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The text of *Flight International* and *Airline Business* can be found on the following databases: Lexis-Nexis, Knight-Ridder DataStar, FT Profile, ESA, IAC/Predicasts, and Reuters. Details from: tel: +44 (181) 302 5101. Published in association with *Airline Business* by Reed Business Information, Quadrant House, The Quadrant, Sutton, Surrey, SM2 5AS, UK

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PRIVATISE NOW

IT LOOKS like strong arm tactics are about to be employed to try and get France to agree to privatise Aerospatiale as a precondition for its integration with its UK and German partners, British Aerospace and Daimler-Benz Aerospace, to form a European super company.

As one German industry insider said last week, crushing the ever-hardening Franco-Français state shell over privatisation is the key for a real "big bang" style merger of the three companies in a first consolidation phase.

BAe and Dasa are raising the stakes on the issue in the run-up to the 31 March deadline to submit a consolidation blueprint to the French, UK and German governments. Last week they made public their objective of convincing the UK and German governments to apply pressure on the French to privatise Aerospatiale. They warned that if necessary they would "do something" without France.

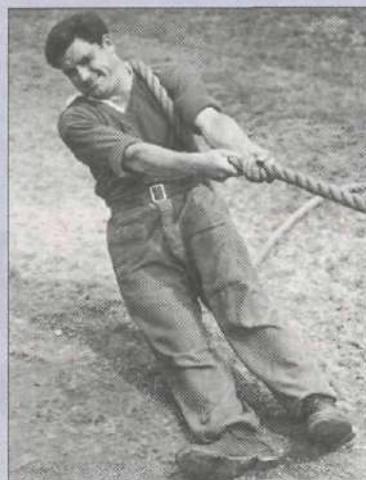
Putting aside debate over the scope, parameters and structure of a future European grouping encompassing helicopters, missiles, satellites, civil and military aircraft, BAe and Dasa's chief concern is being integrated with a company in which the French Government becomes a major shareholder in the combined group. They are worried that the French state would put the brakes on any new structural changes or partners if they impacted on internal French economic or industrial concerns. In fact, they are convinced that without Aerospatiale's privatisation they would always be confronted by the République Française every time any decisions needed to be taken. Offers by the French state to "act" as a private shareholder are deemed downright impossible simply because governments have different business objectives to private shareholders. The Anglo-German industrial alliance may be prepared to accept the French state as a shareholder in the first instance just to get consolidation moving but will insist on privatisation written in to a deal within an agreed and well-defined period.

Resolving the shareholding question for any future merged BAe, Dasa and Aerospatiale company is complicated, not least because of the

three different capital structures of each company. Adding Alenia, CASA and others later on will only add to the complexity. What the most appropriate structure should be will be presented by each company in their reports at the end of

the month. By all accounts, it appears that one way or another BAe and Dasa are unanimous on the economic objectives of the future European grouping with private ownership central to their case. Their aim will be to show up France's isolation on this issue unless Aerospatiale's management joins its Anglo-German partners in the privatisation lobby in the meantime.

Care must be taken, however, over strong-arming France at a time when its aerospace industry now finally seems to be in shape for the merger meltdown.



"Political tugs of war aren't the answer to consolidation."

The French aeronautics trade association GIFAS last week recorded its best results for the sector since 1981 and Aerospatiale reported a 75% hike in consolidated net income and its highest ever backlog. Successive years of restructuring are finally beginning to reap rewards. Also, pushing France into a corner when it has been the source of inspiration for so many successful European companies could be destabilising for all parties concerned.

Privately, French industry leaders accept the need to get rid of the shackles of state ownership to form truly international companies with international shareholding structures, but their hands are tied.

If the issue of the long term competitiveness of Europe's defence and aerospace industry is down to ownership, then its politicians should heed the advice and needs of their industrial leaders. They should not let the issue of privatisation become a political football where the benefits of diplomatic pushing are far from certain.

The politics of state ownership should not be at issue here, but rather the practicalities of creating strong competitive businesses that deliver long term value to their customers, shareholders and workforces. It's time for politicians to open the way for industry to deliver just that. Privatised and be done with it.