



AIAD meeting

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Crisis scenario

As the recent G8 summit confirmed, it seems as though the economic crisis has reached its lowest point.

The measures taken by monetary authorities and governments have prevented the collapse of the financial system.

Although a significant reduction in GDP is forecast in all industrialised countries (more so perhaps in Europe and Japan than in the United States), accompanied by a sharp slowdown in the rest of the world, the general opinion is that the crisis peaked in the second quarter of 2009.

Now we can look forward to a slow yet steady recovery, with positive – even if not uniform – effects from 2010.

Impact on the A&D sector

The global financial and economic crisis has also had an impact on the aerospace and defence industry, albeit to a lesser extent than other sectors.

Civil aviation and the rotary sector have been affected by the fall in demand for passenger transport and, more importantly, cargo transport, as well as the cancellation of orders for corporate and VIP helicopters.

The recession has had less of an immediate impact on the defence industry. The defence budgets of leading countries should not be significantly reduced,

although there will inevitably be a shift in priorities, with possible cancellations and/or rescheduling of projects.

Importance of the A&D sector for the economy and for Italy

Particularly in times of crisis, the A&D sector drives the economy because:

- it fosters the development of new technologies for both products and processes, generates significant industrial spin-off for the civil sector with a technological impact on related areas (communications, transport) and unrelated areas (medicine, automotive), more so than for other low-tech industries, supports highly specialised jobs with more downstream activities than other sectors

In Italy in particular, the defence sector:

- drives the country's economy more than its size might suggest (around 1% of GDP),
- invests heavily in new technology for both products and processes (around 12% of the country's total spend on R&D),
- generates useful resources for major acquisitions overseas,
- makes a positive contribution to the balance of trade, compared with the country's deficit as a whole.

In fact, the A&D industry pays more than €4 billion a year into state coffers, through direct and indirect taxes, VAT and labour costs. This is comparable to the procurement and R&D budgets of the Ministries of Defence and Economic Development combined in 2008 (€4.3 billion in 2009).

This is due to the fact that we are competitive and have an excellent product portfolio.

Export and R&D

In the past, thanks to higher levels of funding – we are talking about the budgets of the 1980s, updated based on national inflation, which would give us around €8 billion today – Italy was able to develop products that were then successfully exported: the RAT radar systems, the EH101, the NH90, the Marte and Aspide missiles, the Centauro, the Lynx, the VM90, the EFA, SAM-T and corvettes in the naval sector, to name but a few.

As we can see from the table, the part of the defence budget allocated to R&D in Italy is a 10th of that of France and the UK, and half that of Germany.

We should not assume that the R&D supported by Italian Law No. 808 – essential for the development of cutting-edge technology – can make up for this funding shortage, because as we all know, this is a soft loan that has to be repaid at some point, and so has an impact on the company's finances.

If we don't invest in R&D, Italy will be even worse-off, because our know-how and expertise will be lost.

Let's take an example from the aeronautical sector.

In a recent interview with *Defense News*, the Chief Procurement Officer for the French Armament Procurement Agency, Laurent Collet-Billon, said that France had a single strategic non-American UAV in Afghanistan.

Since it has the necessary resources, the French government approached EADS with a proposal to develop a more advanced model (according to *Defense News* the cost will be in the region of €1.5 million).

The project will involve the French, Spanish and Germans, who in turn will try to involve the Turks. According to *Aviation Week*, UK involvement is also possible.

The advanced UAV is one of the most technologically important projects for the future, and Italy risks being left out due to the lack of funding for R&D.

Today, the countries to which we export are increasingly looking for technology transfer, and demanding that some of the high-value production be done locally. This means that the technology will belong to those countries, and not Italy.

Picture the scene in the aeronautical sector in 15 years' time.

On the one hand, we need to effectively promote exports of our best products, such as the EFA, to guarantee adequate returns on the investments made by our country.

On the other, we need to generate significant industrial returns, not only quantitatively but qualitatively, from programmes such as the JSF.

Only by taking part in the programme will we be able to develop cutting-edge technology, giving us sufficient expertise to have a role in the future development of the UCAV – provided that we have the necessary resources for R&D in the meantime, both in the context of the French programme and for other projects.

The case presented for the aeronautical sector could also apply to shipbuilding, helicopters and defence systems.

Being excluded from these programmes would jeopardise our capacity for integrated systems development.

There is a need for greater collaboration and consensus so that the financial resources of the Ministries of Defence and Economic Development serve not only the needs of Italian defence, but also improve or at least maintain the export capacity of national industry.

Funding certainty

Added to this is the fact that the annual budget does not allow sufficient visibility for programmes that, in the case of defence, are for the most part long-term.

The budget amendment by the Ministry for the Economy involves a three-year fixed budget commitment: it would be equally useful to review the defence budget based on a long-term approach.

This funding certainty would give the industry more clarity when planning programmes and would be in line with the pledges made by the government for participation in multilateral armaments programmes, which would require a long-term financial commitment (10 to 15 years or more).

Big business and SMEs

What I have said so far has major repercussions for the A&D industry in general, although there are differences between big business and SMEs.

Big business can operate on the international market, which looks set to become increasingly important, if national investments over the next few years do not increase sufficiently.

SMEs face bigger problems because very few of them are independent suppliers with foreign clients.

Finmeccanica is conscious of how SMEs are penalised in Italy, and for this reason is willing to see more efficient collaboration between small firms and big business.

To provide assistance to SMEs, the government must develop policies that facilitate access to credit and guarantee the continuity of funding.

SMEs should be prepared to share the risks in return for potentially acquiring new expertise. Nevertheless, the risks should be commensurate with the strengths of those facing them.

Big business must make more of an effort to explain the mechanisms and features of the market – particularly the international market – to its suppliers so that they know how and where to invest, are more aware of the risks and are in a position to tackle them.