

# Dasa and Aerospatiale Matra SA merge: Europe strengthens its armaments industry

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Along with the chairmen of DaimlerChrysler Aerospace (Dasa) and France's Aerospatiale Matra SA, German Chancellor Gerhard Schroeder and French Prime Minister Lionel Jospin celebrated the formation of the European Aeronautic, Defence and Space company (EADS) in Strasbourg October 14.

Rarely has the merger of two large corporations been accompanied by such a display of exuberance and general enthusiasm from politicians, the media and the trade unions as that which has attended the marriage of these companies. Schroeder said that the fusion was "good for France, good for Germany and good for Europe", while Jospin spoke of the necessity "to combine European forces". French Minister of Finance Dominique Strauss-Kahn, who was also present, noted: "Many asked where the Europe of industry was—now, today it is here."

The significance of this merger goes far beyond mere economic considerations. Its background is the effort of European politicians over many years to strengthen the continent militarily and make it independent of foreign suppliers, thereby lending Europe's world-wide economic strength a commensurate military force.

In the European press the merger was likened to cutting the Gordian Knot, because the "greater European solution" called for by Germany, France and Great Britain since 1997 had again and again failed to materialise. The French newspaper *Le Figaro* equated the merger with the introduction of the euro, while the American State Department doubtless took note of this step toward a "fortress Europe" and determined that it must proceed on the basis of rising tensions.

The main thrust of this new effort is directed at what Europeans have called the "crushing supremacy" of the United States in hi-tech military and aerospace matters. Since 1994 the concentration of the aeronautics, space and armaments industries in the US has created the three largest giants in the field: Boeing (1998: \$55.4 billion turnover), Lockheed Martin (\$26 billion) and Raytheon (\$17.5 billion).

With a \$22 billion turnover and 89,000 employees in

aviation and space transport, EADS will become the world's number three firm, behind Boeing and Lockheed Martin. In the civil aircraft sector, the new company's 80 percent share of the Airbus consortium puts it in second place behind Boeing, while it is already number one in the area of helicopters and booster rockets. The company ranks among the most important suppliers of satellites, military aircraft and defence-related electronics.

Some 60 percent of the new enterprise will belong to a holding company in the fiscally favourable Netherlands, and 40 percent will be distributed on the stock exchanges. DaimlerChrysler and Aerospatiale shareholders will control the new holding company equally. With this step, DaimlerChrysler, which wholly controlled Dasa, continues to withdraw from the non-auto sector. For this transaction it receives 3.4 billion euros (\$3.7 billion) and ownership of MTU, the engine-maker affiliate of Dasa.

The French state constitutes half of the French share-ownership in the new enterprise; 37 percent belongs to the Lagardère Group; and 13 percent to an as yet unspecified credit institute. This gives the French state control of just 15 percent of EADS. Nevertheless, it has been granted a right of veto regarding important management decisions such as large acquisitions or capital changes.

This became one of the main points at issue in the merger. The French state held 48 percent of Aerospatiale Matra SA and needed to ensure its influence in the new company because of reservations within the French population over privatisations and associated staff cuts and dismissals. This same problem had led to the failure of the long-envisioned merger with the arms company British Aerospace Marconi.

The German finance daily *Das Handelsblatt* rejoiced in its weekend edition: "It is almost an irony of history that it was Jospin the socialist, of all people, who succeeded where his conservative predecessors had failed."

At the announcement of the merger it was said there would be no reductions in personnel, but certain figures suggest otherwise. The German company Dasa, with a turnover of 8.8 billion euros (\$9.5 billion) and a profit of 0.6 billion

euros (\$0.65 billion), enters the unequal marriage as the clearly more profitable partner. Aerospatiale Matra, with a turnover of 12.3 billion euros (\$13.3 billion), made only 0.4 billion euros (\$0.43 billion) in profit.

Since 1995 Dasa has undertaken a radical restructuring. It has divested itself of the bankrupt Dutch aircraft manufacturer Fokker, and CEO Manfred Bischoff has overseen a staff reduction from 89,000 to 46,000. Aerospatiale Matra still faces the implementation of such a cost-cutting program. The company has pledged to increase its yield on turnover over the next five years from the present 5 percent to 10 percent.

The *Betriebsrat* (union-management works council) at Dasa had unconditionally accepted the company's downsizing and cost-cutting measures. It now shares in the general jubilation over the merger, placing its hopes in a restructuring of the Airbus consortium that is to accompany the corporate union.

It is expected that the new Airbus will overtake Boeing's commercial sector this year. Through its transformation into a joint-stock company, Airbus will acquire the necessary capital to begin production of the A-3XX large-capacity aircraft which has been under discussion for some time. This new double-decker plane would carry 650 passengers and challenge the legendary Boeing 747.

Boeing, which is presently having financial difficulties, would be out of the running for a time. Its 1997 merger with McDonnell Douglas has still to be profitably completed.

For Airbus, the formation of EADS means the creation of a military branch. Several European countries need a new military transport for the coming years. The Transall used at present originated in the 1950s. German Minister of Defence Rudolf Scharping has, in connection with Germany's military participation in East Timor, deplored the plane's short range and high susceptibility to breakdown.

The Dasa-Aerospatiale fusion signals the end of a period in Europe in which national differences and conflicts of interest (not least with the working class in this industry) prevented transnational mergers. The last 10 years have been characterised by small-scale national mergers, strengthening the German Dasa, French Aerospatiale Matra and British Aerospace Marconi, all of which now urgently need new partners.

The Dasa-Aerospatiale linkup is the first transnational merger on this scale, and is already regarded as a magnet to attract the splintered European aviation, space and weapons industries. The previously interrupted negotiations between Dasa and the Spanish Construcciones Aeronáuticas SA (Casa) were taken up again the very next day, so that, in the words of Manfred Bischoff, the "great European aviation and space company which is desired" may be realised. Via

its state-owned holding company, Casa controls 6 percent of the Airbus consortium and is an important supplier.

The satellite manufacturer Astrium, operated jointly by Dasa and Aerospatiale Matra, is shortly to acquire the Italian Alenia Spazio as a new partner. Aerospatiale Matra, British Aerospace and the Italian Finmeccania plan a common subsidiary for the production of guided missiles. Lagadère invited the Swedish Saab and British Aerospace Marconi to take a share in EADS.

For the Europeans, the greatest uncertainty concerns the role of Britain. The boundary between the two remaining great European defence concerns runs along the English Channel. While on the Continent the sector is drawing closer together, British Aerospace Marconi is still undecided whether it will turn to America or Europe. Inside the company, as in the US, there are considerations over whether to take over the defence electronics branch, which Lockheed Martin wants to drop.

The creation of EADS has accelerated the merger process and will continue to raise tensions with the US. The aviation, space and armaments industries now join the already hotly disputed trade and agriculture sectors as new centres of conflict with America. Europe has already achieved a 33 percent share of the world market in the air and space industries, while American companies control 50 percent. At present, the American armaments industry is suffering from defence expenditure cuts implemented between 1992 and 1998. The creation of a new large European defence concern means American opportunities to supply the continent will increasingly fall away.

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