

complementing the merger activity.

The Aerospatiale-Lagardère deal has also been accomplished with minimum fuss, allowing France's industry leader to be moved towards privatisation while retaining an element of state ownership. State involvement in French manufacturers may still be too great for some to swallow, but Paris has nevertheless pulled off a difficult balancing act, leaving Aerospatiale in a far stronger negotiating position should the EADC process be revived.

There is also growing feeling that France is now prepared to talk seriously about consolidation, having been shaken out of its complacency by events which finally forced home the point that the rest of Europe would not wait for it to catch up.

"In both Europe and the USA, progress has been stalled and one of the chief effects is to give the French a chance to re-evaluate how they are playing the game and what their role should be," says Kevin Lynch, a partner with IPG Consulting. "While the Germans were clearly annoyed at the rebuff from BAe, the French were surprised that anything could happen without them. That has changed the French point of view and their willingness to enter into serious negotiations. There was nothing really on offer from France, but now it seems there is."

The fly in the French ointment remains Thomson-CSF. Having failed to pull off the Marconi merger, the company - Europe's fourth-largest aerospace manufacturer last year - must plot a careful course. Notwithstanding Thomson's US ATC affiliate, Wilcox, Lynch points out that Thomson is "just not plugged in to the USA". This is considered a major concern given the market represented by the research and development budget there: some \$60 billion compared to Europe's \$15 billion.

"The issue is where Thomson's technology goes," he says. "It does not fit into America in any shape or form and it's difficult to see it playing the American game. So how Thomson plays this is the difficult thing."

The negative impact of the stalling of European consolidation has also been diminished by a period of relative inactivity across the Atlantic.

Both Boeing and Lockheed Martin are pre-occupied with internal concerns as they attempt to turn around their financial performance, having completed their own mega-mergers a few years ago - Boeing with McDonnell Douglas and Lockheed with Martin Marietta. One analyst points out that Lockheed Martin's share price suffered even before its failed bid for Northrop Grumman (thrown out by the US Government), partly as a result of market disappointment with the integration of Martin

Marietta, and he suggests that its ability to do "serious deals" is still in question because of the US Government's refusal to allow any further integration among the major US players.

Boeing and Lockheed Martin must also tread carefully because of uncertainty over the Joint Strike Fighter contract, the award of which will in theory bring a huge potential windfall for one and an uncertain future for the other. The analyst says: "The two big US players are not in the game at the moment, while Raytheon isn't interested and Northrop is for sale. Which leaves Europe to its own devices."

Neither is the SCE picture necessarily bleak. While Airbus should already be a single company according to the original timetable, Lynch suggests the important question is whether or not Europe is agreed on the SCE's ability to deliver value - and he believes that that unanimity already exists.

"It's not just a question of cost synergies but strategic synergies," he says. "Cost is only part of the rationale. It's worth money, but all mergers are really about strategic position and mar-

ket position. I don't know any chief executives who look at a deal and think only that they can make 'x' amount."

Lynch believes Airbus is potentially healthy enough to act as a vehicle for wider European integration. Airbus' \$525 million profit for the business as a whole in 1998, as disclosed by managing director Noel Forgeard, made it more profitable than Boeing, and from a lower turnover, not withstanding the loss taken by BAe, Aerospatiale, Dasa and Spain's CASA via the consortium's central legal construct, which sets aircraft prices.

Airbus can really only be transformed in two ways: through the planned spin-off of its individual elements into an SCE, or through a BAe-Dasa, BAe-Aerospatiale or Aerospatiale-Dasa merger, which Lynch contends would "focus the mind of the other player, causing the whole thing to happen" via a round-about route.

One of these roads, he adds, is likely to be followed over the next couple of years, with the first - and more conventional path - not necessarily the more difficult to follow.

EUROPE'S TOP AEROSPACE CONCERNS (1998)

Rank	Group	Aerospace sales (\$m)		Change %	Op prof (aero)		Change %
		1998	1997		1998	1997	
UK							
1	BAe	13,789	13,685	0.8	966	836	15.6
5	Marconi	6,400*	5,900	8.5	-	669	-
6	Rolls-Royce	5,566	4,940	12.7	592	405	46.2
12	GKN	1,452	1,456	-0.3	159	167	-4.8
14	LucasVarity	1,147	1,038	10.5	152	120	26.7
15	Hunting	1,143	1,350	-15.3	45	34	32.4
22	TI Group	863	761	13.4	110	99	11.1
24	Smiths Inds	741	662	11.9	77	59	30.5
France							
3	Aerospatiale	8,834	9,060	-2.5	66	173	-61.8
4	Thomson-CSF	6,517**	6,195	5.2	374	351	6.6
7	Alcatel	-	5,257	-	-	1,470	-
8	Snecma	4,522	3,720	21.6	-	195	-
10	Dassault Av	3,400	3,387	0.4	-	555	-
11	Lagardère-Matra	3,375	3,332	1.3	-	367	-
14	Arianespace	1,240	1,135	9.3	-	41	-
21	Labinal	940	787	19.4	-	174	-
Germany							
2	Dasa	9,257	8,250	12.2	658	300	119.3
Italy							
9	Finmeccanica	3,650	3,632	0.5	334	218	53.2
13	FiatAvio	1,437	1,333	7.8	62	59	5.1
Sweden							
16	Celsius***	1,120	958	16.9	44	16	175
18	Volvo	1,010	880	14.8	62	56	10.7
19	SAAB	971	1,021	-4.9	103	-626	-
Spain							
20	SEPI	1,100	917	20.0	-	-	-
Switzerland							
23	Oerlikon-Buhrle	647	682	5.1	-	46	-

Notes: *Estimate. Result to be published in June. **Includes some non-aerospace interests. ***Includes all defence division businesses. LucasVarity has been taken over by TRW, while British Aerospace (BAe) announced its plans to acquire Marconi Electronic Systems in January. The consolidated figures for the Aerospatiale Matra and Thomson-CSF, Alcatel, Dassault Industries merger, are not available.