

Europe and America compete for British missile contract

Tony Hyland
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The British government is facing sustained pressure from its American and European counterparts, who are competing to supply the new air-to-air missile for the Royal Air Force's 232 Eurofighters. The £1 billion contract is coveted by a European-based consortium led by the Anglo-French company Matra BAe Dynamics, which produces the Meteor missile, and the rival ERAAMplus, produced by US arms manufacturer Raytheon.

The American bid involves the upgrading of an existing missile and is both cheaper and quicker to deliver than its European competitor. The Meteor is a product of higher capability, but is still in the stage of development. A final decision is to be made later this year. The British Ministry of Defence (MoD) Equipment Approval Committee has already considered its recommendation, but the final decision rests with Prime Minister Tony Blair.

Personal interventions have been made by the leaders of five European countries and US President Bill Clinton in an attempt to influence the outcome. Clinton has written two letters to Blair lobbying for US interests. In one letter, the phrase "I feel strongly " was used and underlined to emphasise the political importance the US President attached to the outcome.

The MoD is to replace what is termed "friend-or-foe" equipment on a range of different platforms, including aircraft, ships and ground-based air defence systems. Raytheon has already won the franchise for Tornado F3 aircraft and Rapier surface-to-air missiles and is expected to gain much of the remaining programme.

Whatever the final decision, it will do nothing to reconcile the antagonisms the affair has highlighted between the major powers. In an attempt to counteract a pan-European approach, Raytheon has announced an alliance with Diehl of Germany and Shorts of Belfast in the north of Ireland. It has also offered European countries a 35 percent share of the work for the missile if their governments place an order.

Along with the carrot comes the stick. Raytheon has warned that an unfavourable decision would place a large number of British jobs in jeopardy, including 350 in

Glenrothes near the constituency of Chancellor Gordon Brown.

The Meteor consortium has signed up Boeing—one of Raytheon's main US rivals—to its project, with the aim of selling the missile on F15 and F18 fighter jets globally. Both companies have attempted to present these alliances as a means of preventing a major rift between American and European arms manufacturers.

The contracts involve not only rival commercial interests, but differing foreign policy objectives. Blair has received letters from French President Jacques Chirac and German Chancellor Gerhard Schroder. Chirac's letter spelt out how critical a favourable decision on Meteor was to the weapon's future and its availability to other EU air forces. He stressed the broader ramifications for European attempts to establish a common defence capability. "I know your commitment to European construction. I am convinced that with your decision you will personally want to allow us together to give a powerful and concrete sign towards the creation of a European defence identity," he wrote.

A *Financial Times* editorial summed up Britain's dilemma. Entitled "Smart Choices in Defence ", their February 21 editorial stated, "Each decision is seen in continental capitals as a test of Tony Blair's commitment to Europe. Washington has been putting strong pressure on its closest ally. It will be impossible to avoid upsetting somebody. The government can mitigate this by being clear about the principles underlying its choices. These must be based firmly on value for money: meeting the military requirement as well as possible at as reasonable price as possible.

"It is not obvious that this means acquiring 'off-the-shelf' American equipment which, in each case, is pitted against European products still to be developed. European industry's rapid rationalisation is creating suppliers who can look US rivals straight in the eye. Their consolidation will have been fruitless unless they win orders from the governments that sought it—especially while the US, the biggest defence market, is closed to foreign prime contractors for larger programs.

“The politics of these decisions are inescapable: Europe may be unable to afford its own missiles and transporters if the UK buys American. But after undertaking radical reform of acquisition methods, and seeing suppliers carry out long-demanded rationalisation, the government will do a disservice to officials and suppliers if its approach is anything other than business-like.”

The issue encapsulates both the extent of European cooperation and its limitations. Europe cannot achieve a military capability independent of America if the combat aircraft it builds remain dependent on US manufactured missiles and US firms continue to enjoy a virtual monopoly in the field.

If Europe's Meteor wins the British contract, it will be used to equip other countries' Eurofighters as well as Sweden's Gripen and France's Rafale fighter aircraft. Among the European countries that have endorsed the project—France, Germany, Sweden, Spain and Italy—the UK would be the largest financial contributor. If the Meteor is not victorious, the whole project will be scuppered. European countries have put their orders on hold until the UK makes its decision, as Britain has the largest and most urgent need for the missiles.

Europe and America are also competing to supply military transport aircraft—the European consortium Airbus Industrie with US giants Boeing and Lockheed Martin. The European bid again involves a product yet to be developed against companies established in the market.

In 1997 European governments called for the creation of a continent-wide aerospace and defence company (EADC). This was viewed as the only viable way of competing globally with market leaders such as Boeing and Lockheed. The creation of a European arms industry was linked to plans for a military capability independent of NATO. A European Union summit in Helsinki last year gave a mandate for the establishment of a European Security and Defence Identity (ESDI), involving an independent army corps for peace-keeping missions and a rapid reaction force.

A link-up between Europeans giants, the UK's BAe and Germany's Dasa, was expected as the first step towards the creation of EADC. This would have created a combat aircraft, defence electronics and service company ranking third in the world. Instead, BAe last year pursued a “UK-first” policy—merging with GEC's Marconi division and creating BAe Systems. This was partly motivated by the desire to prevent a merger between the US company and France's CSF Thomson. It also worked to dilute the influence Dasa would have in any joint European defence project. Before the merger with Marconi this would have been a 40 percent stake.

Rather than pursue greater European collaboration, BAe

Systems has looked towards the US. The merger also gave BAe a presence in the US through Marconi's subsidiary, the defence electronics firm Tracor. This is an important toe-hold in a highly protected market. The company is seeking to capitalise on Britain's enthusiastic backing of the US-led interventions in the Middle East and the Balkans. It hopes that this stance, in contrast to criticisms and dissent from other European countries, will lead to an easing of current US restrictions on the exchange of military know-how.

Last year chief executive John Weston said BAe would be “very well placed to build a bridge between European and American markets and take forward the global aerospace company”. He dismissed any merger between European groups as a “fortress Europe”.

Dasa has responded by forming the European Aeronautic, Space and Defence Company (EADS) without BAe. EADS is to be created through a merger involving the German company Aerospace AG, Aerospatiale Matra of France and Casa of Spain. The three partners have already signed the appropriate agreements.

Tensions over existing European-wide joint ventures in both civilian and military aerospace are increasing. EADS controls 43 percent of the Eurofighter and 80 percent of the Airbus consortiums. BAe Systems has a 37.5 percent stake in the former. The Italian firm Alenia Aerospazio, a subsidiary of Finmeccanica, has the remaining 19.5 percent stake—making it the target of the predatory attentions of BAe Systems and EADS. Both companies are pursuing merger options with Alenia.

BAe already has a 50-50 joint venture with Finmeccanica in defence electronics, while BAe and EADS have joined with the Italian company in missile production. Italian officials said EADS was offering to form a 50-50 joint venture in the production of combat aircraft and was looking to a tie-up in the development of civilian aircraft, avionics and sub-aqua systems. A merger with EADS would secure a built-in majority in the Eurofighter project, which is building a new Typhoon fighter for the UK, Germany, Italy and Spain.



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