “the support of the Italian government” in the bid.⁶⁷ This veiled message that possible losses will be covered should reassure the American customer, for it similarly transfers risk from customers and shareholders to the Italian government. This is an indication of the importance of the US market, not just to Fincantieri, but again, to the Italian government as well.

Avenues for Further US-Italian Defense Cooperation

On the Italian side, one must remember that in Italian law, the security of the supply agreement notwithstanding, the United States enjoys a standing like any other

NATO country when it comes to direct military sales to the US government or to the participation of Italian defense companies in American defense projects.⁶⁸ The current legal framework, it is worth repeating, has so far not affected any sales of military materiel to the US government or to US defense companies because in these instances, Italian authorization is largely a bureaucratic procedure in which Italian authorities are committed to avoid unnecessary delays.

Still, the Italian parliament could grant the United States the same status that it has granted to other EU countries, which would further strengthen defense-industrial relations between Italy and the United States in two main ways. First, Italian suppliers of American companies would have to apply for only one governmental global authorization, valid for three years (that time frame can be extended), which would hence reduce costs and times for authorizations. Second, granting such a special status to the United States would thus send a very important political message, as it would further show the commitment of Italian authorities towards ensuring the reliability of the US defense supply chain, consistent with the security of the supply arrangement.⁶⁹

There is also room for closer cooperation from the American side. For large Italian defense contractors, specifically Leonardo and Fincantieri, the cooperative programs of the EU’s European Defense Agency are increasingly seen as “incubators” for “Italian defense innovation and procurement.”⁷⁰ These programs are largely composed of the European Defence Fund (EDF), for research, and the Permanent Structured Cooperation (PeSCo), for development and procurement. Indeed, “out of PeSCo’s forty-seven projects, Italy participates in twenty-six and has the lead in nine.”⁷¹ However, like the Netherlands and several Nordic countries, “Italy

63 Daniele Lepido, “Leonardo Jumps as Potential IPO of US Unit Seen Boosting Cash,” *Bloomberg*, 9 November 2020.

64 “Leonardo DRS subsidiary filed a registration statement on Form S-1 with the “SEC” for a proposed initial public offering of a minority stake of its common shares,” press release, 26 February 2021.

65 See Ronald O’Rourke, “Navy Constellation (FFG-62) Class Frigate (Previously FFG(X)) Program: Background and Issues for Congress,” Congressional Research Service, February 2021, 15–18; and Congressional Budget Office, “The Cost of the Navy’s New Frigate,” October 2020.

66 See Fincantieri’s 2019 annual report, available at https://www.fincantieri.com/globalassets/investor-relations/bilanci-e-relazioni/2019/eng_fincantieri_finanziario.pdf

67 “Fincantieri to Build the New US Navy Frigates,” press release, Fincantieri Marine Group, 1 May 2020.

68 For a summary of the Italian law on the export of military material and its amendments (Law No.185 of July 9, 1990 “New regulations on controlling the exports, imports and transit of military goods”), see website of the National Authority for the Authorizations of Armament Materials (UAMA), of the Italian Ministry of Foreign Affairs and International Cooperation, <https://www.esteri.it/mae/en/ministero/struttura/uama/>.

69 The authors of this brief would like to thank Professor Michele Nones (Istituto Affari Internazionali) for suggesting to us these opportunities for improvement in the defense-industrial relations between Italy and the United States.

70 Sabbatini, op. cit. p. 4; Marrone & A. Gilli, 2020, 8.

71 Ibid., 4; citing Council of the European Union, “Permanent Structured Cooperation (PESCO)’s projects—Overview,” 12 November 2019.

strongly supported the possibility for third entities and states to join the programs.”⁷² Despite the arrival of a more European-minded government in 2019, the Italian government has hitherto largely chosen the Atlanticist path, favoring continued, close defense-industrial relationships beyond just the EU—to include the UK and the United States as well.⁷³

At the same time, participation in EDF and PeSCo is yet to result in a coherent and strategic defense-industrial strategy for Italy specifically, or the EU as a whole.⁷⁴ Italy may well want to use its aerospace and defense industries as “one of the engines of the indispensable economic recovery” from COVID-19.⁷⁵ The pandemic has struck Italy worse than the United States, in both human and economic terms, and that recovery could be challenging for European countries, with their less-flexible labor laws.⁷⁶ Here, Washington faces a similar, if asymmetric, choice. The United States should keep its procurement and industry relatively open to Italian participation, and roll back unhelpful restrictions on defense trade with allies like Italy.

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Acknowledgments

This report is the culmination of a research project, “The US-Italian Defense-Industrial Partnership,” which has been directed by Senior Fellow Steven Grundman. It is made possible in part through the generous support of Leonardo DRS.

The Atlantic Council is supported by corporate partners from Italy and elsewhere across the globe. For more information on the Atlantic Council’s corporate members program, please see: <https://www.atlanticcouncil.org/support-the-council/corporate-members-program/>.

The authors would like to thank Lorenzo Gardini, Andrea Gilli, Alessandro Marrone, Michele Nones, and Alessandro Strozzi for the extensive discussions and for sharing insights, information, and suggestions. They would also like to thank Gen. Stefano Cont (Italian Ministry of Defense); Dr. Carlo Festucci (Associazione Italiana Aerospace & Defense, AIAD); Ing. Giuseppe Giordo (Fincantieri); Dr. Giovanni Soccodato (Leonardo); Iveco Defence Vehicles; and the Italian Ministry of Foreign Affairs and International Cooperation, both the Autorità nazionale-Unità per le autorizzazioni dei materiali di armament (UAMA), and the Direzione Generale Promozione Sistema Paese.

⁷² Sabbatini, op. cit., 4.

⁷³ Alessandro Marrone, “National Expectations Regarding the European Defence Fund: The Italian Perspective,” Armament Industry European Research Group, paper no. 42, Institute for International and Strategic Affairs, October 2019, 2.

⁷⁴ Marrone & A. Gilli, 2020, p. 8, citing Michele Nones, “Nuova Strategica Industriale Cercasi,” *Airpress*, July-August 2020, 4–5.

⁷⁵ In the original, *indispensabile ripresa economica*. Michele Nones, “Nuova Strategica Industriale Cercasi,” *Airpress*, July-August 2020, 4.

⁷⁶ Tom Fairless and Eric Sylvers, “Europe Locked Its Economy in Place. Unlocking It Could Be Ugly,” *Wall Street Journal*, 17 February 2021.



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