



High technology for Italian development, jobs and security

Integration of the European defence market and transatlantic co-operation

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The growth problems of the European Union reflect an industrial and economic model that is no longer suited to today's world: a world of fast technological progress and global competition.

The United States has placed its bets on technology and efficiency, while China and India have made education, as well as assertiveness and low-cost labour, their winning cards.

So what about Europe? According to the Lisbon agenda, by 2010 Europe should become "the most competitive and dynamic knowledge-driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". But in truth, since the Lisbon agenda was drafted, nothing has happened at all.

To participate in competition, and potentially emerge a winner, a

country has to invest in an economy based on innovation, technology and the human factor.

And what applies to Europe applies even more so to Italy.

It has to be a commitment made by the country, a decision by its political class.

Resources are not unlimited, so priorities have to be set and investments made in these areas. If Italy wants to maintain its status as a country with advanced technologies and the ability to develop new ones, investment needs to go there and other sectors will have to be set aside. If this is not a priority, then we should give up on high technology. What's crucial is to make these choices, rather than half-heartedly attempting it all.

Innovation and technology are the factors that drive today's global economy. A recent study by Finmeccanica, ST Microelectronics and Studio Ambrosetti shows how a 1% increase in R&D expenditure leads, in the course of two years, to an approximately 0.5% increase in labour productivity (output per worker).

If we look at the extent to which GDP from a certain sector can influence the rest of the manufacturing world, we discover that industries like textiles, clothing and food, which are in themselves quite large (11.5% of global GDP), make no contribution to other sectors. Conversely, microelectronics, space, defence and security, which are

directly responsible for just 1.7% of global GDP, have a positive influence on more than 50% of global GDP.

Looking back to the post-war boom, growth and development were buzzwords everyone agreed on, common ground between right and left. There was a unanimous striving toward growth and change for the better.

In this respect, things have changed today—but for the worse this time.

On the European Commission's latest scorecard for innovation, Italy comes in 17th out of 25 (Il Sole 24 Ore, 13 January 2006).

According to the Commission's report, our greatest weaknesses are a lack of structural conditions conducive to innovation and poor entrepreneurial drive. Underlying these flaws are at least two important factors.

First is the poor quality and quantity of scientific education: the number of university science graduates is only 65% of the EU average. There is no denying that in modern-day Italy, young people would rather earn degrees that offer better job prospects (e.g. law or economics) than commit themselves to the long and difficult years of study required for a career in research.

Second, we must not forget that technological innovation is a process that costs money: it lives on generous investments and large-scale

projects. In other words, innovation does come about through human effort and education, but it cannot exist without a manufacturing sector that knows how to use these resources and get results. And this takes large industry.

Major projects require extensive investments that only large industry can manage and put to work.

The aerospace, defence and security industry lends itself superbly to the development and implementation of large-scale international co-operation programmes.

In the space sector, for example, the Galileo satellite navigation project is an interesting case study from both a positive and a negative perspective.

On the plus side, it is a far-reaching project with the ability to launch important production processes and technological progress and to give impetus to the whole European space industry.

On the other hand, it has been managed inefficiently up to now, presenting serious delays and highlighting the EU's limitations in managing major programmes.

When assigning the contract, for example, it was acknowledged that the best bid came from the consortium to which Finmeccanica belonged (together with Alcatel from France and Spain's AENA and

Hispasat), but the matter could only be settled with a global agreement that included the French/German group EADS, due to these two countries' influence within the Commission.

Major defence and security programmes are possible, but they have to reward the best products and technologies and not try to preserve the political balance.

In Europe, "defence" is still viewed as "national defence" and not a true integrated system, based on large-scale co-operation. Individual countries still tend to favour their national industries, rather than encourage true competition.

Fragmentation leads to waste and overlaps, and limits the growth prospects of large groups, since the limited size of national budgets prevents them from reaching the critical mass they need to compete effectively on an international scale.

The European Defence Agency can play a fundamental role in building a single defence and security market. However, in the absence of a strong political and military will to band together for important projects, such a market would have little vitality.

The unification of the market and the development of common programmes is fundamental for customers and for the industry. European defence budgets, and Italy's in particular, are much lower

than America's especially when it comes to R&D, and leave no room for overly ambitious plans.

The need to boost revenues, in order to reinvest in R&D and maintain technological excellence without cutting too far into profits, is driving companies to take their business to where resources are most in abundance—primarily to the US market.

How are European corporations dealing with this need?

Some of them, like BAE Systems, have shifted their centre of gravity to the North American market and have essentially become US entities.

Finmeccanica has made a different choice: to carve out new space in the US market.

Finmeccanica has a long tradition of transatlantic co-operation, as demonstrated, for example, by the MEADS anti-missile defence programme or its membership in the TIPS consortium for NATO's Alliance Ground Surveillance system. Recently, however, we have expanded from international partnerships to national US programmes, in part by increasing our physical presence (with offices in Pennsylvania and North Carolina) according to a precise strategy.

Finmeccanica first set its sights on the UK market, with the takeover of AgustaWestland and the agreement with BAE Systems, which led to the creation of SELEX. This made us the second largest defence and

security group in the United Kingdom, a position we leveraged to approach the United States market.

The selection of the US101 as the United States presidential helicopter and the proposal of the C27J for the US Army's tactical transport aircraft programme are the first two steps of Finmeccanica's strategy to grow increasingly international.

This strategy, built mainly on industrial needs, could form a solid basis for a more autonomous European Union, while helping to fortify transatlantic collaboration.

A European industry with the capacity for stable operations in the US can only grow in terms of competitiveness and expertise, to the benefit of national and EU programmes.

And the fact that European industry is selected to provide important military systems to the US government can only be good for transatlantic relations.