Ancillary actor relations

The case of EU’s leading defence primes

Pierre Erik Gunnarsson
Abstract


This longitudinal research project in industrial marketing seeks to understand ancillary actors, specifically what they are, their characteristics, relations and impact on focal relations based on the empirical case of the cross-border relations of EU’s largest defence equipment producing firms (called “primes”). Ancillary actors are approached on four arenas: i) the political setting for EU defence equipment production, ii) the “primes” business relations, e.g. their market, iii) an issue community for setting up a single EU defence company and iv) a collaborative project, the Eurofighter.

Ten analytical propositions with potentially common attributes for ancillary actors are that ancillary actors 1) have a role flexibility, where they may simultaneously act within a business and political setting assuming supportive, coercive, adaptive and influential roles, 2) emerge from focal actors’ legitimacy and commitments, 3) help to support, organise or mitigate collaboration between business and political actors, 4) create, facilitate and support cross-border political and business ties on political and protected markets that help to overcome market impediments, 5) may project actor strategies into other markets and settings, 6) may balance political actors’ control, transfer of knowledge and work share distribution, 7) are often more lasting than business actors and political actors, bridging time, 8) may seek to expand and move into the focal relation, 9) need to be transparent, which risks hampering efficiency and 10) risk being inefficient and ineffective.

Empirical observations are that after more than half a century of political integration, EU has established legitimate ancillary actors for defence equipment. New protectionism and disintegration however risk being underestimated in this setting. Although the EU defence equipment market is frequently characterised as fragmented, EU defence business actors are intertwined by stable cross-border relations since decades, where primes may project influence of states into foreign markets. Ancillary actors for EU defence equipment have been criticised for being costly and ineffective, yet they promote common values, standardisation and knowledge sharing. Within ancillary actors, there are however risks, such as bleeding through, knowledge tapping and lack of innovativeness. Ancillary actors may foster integration and permanent bodies, in business as well as politics.

Keywords: Ancillary, actor relation, aerospace industry, Aérospatiale, Airbus, BAE, business relations, Dassault, defence acquisition, defence company, defence industry, defence procurement, EADC, EADS, EDA, EDF, EU defence, EU institutions, EU integration, Europeanization, Finmeccanica, IEPG, industrial marketing, Leonardo, SAAB, solutions marketing, strategic industries, project marketing, Thales, Thomson-CSF, OCCAR

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Why write a three-decade long longitudinal study on the actor setting of the EU’s defence industry? Perhaps “because it’s there”, to quote the words of George Mallory, when seeking funding for the unjustifiable ambition to climb Mount Everest. So, besides “it’s there”, what has then motivated this three-decade long unfinanced struggle?

First, the apple does not fall far from the tree. I realise the chosen theme is an almost perfect fusion of the fatherly influences from a former Head of a Missiles engineering department at the Swedish Defence Materiel Agency, Sven Gunnarsson (MSc, Royal Institute of Technology) and motherly influences from an investigator at the State Office, Vivianne Gunnarsson (MBA, Stockholm Business School).

Secondly, this research project represents the logical evolution from reports on institutions for defence business collaboration in Europe, which I wrote at the Swedish Defence Research establishment (FOA) and the Institution for Political Science, Stockholm University (Gunnarsson, 1990, 1988, 1987). Though invited to continue research studies at the Institution for Political Science, Stockholm University, I instead pursued research at the Institution for Business Studies, Uppsala University.

Thirdly, a trigger for the research interest in this field was a seminar with the CEO of the industrial conglomerate Investor, Peter Wallenberg, who stated that there were no ties between the EU and NATO, between economics and security policy. At the time, industrial marketing studies relating to business and political interaction were not as developed as they are now.

Fourthly, in my professional capacities, I was involved in this field, first within the Swedish National Audit Office, as I came to review large defence material acquisition projects, such as the Swedish Gripen combat fighter project. Then, during the ‘unparalleled merger wave’, I was once again working with defence companies and authorities and took part in the École Militaire’s Session Européenne des Responsables D’armement (SERA), which inspired further work.

Work and research thus, took me to, the Swedish Defence University (Försvarshögskolan), Stockholm University, Copenhagen, Oslo and Stockholm Business schools, and visits to Belgium, Denmark, France, Netherlands,

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1 This research project has been carried out with complete independence from any stakeholder and without any funding whatsoever. Consequently, the author can in no way be compromised.
Germany, Norway, United Kingdom and Sweden, where I had the opportunity to observe military installations, companies, procurement organisations, projects, ministries, exhibitions, factories, military units and schools, political bodies and think tanks, such as the Centre for European Reform, EU institutions, WEAG, EDIG, NATO HQs and defence companies.

Already in 2006, an early version of this thesis was presented for Associate Professor Gunnar Sjöstedt, Research Director of the Institute of Foreign Policy (utrikespolitiska institutet) who stated then that the draft was adequate as a PhD thesis, albeit in International Relations. Thus, the study was not aligned to academic practices of the Uppsala Institution of Business Studies’ approaches. The material was entirely reshaped as Professors Thilenius and Hadjikhani took over the project under their wings in 2009. A special thanks to both of you for your enormous patience and perseverance, helping me to finally transform what was initially a linear, rational, historical, meso-account of the EU 15’s defence industry, docking this to industrial marketing theory, where your own research provided valuable inputs. Gradually, the thesis evolved into its present shape through many bi-annual seminars, where I much too often subsidised the municipality of Uppsala via parking fees. A special thanks go to opponents Professor Anna Bengtson and Assistant Professor Mikael Gidhagen, for providing invaluable inputs to the “Final seminar” of November 2014, only eight years ago. Other Uppsala professors that have provided guidance and reviewed the research are Professors Jan Johanson, Mats Forsgren, Ulf Andersson, and Fredrik Tell and then, in the 2021 opposition, Associate Professor Peter Ekman, Mälardalens Högskola. Thank you all for your valuable inputs and comments. My gratitude also goes to Meena Strömqvist for her excellent proof reading.

Altogether, the very long trajectory of this project has been beneficial for its overall narrative qualities, as the field under study transformed and developed, and it was possible to observe many policy changes of major actors. The long-term horizon, together with the thorough quality assurance process, strengthened the final product considerably. The Russian invasion of Ukraine in February 2022 is likely to inject more importance to the field studied here, namely ancillary actors for EU defence production.

by conflicts of interest. The information and views set out are solely those of the author and do not reflect the official opinion of any stakeholder. Any final omissions and errors rest solely with the author.
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Narrative databases in DIVA:

I  Evolution of political bodies in the EU defence equipment setting

II European defence equipment projects

III Four European defence primes
### Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ASD</td>
<td>Aerospace and Defence Industries Association of Europe</td>
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<tr>
<td>AFV</td>
<td>Armoured Fighting Vehicle</td>
</tr>
<tr>
<td>BAE</td>
<td>British Aerospace (Systems)</td>
</tr>
<tr>
<td>BDI</td>
<td>Bundesverband für Deutsche Industrie</td>
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<tr>
<td>BDLI</td>
<td>Bundesverband der Deutschen Luft- und Raumfahrtindustrie</td>
</tr>
<tr>
<td>BDSV</td>
<td>Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie</td>
</tr>
<tr>
<td>CASA</td>
<td>Construcciónes Aeronautica SA (Spain)</td>
</tr>
<tr>
<td>CARD</td>
<td>Coordinated Annual Review of Defence</td>
</tr>
<tr>
<td>C3I</td>
<td>Command, Control, Communication &amp; Information</td>
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<tr>
<td>C4IS</td>
<td>Command, Control, Communication, Computation, Intelligence, Surveillance and Reconnaissance</td>
</tr>
<tr>
<td>CEPS</td>
<td>Centre for European Policy Studies</td>
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<tr>
<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
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<td>CNAD</td>
<td>Conference of National Armaments Directors</td>
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<tr>
<td>DASA</td>
<td>Deutsche Aerospace Aktiengesellschaft (or Daimler Chrysler Aerospace)</td>
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<tr>
<td>DGA</td>
<td>Délégation Générale pour l’armament (France)</td>
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<tr>
<td>DoD</td>
<td>Department of Defense (US)</td>
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<tr>
<td>EDA</td>
<td>European Defence Agency</td>
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<tr>
<td>EADC</td>
<td>European Aerospace and Defence Company</td>
</tr>
<tr>
<td>EADS</td>
<td>European Aeronautic Defence and Space Company</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission (Not to be confused with the European Communities)</td>
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<td>ECAP</td>
<td>European Capability Action Plan</td>
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<tr>
<td>EDC</td>
<td>European Defence Community</td>
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<td>EDEM</td>
<td>European Defence Equipment Market</td>
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<td>Abbreviation</td>
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<tr>
<td>EDF</td>
<td>European Defence Fund (Not to be confused with the European Development Fund)</td>
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<td>EDIDP</td>
<td>European Defence Industrial Development Programme</td>
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<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<td>EFA</td>
<td>European Fighter Aircraft</td>
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<td>EFSP</td>
<td>European Foreign and Security Policy</td>
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<td>EP</td>
<td>European Parliament</td>
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<td>EPC</td>
<td>European Political Cooperation</td>
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<td>ETAP</td>
<td>European Technology Acquisition Programme</td>
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<td>EUCLID</td>
<td>European Cooperation for the Long-term in Defence</td>
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<td>EUGS</td>
<td>EU Global Strategy for Foreign and Security Policy</td>
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<tr>
<td>GARTEUR</td>
<td>Group for Aeronautical Research and Technology in EURope</td>
</tr>
<tr>
<td>IEPG</td>
<td>Independent European Programme Group</td>
</tr>
<tr>
<td>LoI</td>
<td>Letter of Intent</td>
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<tr>
<td>MBB</td>
<td>Messerschmitt-Bölkov. Blohm</td>
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<tr>
<td>MoD</td>
<td>Ministry of Defence (Europe)</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
</tr>
<tr>
<td>OCCAR</td>
<td>Organisation Conjointe de Coopération d’ARmement</td>
</tr>
<tr>
<td>PAAMS</td>
<td>Principal Anti Air Missile System</td>
</tr>
<tr>
<td>PADR</td>
<td>Preparatory Action on Defence Research</td>
</tr>
<tr>
<td>PESCO</td>
<td>Permanent Structured Cooperation</td>
</tr>
<tr>
<td>POLARM</td>
<td>Politique Européenne d’armement</td>
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<tr>
<td>SERA</td>
<td>Session Européenne des Responsables d’armament</td>
</tr>
<tr>
<td>SEPI</td>
<td>Sociedad Estatal de Participaciones Industriales</td>
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<tr>
<td>TKMS</td>
<td>ThyssenKrupp Marine Systems</td>
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<tr>
<td>UAV</td>
<td>Unmanned Aerial Vehicle</td>
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<tr>
<td>UCAV</td>
<td>Unmanned Combat Aerial Vehicle</td>
</tr>
<tr>
<td>WEAG</td>
<td>Western European Armaments Group</td>
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<tr>
<td>WEU</td>
<td>Western European Union</td>
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1. Introduction

This thesis has a two-fold aim: firstly, to contribute to industrial marketing studies by enhancing the understanding of ancillary actors. Secondly, to empirically examine defence equipment production within the EU. It is already recognised that the defence business setting is specific and political, with ambiguous actor relations (see, for instance, Lundmark 2011). Here, project marketing and solutions sales are particularly complex as actors must operate in both the business and political sphere. Defence manufacturing differs from related and partly overlapping sectors, such as civilian aerospace, through the political control exercised due to national security. Although not directly involved in the primary exchange between the supplier and customer, ancillary actors are somehow involved in the organisation of business activities in the field of defence equipment within the European Union (EU). This thesis seeks to find out in what ways.

The aim of this thesis is thus, from a theoretical strand, to identify what constitutes ancillary actors, along with their activities, roles, characteristics and impact on focal relations between defence businesses and clients based on the empirical case of the EU defence business setting.

1.1 Defence business relations within the EU

The importance of defence equipment cooperation has been underlined by a variety of EU actors for decades. Such cooperation is usually justified by security challenges, ever spiralling costs of defence systems, technological developments and budgetary constraints of Member States, as well as high levels of duplication and fragmentation in the EU defence sector.2

Year 2000, in Rome, defence business actors met to discuss “European defence markets, prospects and realities”. The ensuing discussion can serve as an example of actor roles and perspectives in the EU defence business setting. Italy’s Head of Defence Procurement, Alberto Zignani, here concluded that ‘We have only a limited time to put together a common armaments market for all of Europe’s armed forces. If we do not manage this within seven years, we will just have to fold our tent and start buying American’. In particular,

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2 EC, 2019-05-08.
Zignani noted, only a handful of EU nations actually produce domestic defence equipment, whereas most countries buy defence products from where it is cheapest. Alberto Lina, CEO of Italy’s largest defence company Finmeccanica (now called Leonardo), observed that consolidation of demand is key also for common supply, as this would reduce costs, resulting in a more efficient defence market. However, even with such consolidation, the economies of scale in Europe would still fall short of the US, as ‘there is no way Europe can compete with a 3,000 aircraft product run’. Along this strand, Philippe Camus, co-CEO of EADS (now called Airbus) observed ‘companies will benefit from restructuring only if Europe develops a unified and coherent procurement policy’. Camus also claimed companies want to deal with one customer speaking for governments across Europe. The Chief of Staff of the French Air Force, Jean Rannou, remarked that defence research also needs to consolidate from a situation with 175 defence research and test centres, where ‘nobody coordinates their work, they compete with one another and often duplicate what others are doing’. The French Secretary of State for Defence Jean Pierre Masseret concluded that ‘industry concentration, a European defence Force and a single armaments market are all intertwined’. However, the Head of the mighty French Defence Procurement Agency, Délégation Générale pour l’armament (DGA), Jean Yves Helmer, warned that European governments need to ensure that such consolidation does not result in a monopoly. This caused Jean Paul Bechat, CEO of the engine manufacturer SNECMA, to observe that ‘governments have been badgering us for years to consolidate. Now that we are beginning to do so, they’re already warning us about monopolies’.³

These brief statements reflect both central problems and the intertwined relations of EU defence business actors. The defence business is inherently political, also representing great values, knowledge intensity and complex systems delivery. The intertwined relations between military production and politics, amongst suppliers and customers have since long caught the attention of scholars, philosophers and ideologists from many strands, including Adam Smith and Karl Marx. The infamous term “military-industrial complex”, now denoted to left-wing movements, was however used by the American President and General Dwight Eisenhower in his retirement speech in June 1961, when he also warned against the influence of the arms industry in political, economic and even spiritual terms. These close relations were reiterated by Henry Kissinger (1973), stating that ‘political, military and economic issues are linked by reality’. The deep connections between the defence industry and politics, as a trigger of war, are also highlighted by Eric Vouillards “Ordre du jour”,⁴ which gives accounts of how industrial leaders met to pave the way for the Second World War. The term military industrial complex is considered

³ Lewis, 2000-02-09.
⁴ Vuillard, 2017; TV5, 2017-11-10.
useful for capturing the political context of the defence market and how defence production is deeply embedded in a cohesive coalition of interests that fosters a sort of group-think (Lundmark, 2011)\(^5\).

Ties between politics and business are apparent also in other sectors than defence. Companies now frequently take policy or ethical stances, seemingly even in conflict with profit objectives. For instance, in the 2020 US presidential campaign, media companies widened corporate political activities to censor the political discourse. Such corporate political positioning and ethical activity have come to the foreground in a manner that deserves more research attention.

Defence companies, in particular those that are very large, represent an opportunity to study business activity in a “political setting”. Such large companies and their relations are important to study because they draw on huge tax resources, canalised via procurement or research subsidies. These large defence companies also entail social connections across industrial, administrative and political elites, which the European Commission has observed ‘can lead to constraints on competition and to relationships between customer and supplier which are more close-knit than usual’.\(^6\) Large defence companies affect not only their own business segments but also smaller suppliers in other domains, as they may share the same supply chains. Component-suppliers and companies producing information and communication technologies are in many cases civilian companies. When organising their supply chains, defence companies may therefore affect manufacturing in general. The largest EU defence companies studied in this thesis are all listed stock companies with a long tradition of cooperation and alliances, but also of state ownership, where the states continue to take a great interest in their activities, retaining various means of control.

EU is predominantly hailed for its importance in the domain of the internal market. It is perhaps somewhat forgotten that a primary driver behind the creation of the Coal and Steel Union in the 1950s was security and defence, where coal and steel at the time were two of the most important commodities for defence production. Despite these roots of the EU, the idea of “Brussels” venturing into defence was for half a century taboo, unthinkable in many camps. Governments sought to conserve their national power monopoly or preferred to seek a wider protection under the NATO umbrella. Collaborative defence production in NATO, on the other hand, suffered the imbalance of American dominance, where USAs greater defence expenditures and technological knowledge control made participation for Europeans difficult. Therefore, actual progress in European defence collaboration groped in the dark for decades, when “suddenly” in 2018, the EU announced a EUR 17 billion budget

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5 Lundmark (2011) put the military industrial complex in a national context, linking it to national interest, but it has also been argued that the complex operates in an international setting.

6 EC, 1997a.
for common EU defence procurement. The year after, in 2019, the incoming European Commission announced it would for the first time set up a separate Directorate General for defence and space industries. Effectively, what now seemed like a sudden change was the result of many years of incremental policy positioning, bickering and arduous paper shuffling with many small incremental changes, where the analogy of slowly boiling a frog,\(^7\) springs to mind, and where the \textit{fait accompli} did not provoke as much public attention as one could have expected.

From an empirical strand, this thesis seeks to understand how and why this change process in the defence business setting came about, by looking at the complex actor relations brewing for almost half a century in the very particular and sensitive sector of the defence equipment business. During the Cold War, actors changed positions and rationales, in- and outsourced defence production from the political to the business sphere. A gradual change then took place, from treating the sector as a public good, to almost any product on a private consumer market. Later, this perspective changed again with economic protectionism. As the pendulum swung back and forth, the pace varied between countries, sometimes resulting in conflicting perspectives within the same country. For instance, the French state, a key actor in the EU defence business landscape, around 2005, simultaneously sought a lead role in the EU collaboration whilst advocating economic patriotism. Despite changing perceptions on the role of the state, issue communities spanning political, business, military and administrative actors called for EU level concentration of defence supply and demand. On the supply side, a single producer, a consolidated European Aerospace and Defence Company, was sought and, on the demand side, consolidation of demand into a European Arms Agency.

This empirical evolution is interesting from a theoretical perspective and for industrial marketing research as it cast light on the political setting of companies and the relations and roles of actors appearing in both the political and business arenas, e.g. ancillary actors. A growing literature in the subfield of business science labelled industrial marketing pay attention to such corporate political activity. The interaction between business and politics is less studied within business studies, and the understanding of ancillary actors is not very well developed. The relations amongst EU defence business actors may here serve as a vector to further a more generic understanding of ancillary actors.

\(^7\) Jean Claude Juncker Commission President (2014–2019) and Luxembourg's Prime Minister (1995–2013) once described the pushing through of EU policies as follows: ‘We decide on something, leave it lying around and wait and see what happens...,if no one kicks up a fuss, because most people don’t understand what has been decided, we continue step by step until there is no turning back’. (Economist, 2002-09-12).
1.2 Concepts and terminology

It follows from the previous Chapter (1.1) that the EU defence business offers a specific setting in relation to the EU Common Market. Although the EU treaties suggest an exemption for defence equipment, EU bodies consider, in principle, the Common Market is applicable also for defence goods, although EU Member states have not interpreted it this way. There is a deep-rooted practice of evoking derogations from the Common Market for defence equipment. Consequently, for defence equipment, national markets and national market impediments have been upheld. Thus, the defence equipment business means a rare case of exception, suitable for studies of cross-border activities of buyers and sellers in national markets within the Common Market. This also implies that the defence business setting provides an opportunity to study actors seeking to overcome national market impediments.

Accordingly, the EU defence business political setting may provide a rare opportunity to study actors in the national defence equipment markets within the EU. In these markets, business actors are commonly seen as suppliers, and political actors are commonly seen as clients and the state apparatus, although this division of roles may not be so clear cut in reality. In addition to these two main types of actors, supplementary actors seem to emerge that cannot be defined as either business or political actors. They are somehow affected by business actors and political actors, and here called ancillary actors. The relations between the concepts discussed here can be illustrated as in Figure 1.1 below.

![Figure 1.1: The studied entities, where political and business actors, apart from their focal relation, somehow, channel relations through ancillary actors.](image)

The concept of political setting is, in this study, interpreted as referring to the environment surrounding actors and markets. The setting is seen as wider than individual markets, composed of various public bodies, governments, academia and non-state bodies. Thus, the setting embeds buyers and sellers with
rules, practices and relations in both a national cultural context and a wider international context.

Buyers and sellers, such as individuals, firms and organisations, including political bodies, have relations, identities, perform activities and/or control resources. From an industrial marketing perspective, aggregates of such relations form industrial markets (Ford, 2011; Hadjikhani & Thilenius, 2005a). The wider political (EU) setting is here seen to cover several national markets or several markets for specific products.

Within any market and setting, there are several types of actors. To understand defence business actors, it is appropriate to start by identifying what we mean with an actor. Whereas the term “actor” is frequently used in industrial marketing research, this term is not recognised in the Business Directory. The Collins dictionary does not recognise any meaning of the word “actor” outside that of theatre. The Oxford online Dictionary defines an “actor” as ‘a participant in an action or process’, where a participant is ‘A person who takes part in something’. Industrial marketing research here concentrates on focal actors, i.e. industrial buyers and sellers. There may also be other actors, such as end-users or financiers. In this thesis, actors are understood to be suppliers and customers, collectively and/or individually and bodies connected to these that may also have legal personality, budget, organisation, staff, objectives and an actor identity.

Political actors may be defined as actors deriving power from political legitimacy, such as parties, their members, elected bodies and their executives within the state apparatus. For defence equipment production, legitimate political actors can be state authorities, e.g. parliament and government, their authorities and their staff. Business actors are actors deriving their legitimacy from market powers. Such distinctions can, however, be considered simplifications, as actor roles are complex in defence equipment manufacturing. For instance, a non-negligible part of the defence market in the EU is Government to Government sales (“G2G”), where governments procure defence equipment, services and works directly from other governments. Between 2005 and 2012, this represented approximately EUR 22.8 billion (9 %) of the total EU spending on defence equipment.

Business actors with great market powers in defence manufacturing are amongst the press and experts in this field, often labelled primes. The word prime is short for prime contractor, but also seems to imply that these compa-

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8 www.businessdictionary.com
9 https://www.collinsdictionary.com/spellcheck/english?q=business+actor
10 EC, 2016-11-30b.
nies are amongst the most important in a given market. In this thesis, the concept of primes is contextually founded\(^{11}\) and signifies very large defence companies. Primes can be defined as contractors at the top of domestic and international supply chains with market powers of such strength as to affect political agendas. The primes’ market powers can be seen as being based on resources, knowledge and market position to research, build, deliver and sustain advanced defence technological capabilities and assets. Controlling supply chains also implies technological leadership and capacity to mobilise significant technological, economic and human resources. The capability of complex systems integration and combat platform integration also means very large defence companies often operate near national oligopoly and that they are too large to be constrained within a national market. Consequently, “primes” are politically visible and linked to security, defence and foreign policy. The large innovation capacity also links the large defence companies to research, welfare, employment, trade and regional policy.

The four largest European defence primes consistently emerging in various listings over defence companies such as SIPRIs yearbooks or Defense News annual lists are Airbus, BAE,\(^{12}\) Leonardo and Thales. In addition to these, other companies, of lesser size, which may also be categorised as primes, such as SAAB in Sweden or Patria in Finland, emerge. There are also companies with specialised product range that may still be seen as primes, such as the land manufacturers Rheinmetal and Nexter or submarine manufacturers HDW and DCNS. Also, engine producers such as Rolls Royce and Snecma are frequently defined as affiliated with the defence industry and often appear in the same context as defence platform manufacturing primes. However, the latter companies have no horizontally diversified platform integration, although they too supply product content vital for national security and with a turnover of national economic importance.

The terminology in industrial marketing on ancillary actors is variable and inconsistent and has mostly referred to an outside company. Generic vocabularies give some implication regarding how to interpret the concept of ancillary. According to the Oxford online Dictionary, the etymological meaning of the word ancillary can trace its roots to the mid-17\(^{th}\) century Latin word for maidservant, "ancilla". The inherent ambiguity of the word ancillary is signalled by a dual meaning: The first meaning is ‘Providing necessary support to the primary activities or operation of an organization, system, etc.’, thus, necessary for core activities to function. The second meaning is ‘In addition to something else, but not as important’, i.e. supplementary or supporting. The online Oxford dictionary also explains ancillary as a synonym

\(^{11}\) This meaning of “primes” can be derived from a variety of quotations with this word from various texts at the online dictionary Glosbe, see https://glosbe.com/en/en/defence%20prime%20contractors

\(^{12}\) Now being outside the EU due to Brexit.
to "auxiliary" and the online Collins Dictionary emphasises that ‘Ancillary means additional to something else’. The Business Dictionary online states that ancillary means ‘something less important or central than something else. See also ancillary activity and ancillary benefit’. The term ancillary, hence, has the multiple meanings of something necessary, supportive or auxiliary to a function.

The inconsistent and vague terminology regarding ancillary actors would seem to permit defining as ancillary actor, in industrial marketing and this thesis, actors that neither derive their actor role primarily from market power, nor from direct political legitimacy, but that still influence focal relations. Accordingly, an ancillary actor may be understood as a competing or supplementary actor outside the focal relation, but within the market and setting.

1.3 Why study ancillary actors?

Industrial marketing has expanded from a focus on bilateral actor relations to complex settings with multi-party actors, important for cross-border systems marketing. In this context, ancillary actors, along with their unclear actor roles, remain an opaque and vague phenomenon deserving more research. Studies on the business roles of political actors and the political roles of business actors are scarce, much due to disciplinary dichotomies (Boddewyn & Brewer, 1994; Hadjikhani & Ghauri, 2001; Ring et al., 1990; Welch & Wilkinson, 2002; 2004). Dahan et al. (2006) observe, however, that institutions increasingly emerge as a principal theme in research within international business and international management. It is now acknowledged that big corporations play a role in institutional development, as agents for diffusion, learning and convergence of institutional systems in complex multi-actor, multi-level relationships. Yet, fundamental issues are not clear or understood, for instance, whether the entire system and its actors are actually converging or becoming more heterogeneous. There are also few comparative studies on how institutions shape business relations, as noted by Welch and Wilkinson (2004). Thus, there is room for studies on institutional actors and their effectiveness, on legislative powers and effects on competition within various political or institutional settings (Lawton, 2013)\textsuperscript{13}, such as that of the EU.

In addition, the increasing importance of temporary organisations such as multi-party projects along with public-private partnerships warrant more research. Although the research on projects is growing, the project management profession has been criticised for resting on generic normative principles without anchorage in research. Also, projects are seen as detached from their or-

\textsuperscript{13} As the terminology regarding institutions is variable and inconsistent, this thesis predominately refers to multilateral institutional actors as bodies.
ganisational context, where relations between project and permanent organi-
sations warrant more research (Engwall, 2003; 1998; Lagerström, 2001;

Connections across the politically sensitive and heavily protected markets
have been studied in industrial marketing to a limited extent. Here, defence
equipment production provides examples of business activities on protected
markets, with defence products being outside the Common Market by waiver.
There is also a lack of research in industrial marketing that look at the parallel
and simultaneous growth of EU bodies and primes, the impact of defence busi-
ness on political control and regulations, public out-sourcing and privatisation,
cartels, lobbying, corruption and the impact of defence business on the state.

Approaching political and business actor interaction in industrial market-
ing, one may, in particular, look at political embeddedness or settings as con-
stituted by the framework of rules and institutions (Salmi, 1995). More re-
search has been demanded that may focus, for instance, on changes in political
structures, such as new market relations and adaption of business relations to
privatisation with new rules for interaction, new competitors and new custom-
ers (Ghauri & Henriksen, 1994; Salmi, 1995). Environmentalism, along with
the rise of new political values, may also trigger research that address political
settings (Alajotsijärvi & Uimonen, 1995), as businesses need to consider min-
istries, academia, media, transnational bodies and NGOs. Amongst studies fo-
cusing on impact of the EU, Elg and Johansson (1996) observe dissolution of
national boundaries because of the EU membership, with both new customers
and suppliers and tougher competition in the domestic market, implying alli-
ance building with former competitors and more embeddedness. Hadjikhani
and Ghauri (2001) compare the variations in EU activity patterns for small
and medium enterprises (SMEs) and multinational companies. Halinen and
Törnroos (1998) identify various types of embeddedness that may be tem-
poral, spatial, social, political and/or technological. Touching upon ancillary
actor ties, Welch and Wilkinson (2002; 2004) consider four forms of political
embeddedness: institutions, actors, activities and resources central to compa-
nies’ competitive position, in particular identifying “mixed actors” operating
amongst political and business actors.

1.4 Positioning the potential research contribution
A research effort should seek to fill a knowledge gap. This thesis fits within
the general frame of social science studies, in that it belongs to business sci-
ence and, more particularly, marketing. Within marketing, industrial market-
ing is distinct from that of marketing of consumer goods sales. Within indus-
trial marketing, the subfield project marketing (see Cova & Salle, 2007) has
emerged, which looks more at sales of heavy systems such as defence and
where solutions marketing looks at the whole supply process. These latter orientations reflect that industrial manufacturers place growing emphasis on integrated solutions, expanding into services and efficiency, not merely product sales, as full service is required to secure long-term corporate growth (ibid., Bosworth, 1995; Jacob & Ulaga, 2008; Ravald & Grönroos, 1996). This perspective also includes non-business actors’ role in the success or failure of the supplier. Consequently, it is important to identify actors, actor-relations, their roles and their influences, as well as to position the supplier in its setting. The actor’s objective is to be in a position to generate or influence projects upstream. Another actor objective is to be involved in follow-up and solutions marketing in interaction with pertinent actors to generate co-creation of values through relational marketing, covering the full range of aspects of the actor relationships from systems specification, design, assembly, delivery, operations financing and pricing; maintenance and support (Brady et al., 2005; Cornet et al., 2000). Solution-oriented firms must here adapt capabilities, strategy, structure, people, rewards and processes (Galbraith, 2005) organising around the customer.

Caveats of studies in industrial marketing, identified by critical scholars, are in focus on the national level, looking at other public authorities, political levels and other forms of organising. It is also observed that there is a focus on dyadic relations, while companies also develop other relations. Furthermore, critics miss an analysis of soft-power aspects, such as discursive strategies, ideas, norms and values. There is also a more generic criticism regarding a tendency to emphasise quantitative aspects of business relations and inbound theorising, instead of conducting empirical, longitudinal, qualitative and contextual studies of industrial markets and institutions (Dahan et al., 2006; Doz, 2011; Ford, 2011; Ruigrok, 2002; Welch et al., 2011). Consequently, there are calls for enlarged multi-disciplinary empirically founded research covering political and social factors of importance for economic development and international production (Galbraith, 1991; Boddewyn, 1988), and it is also proposed to look more at international institutions, and phenomena such as institutional conflicts and rivalry (Dahan et al., 2006; Ruigrok, 2002).

Here, the EUs defence business setting offers a rich context that permits longitudinal empirical research on projects, business strategy, interactions of institutions and businesses in a political setting along with underlying discursive strategies. This business setting also permits analysis of actors, relations and activities of companies embedded in an environment of technical complexity, “high politics” and secrecy, where collaboration weigh against self-sufficiency. The longitudinal perspective can help to understand the evolution of the setting over time, including political or economic shifts. Within the EU Common Market, defence products and services serve as a comparator, as unlike virtually all other goods and services, defence equipment are still subject to national conditions. The Rome Treaty, laying out the foundations of the EU, states that ‘any Member State may take such measures as it considers
necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purpose’. This means an insulated market context for defence companies in each member state within the Common Market, offering unique possibilities for business research to study cross-border business activities and actor relations from a variety of perspectives.\textsuperscript{14} Galbraith (1991) observes a research gap regarding defence companies, their institutional framework, along with research on the impacts and formative role of defence and defence companies. Many scholars within international relations and political science, and researchers within national applied defence research institutions, however, have directed their interest and research efforts to defence companies in relation to Europeanisation, Globalisation or Internationalisation. Defence manufacturing has here often been seen as a vector for European integration, particularly in defence and security, predicting “spill over” between policy areas (Haas, 1975, 1958). Thus, integration will occur across sectors as actors forge collaborative bonds, where economic bonds can be linked to security, joint forces, common planning, common standards and common acquisition. In this context, there seems to be a great focus on drivers, but less on counter-wheeling factors. The very idea that disintegration can kick in seems underestimated in the discussions on EU integration, where defence remains protected in a tug-of-war between sovereignty and national security interests, on the one hand, and the economic gains of collaboration and globalisation, on the other.

1.5 The studied business setting, the case of EU defence business

Since the dawn of civilisation, arms and military equipment have been a driver of technology development, and via innovation, also economic growth. Over the past 30 years, however, unprecedented changes have occurred in the defence business landscape. Civilian information and communication technologies (ICT) have taken the lead as drivers of technology and innovation. As the Cold War came to an end, the dichotomy of the east and west and a communist system versus a capitalist became more complex as new economic powers emerged. The militarised “societies” in both the east and west, with huge conscript armies and units on permanent alert, were disarmed and downscaled into fewer actors, with fewer military units, smaller defence companies and

\textsuperscript{14} As subfields of internationalisation of the arms industry, for instance, Sköns (1993) identifies international trade, foreign investments, international subcontracting, international licensing, cross-border mergers and acquisitions, international joint ventures, international inter-firm agreements, including coproduction, consortia and teaming arrangements.
less tied to politics. At the same time, new ideas of public management gained pace, EU integration deepened, and cross-border political bodies and companies grew in importance. Also, military doctrines changed, as “soft powers” (Keohane & Nye, 2012; Nye, 1980) and new policy areas came to the fore of security (asymmetric threats, foreign assistance, migration and environment), challenging defence in its key role for national security and sovereignty. Voices were raised to liberalise the heavily state controlled and protected arms acquisition through competitive tendering, value for money, public-private partnerships, outsourcing and through-life-cycle maintenance.

Defence contracts still represent the costliest equipment contracts of states. However, in the post-Cold War scenario, fewer and more technologically advanced units were to be procured for less money. As a consequence, the number of defence contractors was reduced. Technology development affected military doctrines, as did new types of conflicts and tactical expansion of the battlefield into more dimensions (deeper battlefield engagement, space and telecommunications), meaning requirements for more and diversified types of equipment. As defence equipment were now required for more varied scenarios, complex equipment had to be paid with less money for fewer units, meaning spiralling unit costs. Also, the existing equipment saw more use, meaning more wear and tear, and higher operational and maintenance costs. In such contracting business environments, economic imperatives and business-like behaviour were fuelled, but had to be mitigated with the needs of product uniqueness, which remains key in defence manufacturing, as having a technological edge is vital in combat. As costs were massive for defence systems, governments sought defence offsets to compensate and reduce costs (see, for instance, Ahlström, 2000). However, in order to ensure supplies and technology know-how, they may also aim for licensing, co-production, collaboration and joint ventures to get state-of-the-art technologies, thus making a trade-off between economy and product uniqueness.

A remarkable but hardly noted shift occurred in 2011, when, for the first time, the collective revenues of the world’s 100 largest defence firms started to shrink, and Asian defence spending surpassed that of Europe. A generic quantitative decline can also be observed as the number of defence platforms steadily diminishes, with more focus on through-life systems support and modular upgrades, than platform centric acquisition. For the period 2011–2025, the worldwide demand excluding China, Russia and USA has been estimated at merely some 2,500 aircrafts.¹⁵

As a consequence of these global trends, the importance of defence budgets and military projects in EU state budgets has faded. Whilst there is a relative decline in the demand for military equipment within the EU, the US has maintained military domination. Nevertheless, the US Government has exerted

pressure on US companies to form large primes. This American consolidation, out dwarfing EU companies, along with shrinking EU demand, pushes EU defence companies to consolidate, downsize and improve productivity. For many EU defence companies, the changing business landscape means more ambiguity than before, with unpredictable planning and spending, frequent and sudden cuts and slips in project deliveries. The EU defence business sector has shrunk, in terms of number of companies, units and employment; meanwhile, EU defence primes have increased in size (see Chapter 5). Linked to political ambitions to secure defence manufacturing and to build a common EU identity, deeper cross-border relations evolved in defence equipment production. By the end of the 1990s, EUs’ leading defence primes were Airbus, BAE, Leonardo and Thales. The European aerospace, space and defence businesses employed about 870,000 million people and generated a turnover of almost EUR 246 billion in 2019.16 Defence equipment spending alone, within the EU, is still around EUR 30 billion per year. According to the European Defence Agency EDA, EU Member States’ collaborative defence equipment acquisition stands at around EUR 7 billion, or around 20% of the total equipment, fluctuating between 12% and 27% in the past 15 years. Thus, EU Member States continue to procure the majority of military equipment on a national basis. Most defence research is also conducted on a national basis. In 2019, EU Member States spent merely EUR 141 million or 8.5% on defence research in cooperation with other Member States.17

But what is then defence business? It is clearly not enough to look at so called “strategic sectors” as, for instance, in 2004, the French Government listed antidotes, biotech and casinos amongst strategic business sectors, along with the more traditional security and defence. Defence equipment is specific in that the purpose of the products is specifically for use in warfare. By definition, products designed specifically for warfare have no civilian utility. Yet, defence products also have a security purpose, intended to protect citizens and the sovereignty of the state, which may also be used in peace. In practice, many defence equipment also have potential civilian utilisations and vice versa. Nowadays, technologies vital for warfare first emerge as civilian technologies, such as aerospace, electronics or IT, even deriving from entertainment, such as computer games or drones. At the same time defence equipment is increasingly specific and specialised, requiring that operations and maintenance be outsourced to corporate experts rather than managed by the military itself (see Taylor, 1992b). In this thesis, the defence business’ links to civilian manufacturing are understood as linked, for instance, to business sectors such as electronics, ship construction, information and communication technologies, security solutions, vehicle manufacturing, munitions and ship construction.

16 ASD, 2019.
Defence companies refer to their own business activities as “specific”, poorly understood and not representative of other market contexts. Defence equipment production is, or has been for long, at the heart of state security, sovereignty and national sentiment, where defence businesses are sometimes described as a means for political power projection, where ‘military might can...partly be measured in terms of the industrial capacity in peace’ and where ‘common defence acquisition is the key to the future of Europe and the western world from a political, economic and technological perspective’.

It is often recognised that defence companies play an essential strategic, economic and technological role for the EUs’ competitiveness, although sometimes the role of defence companies is also downplayed. Defence companies still operate under market derogation under article 346 of the Treaty on the Functioning of the European Union (TFEU). Within its national market context, an EU Government can, in principle, still set the pace of technological progress, corporate profitability and market evolution. Government procurement determines the size and structure of the industry, entry and exit conditions, ownership, price, profit, efficiency and export sales (see Hartley & Cox, 1992). Business actors recognise the political character of this market: ‘In the defence business...politics is never far from the surface. Each man will be seen in his own country as representing national interests’. A State Secretary leaving a Ministry of Defence to work for a defence company explained his recruitment, as he ‘understands the processes in the political system. The thinking there is much different from those of business companies. It is important to understand that decisions to buy combat aircraft often ends up at the table of Presidents and Prime Ministers – because it is about important national strategic decisions and lasting ties of perhaps 30 to 40 years. And it’s not only about a tie to a company, but also to the selling nation’... ‘The defence industry is different from other business areas, because political aspects are significant...’. Defence deals often come into the focus of high

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18 EDIG, 1993-09-12.
21 See CEPS, 1995; Verheugen, 2005.
22 TFEU Article 346 1. ‘(b) any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the internal market regarding products which are not intended for specifically military purposes’.
23 Nicoll, 2000-06-07.
24 Jonas Hjelm, former Social Democratic Secretary of State for Defence. SAAB also recruited, for instance, Jan Nygren, Social Democratic State Secretary of Defence, Defence exports Minister and board member in the Swedish state Defence Procurement Agency (2000) and three Social Democratic Press Secretaries: Ann Wolgers, Helene Lindstrand and Toni Eriksson, a State Secretary of the Conservative party, Gunnar Wieslander and Press Secretary Sebastian Karlsson. Amongst senior officers from the armed forces, SAAB recruited Kent Harrskog, former Head of the Airforce (2006) and Supreme Commander, Sverker Göransson (2016).
25 SVD, 2018-04-25.
politics, as demonstrated by the blocking of three French assault ships to Russia in 2015 and twelve submarines to Australia in 2021, which engaged also politicians from EU bodies. Yet, defence companies tend to downplay their political role, more emphasising their struggle for survival in a harsh business landscape. Hence, business actors often lament poor government planning and absence of resources or support, in particular in comparison with others: ‘In many countries around us, governments are involved to a much higher level and much more aggressively in this type of sales’.26 Thus, defence companies may lament government strains through exports restrictions, although simultaneously sheltered, protected for security reasons. Indeed, protectionist measures are recognised by national and international legal and institutional frameworks such as the World Trade Organisation (article 21), GATT (article 23) and the TFEU (article 396), although a Global Arms Trade Treaty has been sought to set global standards for national export controls.27 These exceptions to normal trade conditions can also make defence businesses the first casualties in trade wars, as they are the easiest to sanction.28 At the same time, operating in a protected market context, defence companies may attract risk capital. It is also a monopolistic market with high entry (and exit) barriers that make foreign direct investments relatively rare and complicated. States hedge national defence industrial capabilities, via legislation, production methods and facilities, research and development schemes and subsidies, procurement procedures and tacit ties. There are few, if any, consumer offsets, political and security considerations, politically driven research, technically driven development, high costs and opaque procurement processes, a deliberate lack of accountability and transparency and confidentiality for sensitive information. There is also (at least historically) low price sensitivity with a focus on technical performance throughout the product life cycle, a high level of specialisation and geographical concentration. This has given rise to a market with a small number of primes, depending on lasting relations with, few or single customers, and consequently strong dependencies based on close relationships between business companies, military personnel and administration.29 Thus, governments, i.e. the customers, are deeply involved in or even lead collaboration and politically negotiate contractual work shares,30 suggesting requirements for compensation (offset)31 in highly costly procurements where there is little competition and where penetrating external defence markets normally

26 Börje Ekholm, CEO of Investor, holding company and majority owner in SAAB, quoted by Davidson (2013-12-20).
28 Williams, 2003-04-03.
30 Robert Wolmsley, Head of the UK Ministry of Defence Procurement, once explained, ‘every country in Europe is determined to make sure they are not being robbed blind. That is why you end up with work shares being calculated to the second decimal place’ (Beatty, 2006-03-09).
31 The French denomination “juste retour” is frequently used to label offset deals, whereby a state is compensated for procuring defence equipment by counter deals.
require government approval or agreement, both in the exporting and the recipient country.

Whilst “specific”, the defence companies operate in settings similar to other business sectors. Also, some defence products can be purchased under what is labelled Commercial of the shelf (Cots), e.g. less unique products, such as components, small arms and munitions. To at least some degree, observations can be transposed to other fields, for instance, for the impact of political interventions on competition or public-private partnerships. For fields such as those indicated in Figure 1.1., resemblance, overlap and links are quite obvious. There are also similarities to large infrastructure contracting, energy sectors and public utilities markets, or with services or products that may be considered common goods, such as large banks, telecom, or other public utilities, such as hospitals and schools.

Some researchers have examined whether companies or politics are in the lead for the defence sector and whether integration of defence companies is business or politically induced (Britz, 2004). Following, for instance, Galbraith (1967), in defence, the state and industry are intertwined by common interests, forming a structure that seeks economic stability, expansion, growth and knowledge development. Akin to Marxist ideology, he proposes that elites in major western capitals run internationalisation in accordance with their specific interests. Due to the blending of business and political interests, and cyclical transition between actors over time, whether business or politics are in the lead may not even be a relevant issue as they were historically one and the same. For instance, Glete (2000) observes that the concepts of “political”, “economical” and “business” were inseparable in the setting of the 16th century nation states as the state power grew out of the ability to network capital and political power in military (naval) manufacturing.

1.6 Aim and research questions

Industrial marketing studies have tended to focus primarily on business-to-business (B2B) relations, with limited attention to the political setting and relations outside of the focal relationship of seller and buyer. The marketing of large and costly defence systems within the EU, however, means cross-border sales in a complex setting with Common Market derogations from EU law. Here, defence primes have built client relations by getting involved in political relations also involving ancillary actors.

The aim of this thesis is to understand ancillary actors and their activities on a politically regulated market, namely that for EU defence equipment.

The research questions are thus:

- Who are the ancillary actors?
• Where do they come from?
• What are the relations of ancillary actors?
• How do ancillary actors impact focal relations?

To answer these questions, this project studies ancillary actors departing from the rich empirical case of the EU’s defence business and its political relations over time. The questions that arise are: who are the main business actors? Which are the relevant EU bodies and political actors? How do they relate to each other? What types of ancillary actors may be of interest?

Business studies have looked extensively at business networks, focal relations and at business triads, often under the consideration that businesses interactions are unregulated. This project instead seeks to understand how actors, in regulated settings, interact in an environment that requires contacts to be discrete, esoteric or even secretive. Within defence production, this means an inherent opacity, which makes it sometimes difficult to identify the central roles of activities as there may also be concealed activities taking place.

The business primes are not approached as multinational companies (MNC) in this thesis, although the empirical case covers the EU’s four leading defence primes and their activities and involvement in producing first line defence equipment. The focus of this thesis is rather on ancillary actors within the EU setting of defence primes.

The defence business domain has triggered research particularly on offsets and bribery (see Alhström, 2000; Brauer & Dunne, 2005), where it has been observed that powerful defence business actors tend to regard offsets as the coin of the weaker party in arms procurement (Mawdsley & Brsozka, 2005), and that governments may bypass procurement agencies when dealing with offset arrangements (Markowski & Hall, 2005). Such perspectives are secondary in reaching the aim of this thesis. Instead, a specific approach is defined as follows in Chapter 1.7.

1.7 Research approach

To contribute to the understanding of ancillary actors based on the case of EU defence equipment business, this project seeks to identify the significant actors, why they exist, their roles, activities and relations over time using a longitudinal approach. For such longitudinal research, the analytical challenge is to sequence and study how and why phenomena, events and activities evolve over time (Langley, 2009a). Events are then to be coded into chronologies of a limited number of categories in a research process akin to “detective work”, as suggested by Bizzi and Langley (2012).

32 First line here means platform manufacturing of combat jets, tanks and armoured fighting vehicles and combat ships.
In this thesis ancillary actors are identified in four arenas that emerge in the intersections of two principal types of political activities performed by political actors and two principal types of business activities performed by business actors. Hadjikhani and Thilenius (2005) observe that political activities of political actors, based on their legitimacy, take the forms of coercion, i.e. activities aiming at hindering, steering or controlling business activities, or support, i.e. activities aiming at fostering, maintaining or developing certain businesses activities. Business actors, on their part, based on their market power, seek to mitigate or manage the effects of political activities. Business actors may exert various forms of influence to turn the political development in their favour, or through various means of adaption shape activities to secure the continuance of businesses.

The behavioural combinations of e.g. political coercion or political support and business adaptation or business influence forms four arenas that appear in the intersections of the principal political activities and business activities. The four arenas of activity combinations are, in this thesis, employed as a coarse lattice work for the sorting and encoding of historical data, funneled from the macro- to the micro-level.

Here, a situation with political coercion and business adaptation can be expected in an arena where a company is dependent upon complex political power patterns, having relatively less control over its environment and its political setting.

In pursuit of political support, a business may adapt, whilst still seeking to make use of its market powers (economic size in terms of turn-over, staff, assets and alike), to control a more limited arena, such as a market.

At a third level of aggregation, arenas may exist in the form of various issue communities where a company can seek to influence political actors to obtain support.

At the lowest level of aggregation, we may think of tangible projects, where companies in strategic businesses, such as defence, can again be expected to be subject to coercion, where a company may again seek to influence in an overall situation within this arena.

This thesis thus seeks to identify whether, for these four arenas, the overall empirical setting of the EU defence business, provides evidence of ancillary actors in operation, by sorting historical data through the coarse lattice work, funnelling from the macro- to the micro-level. An inherent risk of sorting data and encoding chronologies is that of identifying linear patterns when there are none. Time can, here, be a means to mitigate such risks as proposed by Langley (2009b), as the researcher can revert to old data, reviewing and validating them in the light of recent developments. As this research project spans 30 years, such validation has indeed been possible and proved useful. It was possible to follow the evolution of the setting, market, issue communities and projects over time, where at a snapshot glance nothing seemed to happen, but over time dramatic changes occurred.
Drawing boundaries around the empirical study object of the focal unit of analysis is a challenge in studies on business relations. Halinen and Törnroos (2005, 1998) consider four alternatives: 1) To focus on single firms and their linkages to others (i.e. networks), 2) To examine dyads and their connections to broader networks, 3) To consider a set of firms and their relations and 4) To focus on the internal network of a large multidivisional firm and its external linkages. In this empirical case, the unit of analysis would be alternative 3). However, as observed by Rizzi and Langley (2012), complexities may arise as to what is and what is not part of the phenomenon considered. Multiple levels and units of analysis can then be complementary as a means to highlight a phenomenon, which is again provided through the chosen approach with four arenas or perspectives on the studied phenomenon.

Derived from the model of analysis, this thesis thus highlights ancillary actors by identifying four empirical arenas of activities, applying a longitudinal perspective. In the intersections of activity combinations, ancillary actors appear where the units of analysis are multiple:

1. It is the role, nature and importance of ancillary actors.
2. It is the ancillary actor’s impact on the market contexts, e.g. the focal relation between the business actor and political actor.
3. It is the ancillary actor’s relations to business actors and political actors.
4. It is the time bound evolution within the studied case, the EU defence equipment business, from 1988 to 2021.

1.8 Outline

This first introductory Chapter outlines the research problem, that is, of understanding ancillary actors, and describes characteristics of the EU defence business setting. Chapter 2 gives a theoretical frame for research relating to cross-border actor relations relevant for this study. Chapter 3 presents the research model, design and methods, contrasting aspects of the two major types of political activity versus businesses’ anticipated activity. After the methodology Chapters follow the empirical observations in four arenas for ancillary actors in the EU defence business activities: In Chapter 4, the political setting of EU bodies for defence businesses, including business associations, is contrasted with national control activities based mainly on various political bodies. Chapter 5 studies the market positioning activities of the EU’s largest defence primes up to 2021 to identify their relations to governments, competitors, projects, institutions and partners, based on corporate reporting. Chapter 6 examines an issue community seeking to create a Single European Aerospace and Defence Company, and Chapter 7 examines the relations within a large transnational project, namely the Eurofighter project. Chapter 8 analyses
the empirical results of the studies, and Chapter 9 draws theoretical conclusions regarding business actors and political actors’ relations to ancillary actors. The last chapter proposes areas for future studies.

1.9 Summary

Considerable research cover business exchange activities from several strands of social science. Much business research study focal actors and their activities, but fewer study multiple activities, entire markets, political and protected markets, the influence of political actors, ancillary actors and how business relations change over time.

Business research has been characterised as short-term, quantitative and detached from reality. This thesis seeks to contribute to industrial marketing studies with an empirically based longitudinal study covering an EU setting,
namely that for the defence equipment business. EU defence primes are generally important to study, due to their roles for innovation and technology development, their link to overall wealth and competition in society and for their implications for national sovereignty.

The EU defence equipment business is theoretically interesting when looking at ancillary actors as such actors seem to appear in relation to cross-border equipment acquisitions. The EU defence business setting can therefore be seen as a vector, pertinent to identify and further the understanding of what ancillary actors are, their activities and their functioning.
2. Theoretical framework

This Chapter discusses conceptual and theoretical research strands relevant for the study of ancillary actors for defence equipment production. First, in Chapter 2.1 comes a discussion on boundary spanning business operations and whether or not they are strategy induced, i.e. if internationalisation just happens or if there is a conscious planning behind. Then comes a characterisation of the primary focal buyer supplier relation (Chapter 2.2). In Chapter 2.3, the perspective is expanded to the context of embedded non-business relations, including politics. An actor-relationship model of central importance for the coding and interpretation of relationships in this thesis is then summarised (Chapter 2.4). After this comes a review of findings on ancillary actors (Chapter 2.5) and thereafter a discussion on the political setting in general (Chapter 2.6). Then, in Chapter 2.7, follows a discussion on prior business research relating to defence companies from four relevant research perspectives covering the political setting of firms, the political activity of firms, issue communities and temporary organisation including projects and their marketing. In Chapter 2.8, departure points for this research project are summarised.

2.1 Primes as boundary-spanning actors

Studies of the company as a boundary spanning operation emerged relatively recently, as transnational interdependencies increased as a function of Europeanisation, internationalisation and globalisation, impacting on both state sovereignty and company operations. Today, competition and cooperation in cross-border alliances, joint ventures and international projects are everyday realities for many EU companies, including the previously nationally based defence primes. The expansion of markets and business operations, international regimes and institutions, laws or agreements, hegemonic powers and power blocs along with the evolution of information technology, have been seen to challenge the powers of states and their sovereignty (Ohmae, 1996; Strange, 1996).

Although international companies are commonly seen to know no nationality, the point of departure in international business studies was rather the opposite, i.e. that they are clearly defined national champions in competition;
firms are national because they have a legal nationality, because most shareholders reside in one nation and because it is committed to pay dividends in certain currencies’ (Hymer, 1960). The political setting of international companies was not so much considered here. A need to modernise the studies of firms as global and boundary spanning operations (Buckley & Casson, 1976; Dunning, 2000; Kogut & Zander, 1993; Markusen, 1995) generated significant research, but as pointed out by Forsgren et al. (2005) the role and activities of companies as international actors still warrant further research. Political control and company interaction in international operations are unclear, particularly in settings with specific norms, perceptions, legal systems, structures and standards. Specific contexts require companies to develop cultural and judicial knowledge and technological content adapted to specific market requirements. In markets with few actors, oligopolistic reactions can be expected (Knickerbocker, 1973) as firms follow other companies into foreign markets, in a way “invading” other home markets, where local firms will seek to protect their domestic market (Graham, 1978). On the other hand, it has also been argued that companies have little interest in prolonged rivalry, as that would undermine potential profits of their own company and therefore, appearing in each other’s markets is a mechanism to level a playing field (Edwards, 1955). So, global strategic company interaction can also be seen as a chess game (Hoenen & Hansen, 2016; 2009).

Local subsidiaries may possess greater knowledge of a specific business setting and may have specific resources to master the local context, rather than the headquarters. Thus, strategic activity is not limited to the headquarters, but can also reside in subsidiaries, resulting in conflicting interests amongst business units of the same company. This information inferiority has led some researchers to downplay the central strategy formulation of headquarters (Forsgren et al., 2005; Andersson, 1997). Indeed, Ciabuschi, Forsgren and Martin (2012) observe that the headquarters can be “sheer ignorant” of local conditions. Other researchers consider that strategic activity, tactics and tools depend on the specific purpose and situation in each market (Regnér, 2002; Hillman & Hitt, 1999). Some researchers continue to re-emphasise the role of the headquarters in the elaboration of business strategies for complex collaborative situations (Doz, 2011) or for organising, reinforcing or complementing competitive structure and strategy (Baron, 2013; Ghoshal & Nohria, 1997). Rizopoulos and Sergakis (2010) consider political strategies to be crucial for large companies in the context of globalisation, and Bizzi and Langley (2012) observe that business relations require long-term management. Lundmark (2011) stress that for operational coordination across borders in defence manufacturing, businesses must be politically coordinated.

Whereas there seems to be a lack of coherence in scholarly interpretations of whether businesses can control their international business environment, the various perspectives are not necessarily exclusive; rather, they can be assumed to depend on the characteristics of companies, sectors and vary over
time. So, we can expect that corporate knowledge, control and influence of the headquarters and local business units vary over time and in various situations. It seems fair to assume there are limits to how much planning and “strategizing” is possible, depending on, for instance, resources, market type, legal requirements and other challenges to the company. Primes can, in this context, be observed as operating in a constrained market context with much preparatory strategising, as demonstrated by arena 2 (i.e. Chapter 5) of the case, where it is also evident that strategic planning is an important business tool, although strategies may derail for a variety of reasons.

2.2 Business actors’ supplier-customer relations

With a focus mostly on business-to-business relations, industrial marketing seeks to understand the cross-border industrial organisation of markets, including technical development, marketing and strategic activity. Connections, interaction and dependencies amongst companies are studied with a focus on interaction in buyer-seller transactions, where research emphasis over time shifts from atomistic perspectives of firms to a more complex perspective of interdependencies (Bizzi & Langley, 2012). In industrial markets, interdependent and lasting relations are based on the parties’ willingness to fulfil commitments, forming wider relationship networks that link actors, activities and resources, but where relationships are much more complex than only economic transactions. It is held that coordination does not take place merely based on price mechanisms, but more on relationship dependencies. In industrial markets, customers and suppliers with extensive knowledge about each other simultaneously compete and cooperate, taking on roles of supplier, competitor and customer at the same time, obscuring distinctions of roles and of market boundaries (Blankenburg & Johanson, 1991; Blankenburg-Holm, 1996; Forsgren & Johanson, 1992; Hallén & Johanson, 1989; Håkansson & Johanson, 1987; Leite, Pahlberg & Åberg, 2018). Industrial marketing studies tend to view relations as informal, developed as a consequence of transactions and without central coordination or control. This view is, however, difficult to corroborate with the characteristics for defence equipment marketing and sales, identified in arena 2 and arena 4 ( Chapters 4 and 6, respectively) of this study, which rather suggests meticulous planning behind marketing and sales of defence equipment.

Industrial companies simultaneously engage in selling and buying, meaning resource flows of services, products, technology and finances between actors with connected business activities, such as marketing, logistics, business meetings and transactions. Other forms of exchanges (Forsgren et al., 2005) include social activities that enhance ties, where firms, because of such interactions, increase their commitment to do business with each other (Anderson
& Weitz, 1992). Whereas it was first suggested that connections to competitors have a negative impact on focal relations, it was later considered that other connected relations can support a focal relation (Duck, 1993). Thus, competition and collaboration can occur simultaneously between the same actors. Similarly, divisions within companies can simultaneously compete and collaborate (Bengtsson & Kock, 1999). These observations complicate our image of business-to-business interaction: It can be both controlled and uncontrolled and supportive or negative for the main relation, where actors connect through a multitude of interdependencies. Bonds can be technical, logistical, cognitive, social, legal or financial and extend without limits, including indirect connections abroad. Therefore, the international competitiveness of a firm depends not only on its own efforts, but also on the performance of linked firms (Wilkinson et al., 2000). This fundamentally challenges our understanding of what a business company actually is: For instance, is it to be seen as an entity with clear demarcation to the outside world, or do relations connect as in a jigsaw puzzle? If there are no borders between companies, they will seem to “float into each other”. If so, this is also bound to change the perception of businesses competition, strategy and control.

Although this complexity and multitude of bonds are recognised, many business studies depart from a focus on dyadic business-to-business relations, such as those of manufacturer and distributor or mother company and a foreign distributor, or suppliers from one company to another. Figure 2.1 depicts a basic focal relationship between a seller and buyer, where in industrial marketing, both can be seen as business actors. The figure also indicates ties to an ancillary business actor, where the ancillary actor in this case is a business outside the focal customer or a supplier firm, supplier’s supplier, customer’s customer, other supplier units and customers, competing suppliers or supplementary suppliers.

*Figure 2.1: The focal relation of a buyer and seller, with connecting ties of various nature to an ancillary business actor (Anderson, Håkansson & Johanson, 1994).*
The model in Figure 2.1 still does not consider political ancillary actors. This is, potentially, still a relationship involving mainly business entities where supplier portfolio optimisation may be the focus of analysis (Zokiewski & Turnbull, 2002). Johansson and Mattsson (1988) identify three principal forms of exchange relations, further specified by Hadjikhani and Thilenius (2005a) as 1) business exchange relations that refer to resource flows, such as products, technology finance and service going both ways between seller and customer. 2) Social exchange is built on trust to reduce uncertainties, which is important when there are cultural differences and differences in value systems, as firms gradually interlock in social exchange. Trust can be defined as the mutual willingness to rely on exchange partners in whom one has confidence. Interdependencies here reflect that trust or mistrust can spread to other relations, whether personal, firm or political. 3) Information exchange contains technical or market information that affect business partners’ ability to adapt or influence market conditions. Weak actor relations are here defined as those that are unidirectional, but also depend on type, development, continuity, volume and amounts. Formalised interaction is here seen as signs of distrust, reflecting a need to exercise control and power over opportunistic activity and uncertainty. These observations also seem valid for products such as defence equipment, with high product complexity and strong, lasting and complex ties that require technological and organisational adaptation. Strong relations can be characterised by extensive transfer of resources, information and social exchange, large numbers of exchange relations and high adaptation (Ford et al., 1998; Håkansson & Snehota, 1989). Additional factors determining relationship strength are values of financial transactions, social adaptation and trust, a limited number of actors and other connected relations (Hadjikhani & Thilenius, 2005a). Network attractiveness is related to relationship strength and impingent upon the perception of a firm’s unique relations with others and the transferability of activities, resources and actor relations. Relations may also be hindered by resource particularity, activity irreconcilability and actor-relation incompatibility, where, for instance, switching suppliers may harm other business relations. Such positive and negative exchange relations can exist simultaneously in a business relation (Anderson, Håkansson & Johanson, 1994).

The aggregate of dyadic business relations can be seen to form a network that is the market. This market context can be seen to extend within and outside the company, diluting company borders internally or externally. In an international company, cross-border market integration is therefore inherent according to this perspective (Blankenburg, 1991), and foreign market entry is seen as mere extensions of existing relations and it is therefore not meaningful, following this perspective to consider collaboration and integration in

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33 Håkansson and Johanson (1988) call this network identity, as the perception is that of the company in its own relational position.
opposition, one replacing the other, although this is a common perception.34 Ties to suppliers are not necessarily static and a focal client may transfer resources or knowledge from one supplier relation to another and thus take a mediating role (Roseira et al., 2010).

Although it might seem that business relation studies take the perspective of markets as without guidance or anarchic, it is also recognised that power structures exist and that business actors influence actions of others, seeking to increase control over the business network (Håkansson, 1987; Håkansson & Johanson, 1988; Håkansson & Snehota, 1995) and its actors, activities and resources (the AAR model).35 Actors are here defined as firms, parts of firms, groups of firms, individuals or groups of individuals with five characteristics (Håkansson & Johansson, 1992):

1) They perform and control activities
2) They develop relations that embed actors and give actors access to other actors’ resources
3) Activities are based on control over resources. Direct control is here based on ownership and indirect control on relations with other actors
4) Actors are goal oriented and seek to increase their control over the network
5) Actors’ knowledge about other actors, resources and activities is greater in the near parts than more distant in the network

Increased control over the market by one actor is seen to be achieved at the expense of controlling at least one other actor (Håkansson & Johanson, 1992). Studies of surrounding actors’ influence on focal business relations (Forsgren & Olsson, 1992) suggest that the stronger the connections amongst surrounding actors, the less the discretion for actors in the focal business relation, so a setting with more intense relations reduces the scope of autonomous actions, and strong power-dependence relations can be expected (Blankenburg-Holm & Johanson, 1997). Based on these characteristics, it follows that control is not evenly distributed.

*Actor-Network Theory* describes how relational ties cluster actors to achieve a specific objective. Latour (2016a; b) contends that network is a fitting term to use because actors exist in a web of actor relations where everything appears to depend on others in endless chains of relations. Although criticised for omitting power and control over firms’ knowledge, assets and social structure and ‘inner’ properties of an actor, actor-networks emphasise that everything is connected, also politics, which then brings us to the matter

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34 See, for instance, De Vestel, 1995.
of political actors, ancillary actors and embeddedness, which will be examined in the following chapters.

2.3 Political actors’ supplier-customer relations

Although business relations to non-business actors may be perceived as fundamentally of different character to business, with reference to a non-financial or non-profit content, it may likewise be argued that for defence equipment, political actors have in common with business actors the two roles of organising both supplier and client relations.

![Figure 2.2: The dual roles of political actors in defence equipment production.](image)

Business to government\(^{36}\) relations have been analysed from a number of different disciplinary perspectives (See Coen, Grant & Wilson, 2010) that range from unidirectional relations where businesses merely respond to politics (Conner, 1991; Korbin, 1982; Kogut, 1991; Egelhoff, 1988), to the design of adaptive strategies (Ring et al., 1990) or analysing politics as a risk from an investment management perspective (Bouchet, Clark & Gros lambert, 2003), looking at firm-state interdependencies and industrial structure (Ring et al., 1990) or corporate structure (Murtha, 1991; Lenway & Murtha, 1994). In these contributions, the perspective is unidirectional in the sense that national politics are seen to impact on firms’ market activities, where enterprises operate under various rules and supportive measures. This presumption of one-sided action by political organisations is considered too passive by Ring et al., (1990), Hadjikhani and Sharma (1995), Ghauri and Holstius (1996), Ford (1998), Hadjikhani (2000) and Hadjikhani and Ghauri (2001), as firms also

\(^{36}\)“Government” can be seen as a subset of “politics” and also as a subset of “state”.

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pro-actively seek to influence government or other political units in order to gain political support that strengthens their market position, for instance, via bribery, lobbying, bargaining and pressure groups. Harris and Lock (1995) study corporate lobbying on British industrial markets where firms attempt to respond to, forestall, or even formulate government actions, such as purchasing and legislation. Thus, businesses can influence all stages of the political process, from the formulation of policy to its implementation, as concluded by Jansson et al. (1995). So, instead of a passive relation where governments are seen as conditioning and restrictive, a given environmental element, exogenous to the firm and a source of risk or uncertainty due to arbitrary decisions, the interplay between corporations and politics is more the foci of some research. When observing this more influential role, the actual impact on politics may still be considered limited. For instance, McKay (2012) observes that, while businesses may stop undesirable policies from passing, they rarely manage to influence or push pro-business policies. This seems to confirm observations (Welch & Wilkinson, 2004; Hadjikhani & Thilenius, 2005a) of a separate (but interrelated) networked arena for political competence working in parallel with the business market. This political sphere entails knowledge about political decisions, government agencies, decision-making and the ability to mobilise resources, with political exchange similar to business exchange, although they consider that it is missing product and technological interdependency. Hadjikhani and Thilenius (2005a) go further in suggesting that government ties can be even more important than the focal relations in heavily politicised business areas. Here, companies will require rules and clarity as to government’s coercion and/or support. Examples of political support are, for instance, subsidies such as tax exemptions, sales support, preferential treatment, including research & development subsidies, export incentives or beneficial location of plants to certain areas or regions. The notion of coercion implies the exercise of legitimate power to force business firms to follow the political decisions. Examples of political coercion are restrictions on firm’s activities, for instance, market regulations, procurement rules, trade barriers, taxation, nationalisation, imposition of quotas or preferential treatment, reserving market for certain firms at the expense of others. Simultaneously, governments can also be seen as dependent on firms, since business investments impact groups, on which governments depend (Hadjikhani, 2000; Jacobsen et al., 1993). Hadjikhani and Thilenius observe that businesses’ political activities are based on knowledge about political decisions, agencies, decision-making processes and procedures and the ability to mobilise resources, where the size of the business firms is central and where large companies are equipped to engage in a larger spectrum of politics than small firms. Such correlation between business size and political activity has been demonstrated by, for instance, Hadjikhani and Ghauri (2001), suggesting that small companies rely on intermediaries, whilst large companies establish themselves in the vicinities of political powerhouses in order to affect political agendas. Although
Pourmand (2011) demonstrates that information technology also helps small business actors to be involved in politics, the ability to influence politics seems to also depend on market powers (for instance, market position, communicative capabilities, knowledge and commitment). Firms thus seek to influence governments to obtain advantages, such as public sector contracts, licences, permits, supportive polices, tax concessions, research funding and various other forms of support.

In many business studies, governments or states are seen as homogeneous and stable, not distinguishing various organisational authority levels. It has, however, also been observed that changes in political actor values and uncertain positions of non-business actors affect the stability of relationships. Change increases uncertainty, where there is also a distinction between the impact of changes in administration and in politics, with administrations having their own actor identity (Hadjikhani, 1996; Hadjikhani & Håkansson, 1996; Hadjikhani & Sharma, 1999; Sharma & Jansson, 1993). The state should therefore not be approached as a single unit but as more complex, composed of a variety of actor bodies such as government, parliament and scrutiny bodies, ministries, agencies, departments or individuals that can be governed by sometimes opposing objectives, roles and responsibilities and their own rationales. Indeed, the organisation of any democratic state implies inherent contradictions of actor roles such as that between line ministries, e.g. Ministry of Defence and Treasury, or agencies. Within defence equipment production, it is not unusual that some parts of the state apparatus seek to promote activities (the Ministry of Defence), others seek to control it (Treasury, arms exports control agencies) and others again seek to constrain it (foreign office).

Studies of business influence on politics tend to focus on lobbying and bribery or government legislation and purchasing decisions (Harris & Lock, 1995; Jansson et al., 1995). The focus on lobbying has also been seen as too limited, where broader perspectives of the political activity of firms can be applied to all stages in legislation, from policy formulation to implementation (Jansson et al., 1995; Welch & Wilkinson, 2004, 2002), and to more subtle processes of sharing commitment and knowledge where commitment can be quantified, for instance, in terms of investment in counterparts or connected actors (Denekamp, 1995; Scott, 1994). Also, establishment of a political unit within a firm’s organisation or investing in external organisations is a measurable political involvement. Knowledge by firms and governments about each other’s values and activities represents investments that increase trust, where governments are expected to satisfy different actors with conflicting demands, as political actors themselves are embedded in a political setting where actors undertake influential activities and where political actors derive legitimacy to exercise supportive and coercive powers from values and norms. Firms therefore invest in political relations to gain influence, legitimacy, commitment, knowledge and trust by demonstrating that they adhere to prevailing political norms and values, where interaction and management of government relations
are vital and strategic for all firms (Hadjikhani & Sharma, 1999; Hadjikhani, 2000; Hadjikhani & Lee, 2006; Jansson et al., 1995).

2.4 An actor-relationship model

As described in Chapter 1.7, the approach of this thesis is based on the identification of four arenas where companies manage dependencies by seeking to influence or adapt, to avoid coercion, instead seeking support. Political actors here derive powers from legitimacy, whereas business actors draw market power from the ability to transform resources. It may be noted that this terminology is not clear-cut across all research. Lundmark (2011), for instance, talk about government influence. The model at hand here can be illustrated as below in Figure 2.3:

![Figure 2.3: Business actors’ pursuit of support and influence based on market power and legitimacy intersect four arenas.](image)

Characteristics of these activities are defined as follows:

**Business adaptation** can be seen as the willingness of partners to invest in relations. High levels of adaptation require high levels of investments that generate strong relationships. By contrast, low levels of adaptation mean weak relations and a higher probability of partner mobility. Local adaptation is phrased in terms of matching supply to needs, as proposed by the Ansoff matrix (Ecobici, 2017). According to Hadjikhani and Thilenius (2005a), adaptation can take the form of technological or organisational change that makes
actors more dependent on each other. This also implies integration, where adaptation can take the form of 1) specific changes according to actors’ request, 2) product modifications to fit actors, 3) technological advice to other partners, 4) service and delivery adaptation and 5) adaption to other actors’ administrative routines.

**Business Influence** reflects market power, translating into influence with the aim of avoiding political coercion or seeking support. Five aspects of economic structure that have been seen likely to affect business influence over politics are firm size, industry size, market concentration, profitability and geographic dispersion (Salamon & Sigfried, 1977). As observed by Lerbinger (2005), corporate power strategies affect the market position, as public relations departments position firms to respond to political issues and concerns. Corporate political activity may here be analysed, for instance, in terms of financial contributions to political parties or lobbying (Hansen & Mitchell, 2000). In corporations with diversified business units, various types of conflicts may occur in the formulation of business–government strategies between business units and various stages of the policy formulation process (Shaffer & Hillman, 2000). Influential firms manage dependency by seeking to transform coercive rules into, for them, being supportive, hindering competitors, increasing bargaining powers, enhancing subsidies and financial support and, consequently, enhancing profitability (Hadjikhani & Lee, 2006). Influence can take the forms of 1) public strategy formulation, 2) lobbying through argumentation, earning legitimacy to public strategy, 3) financial contributions to drive certain policy issues and 4) regulation in line with corporate policy.

**Political Coercion** can be seen as emanating from power based on a legislature, an executive and a judiciary (Lerbinger, 2005) where political actors can use legitimate powers to enforce or regulate business actors to follow political decisions through laws and regulations. Examples of coercion are restrictions on a firm’s activities, such as market regulations, procurement rules, trade barriers, taxation, nationalisation, imposition of quotas or preferential treatment. These measures, in principle, reserve market opportunities for certain firms at the expense of others. DiMaggio and Powell (1983) assert that firms will only perform conscientiously if coerced by governments, yet more complex factors are at play in the overall political setting. Companies now seem increasingly inclined to use resources in accordance with prevalent ethical norms of society, for instance, in respect of environment, human rights and alike (Clemens & Douglas, 2006) and none the least to forestall reputational damage (Lerbinger, 2005). Indeed, Greif (2005) observes that developing markets may evolve without political coercion, which may instead be exercised by a multitude of actors. Hall and Biersteker et al. (2003) observe that authority does not
always depart from governments, but increasingly takes root in non-state societal and transnational spheres through private transnational regimes, transnational religious movements, nongovernmental organisations and even criminal entities. Thus, the types, or form of focal actors as well as ancillary actors can well expand.

**Political Support** is assumed to enhance a firm’s business performance, where public business support may take a multitude of forms. Studies show, for instance, that project funding directly and indirectly affects firms’ innovation by stimulating internal R&D funding and upstream and downstream collaborations, such as networking with research and business partners (Kang & Park, 2012). Studies on the efficacy of R&D policy measures in support of high-tech indicate that subsidies awarded on a competitive basis lead to a positive effect, while those assigned through an automatic procedure do not (Colombo, Grilli & Murtinu, 2012).

The dichotomies of business and political activities are not self-evident. Grolin (1998) defines large companies as “political corporations”, attributing to them government like roles and social responsibilities. Meanwhile, political scientists have advocated a perspective on states as corporations. These conceptual slides of one as the other reflect an inherent ambiguity and mobility of actor roles. Also, companies will seek to advance from government coercion and business adaptation to a situation through influence, in pursuit of political support. Stiegler (1971) has observed that companies indeed seek to influence government coercion to the benefit of their own interests. Companies may thus seek to transform a market position of dependency, conflict, mistrust and one-sided decisions into mutual interdependency, interaction, cooperation, trust and negotiation.

High adaptation by actors in exchange relations also means high interdependency (Hadjikhani & Thilenius, 2005). Companies’ adaptive activities do not necessarily mean they obey governments’ coercive requirements: As suggested by Hadjikhani (2000), firms’ adaption to rules and legislation imposed by political actors can lead to unwarranted administrative, financial and material costs that affect business ties, marketing and competitive position, ousting business out of the market or even bankruptcy. Companies can also choose to change, exit the market or undertake irregular activities, such as bribery. Extensive government requirements may thus generate high adaptation costs, but the higher a firm’s resource commitment and knowledge about political actors, the higher their influence and the lower the adaptation cost. To be influential and gain specific support targeting a specific business activity, the company requires negotiation and co-operation. Consequently, it is important to have managers with sufficient political knowledge to influence policymaking (Hillman & Hitt, 1999).
Actions and activities attributed to business actors’ and political actors’ in industrial marketing theory can be summarised as in Table 2.4 (non-exhaustive list):

<table>
<thead>
<tr>
<th>Actor type</th>
<th>Activity</th>
<th>Actions</th>
</tr>
</thead>
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| Political  | Coercion | Market regulation, including  
1) Formulation and implementation of procurement rules  
2) Establishing trade barriers  
3) Taxation  
4) Nationalisation  
5) Imposition of quotas or preferential treatment  
6) Reserving market for certain firms  
7) Establishing political units within a firm’s organisation |
| Support    | Upstream and downstream collaboration and networking with universities, research and business partners, e.g.  
1) R&D subsidies  
2) Innovation support  
3) Project funding  
4) Preferential treatment\(^{37}\)  
5) Sales support  
6) Export incentives |
| Business   | Influence | 1) Public Relations and strategic communication,  
2) Lobbying or creation of pressure groups  
3) Bribery  
4) Bargaining, financial contributions to drive policy  
5) Alignment of regulations with corporate policy |
|            | Adaption | 1) Specific changes according to actors’ request  
2) Product modifications to fit actors  
3) Technological advice to other partners  
4) Service and delivery adaptation  
5) Adaptation to other actors’ administrative routines |

\(^{37}\) Including production subsidies and tax exemptions, beneficial location of plants to certain areas or regions.
2.5 Ancillary actors in business relations

Business research identify various actors operating outside the focal relation, labelled intermediaries, institutions or ancillary actors. As observed in Chapter 1.2, terminology and content of ancillary actors are variable and inconsistent in the literature. An ancillary actor can be understood as a competing company, a supplementary actor or other actors outside the focal relation, where business intermediaries or political bodies may also be seen as ancillary actors if they hold significance for the focal relation. The relations to ancillary actors are, however, per definition, always outside the focal relation.

Blankenburg-Holm and Johanson (1997) identify five types of business relations in addition to the focal relation: 1) connections to competitors, 2) vertical connections down the value chain that proceed and follow the focal dyad, 3) supplementary connections between the two firms in the focal business relation, 4) supplementary connections outside the focal relation and 5) connected relationships to ancillaries, such as various non-commercial organisations and agencies. Thus, connections of types 3), 4) and 5) may imply ancillary actors. The so-called supplementary connections (3) may imply joint ventures or projects if they are really supplementary and not part of the direct exchange. Wilkinson et al. (2000) consider the “secondary network” that supports the primary as ancillary, in the sense of sub-suppliers to the principal value chain (which seems to relate to Blankenburg Holm’s definition 2) and 3) above. Wilkinson et al. (ibid.) observe that firms need specialised inputs from other organisations, where these organisations include suppliers, intermediaries, customer organisations, and government organisations’ effective exchange is needed to create and access value inputs. Whereas governments are here seen as incapable of designing networks, the role of governments is to facilitate the development of industrial relations and provide an efficient framework to organise networks (ibid.). Wales and Wilkinson (2002) also suggest four dimensions to further the understanding of how political institutions affect businesses: Sovereignty/multipolarity, dominant policy style, dominant ideology and institutional mix. They also suggest that there are three types of networks, inter-business networks, government-business networks and inter- and intra-government networks.

Håkansson and Snehota (1989) observe that in long-lasting business relations, intermediaries outside the focal relation affect it. In some research, intermediary actors are interpreted as generally supportive. Havila (1996), for instance, discusses triadic business relations, including an intermediary acting as ‘the hand in between the buyer and seller’, bringing customer and seller together. Intermediaries may seek to assume a wider mandate. Hadjikhani and Thilenius (2005a) expand the triadic relation between business-to-business relations to also include political actors. Several observations have also been made on the dynamic role of intermediaries, which may transform the strength and content of the business relation over time (Havila, 1996). The roles of
customers and sellers may change so that they can deal directly with each other, omitting any intermediary, thereby overtaking its role (Stern & El Ansary, 1992). Reciprocally, an intermediary can instead become an actor within the focal relation (Håkansson & Snehota, 1989). Thus, in a triadic relation, buyer, seller and intermediary are all connected, where power distribution is imbalanced rather than equal, and power imbalances may give rise to changes that replace the triadic relation with a dyadic (Havila, 1996). Thus, research seem to suggest ancillary actors may also seek expanded mandates and coercive roles, where ancillary actors may also appear in a variety of forms. For instance, Hallén (1992) identifies “infrastructural networks”, based on social ties of organisations or persons that are important for information, communication and influence. These represent assets for firms that may be just as important as business relations.

Also, institutions may be seen as ancillary actors in terms of actors that implement laws, customs or settled habits of thought that govern relations (Veblen, 1919). Edquist and Johnson (1997), in a taxonomy over institutions, define formal institutions as codified rules, and informal institutions as habits or social norms. Young (1996), however, considers that institutions are not actors in their own right, but more regulatory frameworks affecting the environment. He recognises however that institutions derive authority from “habits”, which may affect a focal relation. So, are firms, then, also institutions? Indeed, institutional economics regards firms as institutions. Within this field, collaborative corporate influence on EU institutions is studied by Bouwen (2002a, b). Bouwen (ibid.) observes that firms have a role in supplying expert knowledge about markets and technologies to collective associations for “European interests” and similarly to national associations about “national interest” of their members. Eising (2007) analyses 800 business interest associations and 34 large firms, observing that relations to the EU are shaped by the resource dependencies, opportunities and capacities of EU institutions and interest organisations.

Legal frameworks, institutes, regimes, public authorities, governmental bodies and international organisations have mostly been considered important, but secondary for studies on industrial business relations (see, for instance, Blankenburg & Johanson, 1991). Granovetter (1985), however, sees firms as embedded in networks of social and exchange relations, referring to the embeddedness of suppliers, customers, competitors and regulators, implying that institutions should be regarded as a fourth form of network actor. A growing body of research suggests companies play a role in institutional development,

38 This field considers ‘the emergence, development and functions that are part of the economic system’ (Hodgson, 1993).
39 An international regime can be defined as norms, values, principles, practices and procedures that converge in a given area, guiding and governing the behaviour of an actor network in international relations (Krasner, 1983). Regimes may differ from institutions, by an absence of actor identity.
serving as agents of diffusion, learning and convergence in institutional systems (Sell, 2003, 1999). Firms are embedded in a political setting of national culture and state authorities, that also include international bodies, treaties and laws. Control and governance can here be performed by a variety of public and private, state and non-state, national and international institutions and practices, including trade associations and their lobbying activities (Hillman & Hitt, 1999; Hirst & Thomson, 1996; Wilts & Meyer, 2005).

Dahan et al. (2006) look at how firms transform company policy networks into actors that seek to influence institutional development, which formulates and implements public policies. Activities of pressure groups, lobbying, bargaining and bribery are studied by several researchers (Bolton, 1991; Crawford, 1982; Rose-Ackerman, 2010), and policy transfer between business, politics and institutions is studied by Drezner (2001), who identifies imposition via the EU “acquis”. Klijn and Koppenjan (2016) consider that hierarchical relations lose relevance because authority, knowledge and means are distributed across many actors. Activities, here, go beyond the boundaries of organisations, public and private sectors, and administrative units requiring a shift from hierarchical top-down remedies to horizontal cooperation (Klijn & Koppenjan, 2016). This also suggests a need for interaction and cooperation between companies and authorities, where ancillary actors may serve as instruments for interaction, collaboration and problem solving. Network scholars, however, seem to take a negative view of businesses’ political actor influence (Blankenburg-Holm, 1996; Wilkinson et al., 2000), considering ‘governments can and should play only a limited role in facilitating network evolution. Most importantly, they are limited to their ability to respond to the increasingly rapid pace of technological and industrial development and restructuring that ever challenges organisation and network relations and structures as traditional forms of government bureaucracy are ill equipped to handle such fast-changing landscape’ (Wilkinson et al., 2000). Political actors can, however, also be seen as dynamic and evolving, depending on power balances, procedural complexity, legitimacy and value systems amongst actors, including their ability to understand political values and undertake appropriate actions (Hadjikhani & Thilenius, 2005a). Also, innovation research and studies of cluster efficiency underline the importance of business connections to public actors, where industrial districts or clusters of business and public institutions are seen as important for growth. It is, here, also observed that there is a tendency in such clusters to attract like-minded individuals that communicate and transfer knowledge in similar manners and also build institutions of a similar nature (Audretsch, 1998; Cantwell, 2000; Markusen, 1996; Rugman & Verbeke, 2001).

It has been suggested that ancillary actors are particularly important for sectors defined as equipment (Håkansson & Johanson 1992), thus implying an importance for defence companies. As already observed defence companies also work in a political setting. Therefore, political ancillary actors can
be expected to appear in defence equipment production, potentially also taking coercive roles. Such ancillary actors may be identified by criteria such as objectives associated with focal relations, organisational legitimacy, organisation, resources (staff and budget) and procedures.

2.6 The political setting of business actors

Johanson and Mattsson (1991) introduce institutional setting as the framework within which an entire industrial system is embedded, thus a macro perspective, whereas an embedded business relation at the micro-level can be defined by mutual, long-term adoption, in terms of relation specific investments (Forsgren et al., 2005). The setting can thus be considered wider than a mere market. Studies on inter-firm linkages for long played down the broader setting of business activities in favour of focal relations (Andersson et al., 1994; Halinen & Törnroos, 1998; Welch & Wilkinson, 2002). Subsequently, a substantial number of business studies look at extended complex embeddedness and interdependencies (Halinen & Törnroos, 1998), concluding that companies’ relations are interdependent and inseparable from their market context or setting and connected actors. Firms are perceived as embedded in several settings simultaneously, each with its own distinct characteristics (Forsgren et al., 2005) extending to non-business actors. New relations and partner decisions are influenced by the relations in which actors are already embedded, where new relations can alter the network that created them in the first place (Gulati, 1998). Domestic firms tend to develop closer relations than foreign firms (Wilkinson et al., 2000), where large foreign companies can be expected to suffer what Hymer (1960) labels as the “liability of foreignness”. Companies may therefore seek legitimacy in foreign markets by appearing as a local business actor. The more committed and knowledgeable a company, the more influence it can assert, and the more specific public support it can receive to develop its competitive position (Hadjikhani & Lee, 2006).

Companies may reinforce their position in foreign markets through acquisitions or mergers of local companies to overcome uncertainty of the foreign business setting. Such activities may occur particularly when facing coercion, regulations or lack of resources, by acquiring the competency of staff with political experience (Hadjikhani et al., 2008; Hadjikhani & Thilenius, 2005a). Mergers and acquisitions can also take place to acquire first-mover advantages in business climates with actor competition for market power (Hoenen & Hansen, 2009), but can also be driven by non-rational motives. Simply buying into markets is, however, risky as estimating corporate values is challenging and uncertain. Mergers and acquisitions based on stock market appraisals have been estimated to fail in 65–85% of all mergers (Anderson, Havila & Salmi, 2001; Schenk, 2008). Similarly, Markusen (1999, 1997) observes that cost
savings from mergers are difficult to document, resulting in a loss of competitive discipline, diminution of R&D and innovation, poorer quality and higher prices, with little evidence of positive effects on cost structures and performance. However, defence mergers are not only driven by expected efficiency gains, but by market power, political leverage and values, and access to political funds, including in a foreign setting. Mergers have also been explained as justified by failing business strategies rather than economic rationales (Schenk, 2008). This may reflect that in oligopolistic markets with high entry barriers, short-term economy may need to stand back for the long-term financial advantage of remaining as one of few survivors (Aussilloux & Lemetayer, 2000).

Hadjikhani and Thilenius (2005a) believe that political embeddedness of a company may be as important as, or even more important than, its business embeddedness. Embeddedness can be seen as the contextual structure, environment or setting around any relation, extending beyond firms to other actors, including political or ancillary actors. Many researchers observe that more studies on the interaction between political and business environment is warranted (Hadjikhani & Thilenius, 2005a; Ring, 2004, 1990; Welch & Wilkinson, 2004; Yarbrough & Yarbrough, 1987).

2.7 Prior studies of the setting of EU defence companies

Guay (2014) suggests offering a ‘definitive treatment of the business environment of Europe’. As a business environment evolves continuously, and there is an infinite number of perspectives to apply, it seems unlikely to ever fully charter a business environment in all its facets. In particular, as studies within business science, relating to “EU/European defence business” or “European defence industry”, are few, as displayed by a literature survey. Various perspectives, however, cast light on defence business from various angles. For instance, management, audit, finance, leadership and organisational development (Kenny, 2006), bribery (Gilby, 2014; Hadjikhani & Håkansson, 1996) and defence-systems sales (Kapletia & Probert, 2010). Buttler (2008) and Butler, Kenny and Anchor (2000) study the relation-building and cross-border alliances of European defence businesses. They conclude formation of alliances varies between sub-sectors, depending on learning, trust and culture, with high levels of cross-border cooperation in electronics and platform manufacturing. Here, small and medium sized firms tend to channel their relations via joint ventures that also allow foreign firms to appear as local suppliers in order to win foreign government contracts. Satta et al. (2015) look at resource sharing and alliance portfolio characteristics in the defence business as means

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40 Literature searches were carried out in 2018 and 2019 in the Uppsala University library databases (see table 3.5).
to access information and know-how held by other actors to boost firms’ innovative performance (measured as patents). Public-private partnerships in defence are examined by Trim (2001) who observe that in the defence sector, relations are subject to not only value for money but also close government and business relations within the context of national security and foreign policy. Also, studies on project marketing and system sales (Cova, 2002) provide insights on client interaction before sales, which are valid also for defence equipment sales.

In the Swedish academic context, there are some studies on defence companies, such as Anderson (1984) studies Hägglunds (the armoured vehicle manufacturer), that however explicitly refrains from the defence part of the firm. Ahlström (2000) studies large systems offsets. Lundmark (2011) looks at transatlantic defence industry integration, studying transatlantic primes from a policy perspective, also looking at discursive discrepancies. Poblete (2017) studies supplier relations in a thesis on how manufacturers switch back to old suppliers, where defence firms serve as an empirical study object. There are also business studies regarding politically sensitive and heavily protected settings, other than those of defence companies (Glimstedt, 2001; Sölvell, 2002).

A wealth of multidisciplinary publications on various aspects of defence equipment production are outside academic business studies, emanating from other disciplinary fields or cross-disciplinary institutions for applied research. Irrespective of the strand and origin of research, it is, however, recognised that many central issues relating to defence business actors are not well researched by academic institutions. This observation also applies to European integration in defence as a whole, with its two competing models of NATO and EU and their rapid change (Ojanen, 2006). Across disciplines, academic literature also tend to look at defence equipment production at a macro- or policy-level rather than a micro-level. Attention to the defence equipment relations from disciplines outside of business science emanates, in particular, from political science, international relations, and peace and conflict research. Here, studies have looked at, for instance, defence industrial offsets, civilianisation of defence production, and the politics of defence production and the relationship to security policy (Brauer & Dunne, 2005; Eriksson, 2006; Hagelin, 1976; Hayward, 1997; Maye, 2017; Mörth & Britz, 2004; Smith, 2004). Studies have also looked at the intersection of defence economics and industrial economics (Eliasson, 2010; Hartley & Hooper, 1990; Markusen, 1999) and systems management and innovation in defence equipment acquisition (Holmberg, 2003; Molas-Galart, 2001; Texier, 2000). Moreover, there are also law studies on defence equipment acquisition (Trybus, 1999).

There are numerous publications on defence business within applied interdisciplinary international research (for instance, ISS and SIPRI) or national defence research bodies, such as RUSI, the Royal Institute of International
Affairs, the French Institute for International and Strategic Affairs (Iris – including its 2016 Armament Industry European Research Group – Ares) and FOI. This research is connected to operational purpose or normative agendas. For instance, the EU Institute for Security Studies has a large publication that aims ‘to assist in the development of a European security identity’. Thus, research is sometimes already positioned to conduct an organisations’ role, for instance, by recommending policy action for European defence business consolidation to ensure strategic autonomy, economies of scale or other purposes.41

Studying defence business as a separate market is not an evident choice as the exact boundaries of the EU defence business setting are not given and as actors are connected to related markets, such as space or security, and down the supply chain to firms producing civilian equipment. Whereas state-to-business relations of defence businesses have attracted attention in a significant number of studies, as concluded by Kenny (2006), business-to-state relations or the connectedness to European defence equipment bodies, are not fully researched or understood. Lundmark (2011) however observes that business behaviour would seem erratic without consideration to the specific conditions imposed upon defence companies by governments.

To theoretically frame the four different arenas identified in this thesis of the empirical case, the EU setting for defence equipment business, a number of research contributions are useful. The following sections take stock of some relevant research findings and observations.

International bodies in the business setting

Many of the international bodies that embed primes in their present business setting date back only to the post-war era or later. Here, it is observed that globalisation of firms and markets is paralleled by eroding national powers at both the national and transnational level (Ruigrok, 2002; Djelic & Quack, 2003). Several researchers (Dacin, Ventresca & Beal, 1999; DiMaggio & Powell, 1983; Hirsch, 1975; Scott, 2008; Weber, 1930) observe that business actors are driven by legitimacy obtained from several types of other actors, such as shareholders, customers, governments, public interest, institutions or ideologically based ethics. These actors create pressure on businesses’ strategic actions and outputs through rules, regulations, norms and/or expectations. Business actors may here seek to gain competitive advantage through social legitimacy and influence by connecting to, controlling and engineering their environment (Bresser & Millonig, 2003; Oliver, 1991). Influencing organisations to serve business objectives has given rise to institutional entrepreneurship, a subfield focusing on ‘activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new

institutions or modify existing ones’ (Maguire, Hardy & Lawrence, 2004). Within this field, researchers seek to establish, for instance, whether regulative structures also seek to create a normative base (Palthe, 2014), thus being involved in the shaping and perpetuation of their own legitimacy and the extent to which change pressures come from embedded agencies or individual CEOs (Staessens, Bruneel & Symeonidou, 2019).

There is considerable confusion regarding both the definition and meaning of the word institution (Bresser & Millonig), with ambiguity as to whether institutions actually constrain or facilitate firms’ competitive advantages (Yang & Su, 2014). Presumably, this depends on the specific case at hand.

Various forms of corporate legitimacy are acquired through corporate adaption to their setting. This has been considered relevant for companies’ survival (Markusen, 1996; Yang & Su, 2014). Despite seminal works in institutional organisation (Sahlin-Andersson et al., 2012), limited attention has been paid to business legitimacy acquired through international institutions. International institutions are mostly interpreted as a background factor, part of the generic business setting. The term “institution” itself has been so widely used in international relations, sociology and law studies, for instance, that in this thesis, it is considered more useful to speak about “bodies” when describing the empirical setting. Consequently, the term body is used for political institutions studied in this thesis.

In political science, functional regime theory argues that international regimes are created and maintained to help states overcome collective action problems, reducing transaction costs and uncertainty. Against such common interests of cooperation stands sovereignty and avoidance of exploitation, which seem underestimated as obstacles to institutional progression. Wagner (2003) observes that actors who wish to keep sovereignty and autonomy are unlikely to push supranational institutions or endow them the significant powers of “high” politics (e.g. foreign, security and defence policy); rather, other mechanisms pull institutional collaboration and integration. For instance, EU studies identify a “competence creep” that refers to emergence of EU-level mandates, where the EU does not have specific competence. Garben (2019) details six sources of competence creep: 1) EU legislation which indirectly affects another field, 2) court rulings extending EU’s scope of influence, 3) international agreements limiting Member States’ freedom of action, 4) “soft law”, 5) economic governance such as aid packages with strings attached and 6) intergovernmental agreements outside the EU framework. An example of

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42 Bresser and Millonig conclude that ‘Generally speaking, institutions can be defined as behavioural expectations that can be sanctioned if violated’, but the definition of Veblen (1919) seems more pertinent (see Chapter 2.4).

43 Weak institutions have been held to, instead, enhance company growth, as personal ties can replace weak institutions.

44 Five types of legitimacy identified are: market, relational, social, investment and alliance legitimacy (Dacin, Oliver & Roy, 2007).
competence creep is the 1995 Bosman ruling, where the European Court, although without a mandate in sport, considered sport an economic activity. Similarly, Deutch (1957) predicted that institutionalised procedures would create a sense of community, with mutual sympathy, trust and common interests that would drive further integration into security. In the context of emergence of networked international institutions, Claude (1964) identifies the following as drivers: the existence of independent states, a substantial measure of contact, an awareness of common problems and the perception of institutions as problem solvers.

Within international relations, international organisations, or international bodies, have been seen as means to create and implement common values and enforce international commitments. Here, centralisation, management capacity, neutrality, coordination and resource pooling are significant assets resolving actors’ need to manage everyday interaction as well as more dramatic episodes (Abbott & Snidal, 1998). International relations studies also provide that institutions’ effectiveness depends on common interests, participation, power distribution, accountability, fairness and value sharing (Keohane, 1998; Young, 1992) and that institutions are not static over time but depend on participants’ values. Nor are international institutions the sum of its parts, but can have both greater and smaller agendas, depending on the importance, norms and information attributed (Keohane, 1998). As Andreani (2000) explains, it seems indeed plausible that the growth of institutions builds upon social mechanisms, such as reassurance and commitment, command loyalty and legitimacy. Similar to business studies, international relations studies tend to downplay the role of international organisations and criticise rational actor perspectives (Abbott & Snidal, 1998). Then again, international relations studies also struggle to explain the rapid growth of the EU’s political institutions, particularly in high politics and defence (Howorth, 2007). Whereas some observers consider Europeanisation an irreversible process, rendering national champions null and void (Hebert, 2000). Eriksson (2006) also proposes that integration in defence, with new institutions reflects a reduced importance of defence. However, experience shows that integration in Europe is neither linear, nor necessarily irreversible, examples being the Euro crises, migration crises, Brexit, measures to handle terrorism and upsurge of nationalism.

If institutions are defined as repetitive habits, as ‘systems of enforced norms, routines, conventions and traditions in which individual economic activity is embedded’, instead of organisational bodies, it becomes more an infrastructure that facilitates or hinders coordination and resource allocation (Groenewegen et al., 1995; Sjöstrand, 1995). Business research may, in this context, approach institutions more from a sociological perspective, focusing, for instance, on isomorphic pressures. Jay (2013) and Klarner and Raisch (2013) suggest integration pressure creates a commonality of values that triggers a sense making, leading to alignment and dominant norms, where adher-
ence to dominant norms means legitimacy. Thus, by appearing as others, isomorph pressures may translate into, for instance, concrete governmental mandates, contract law or financial reporting requirements. Accordingly, actor similarity in values and norms may emerge, as institutions are also socially constructed entities.\footnote{One strand of business research focuses on such non-market institutions as determinants of corporate political activities (Hillman & Keim, 1995; Hillman, 2003; Rodriguez, Siegel, Hillman & Eden, 2006; Windsor, 2007) directing attention to formal constraints, such as rules, and informal constraints, such as culture and norms and how individuals are attracted to, selected by, and choose to remain within institutions. Jackson and Deeg (2008) believe there are only generic conceptions of business influence across institutional settings, with a particular lack of business studies on European institutional settings. Coen (1997) and Cowles (2001), however, do indeed study companies as the EU evolves, and this body of research is increasing. Hillman and Keim (1995) observe that business interests can be organised into umbrella associations, developing activities for political purposes, concluding that the most powerful associations are those that are inclusive in their representation of business interests and represent policy positions that provide broad benefits rather than more specific or narrow policy positions. The consultation and negotiation between leaders and staff from umbrella associations and ministries, seem important for policy development in parliamentary systems, is studied by Yang and Su (2014), who observe that firms are exposed to coping pressure from several institutional layers (macro-, meso- and micro-level) and that when taking advantage of institutional capital, there is a trade-off between legitimacy and efficiency.}

Businesses’ political activity

Companies’ market positions can be related both to market resources and non-market resources. Market resources, in terms of employment and market knowledge, can enhance political leverage. Non-market resources are, for instance, the leverage for social, political and legal action. Such leverage includes organisational skills or ability to deal with multiple stakeholders, access to strategic information and public officials, company reputation, and specific information on political decision-making. Non-market assets can be strategic, particularly if they are unique and can be sustained, determining firms’ capacity to influence public policies and promote company interests. Companies’ ability to promote their interests can also be enhanced through policy transfer as analogous to isomorph pressures, based on imposition, harmonisation and diffusion, where imposition means policy convergence through external actor pressures, such as EU acquis; harmonisation corresponds to a conscious voluntary process, where states negotiate agreements and modify domestic policy accordingly; and diffusion is a process of learning from others, implementing knowledge from abroad (Dahan et al., 2006).
stakeholders’ alliances and closed issue communities that influence political actors, for instance, in the formulation of national strategies, the shaping of trade policies or defining standards (Baron, 2013). Baraldi and Strömsten (2009) and Mainela and Puhakka (2008) study how firms influence relations in their favour, observing that companies with great political leverage may adopt a conquering approach, imposing unbalanced relation patterns, securing a monopoly position on a market. This may impair sovereignty of countries. Business actions towards political actors have been criticised for normative opportunism when seeking to shape policy in their favour. It is observed, however, that governments may repel such corporate activities, reasserting authority even by seizing controlling stakes in firms, if necessary (Lawton et al., 2013). Wilkinson et al. (2000) claim that governments cannot, and should not, design cross-border business relations, but have a role to play in facilitating ties and the development of a framework that promotes efficiency. A company’s foreign operations may, however, also come under the pressure of a host country that may force the company to adapt, in pursuit of local legitimacy, especially if its activity belongs to a sovereignty domain of the host country (Rizopoulos & Sergakis, 2010).

Large companies can, instead of homogenous actors, be approached as loosely coupled entities, where subsidiaries develop their own powerful resources (Blumentritt, 2003; Sharpe, 2001). Corporate political relations can also be considered in relation to transnational institutions (Coen, 1997), where business associations, corporate lobbies and pressure activities can support companies to earn legitimacy to undertake influential political activities. When companies engage in political activities and seek to shape laws, regulations and other coercive government powers in their favour, they also contribute to institutional convergence and development (Havila, 1996; Sell, 2003; 1999; Stiegler, 1971). Research on corporate lobby activities show that EU institutions favour consensus building and European coverage when manning various expert groups, which risks conserving policy directions (Chalmers, 2014; Coen, 1997).

Issue communities

When studying defence companies, observations of issue communities can help to further the understanding of business to government relations.46 Discourse (Lundmark, 2011) and policy communities can be regarded as aspects of issue communities. Leslie Pal (2014) defines policy community as “the actors in a policy network, presumably those who share at least some common

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46 Political scientists, Pappi and Henning (1998), instead, propose an "economic typology" to understand policy networks. Policy networks may include related concepts such as “issue communities”, “policy communities” or “interest groups”, depending on stability, resources and inclusion (see Peterson, 2003). In this thesis, power networks, policy alliances, interest groups and related concepts are all included in the term issue community.
language and conceptual reference points but who may be opponents on the
issue.” Studies on issue communities identify a variety of relations of varying
content and outcome, for instance, business-to-government interaction, cons-
ultation procedures and their organisation, power distribution and stability of
rules (Brewer, 2005; 1992; Klijn & Teisman, 1997). Rizopoulos and Sergakis
(2010) maintain that a company’s influence on political decision-making de-
pends on its connections to issue communities. A dominant position in an is-
issue community may permit mobilisation of political support for expansion in
international markets. Thus, issue communities may define institutional set-
ing and the patterns of interaction, business-to-government. Suggested prox-
ies to assess a firm’s positions in an issue community can be centrality, inte-
gration, stability, strength of interaction, exclusivity of ties, powers of linked
actors and dominant interest. Closed issue communities here provide more
Corporate leverage on public decision-making than open issue communities,
since open issue communities imply loose links and weak influence by a high
number of participating actors with balanced bargaining power and little in-
terdependence. Centralisation, density, cohesion and interconnectivity are
thus lacking in an open issue community, meaning contacts are generally weak
and distant, based on consultations and information exchange. Closed issue
communities imply strong ties with recurrent and dense relations between a
small number of public and private actors that may isolate from external in-
fluences through shared interests, values, preferences and even ideology.
Closed issue communities are characterised by high centralisation, cohesion,
convergence, like-mindedness and exclusivity structured around major indus-
trial and financial groups linked by complex relations (ibid). Moreover, closed
issue communities tend to be stronger for domestic relations than for interna-
tionalisation and international competitiveness, due to factors such as geo-
graphical and cultural distance and weak personal relations. Domestic rela-
tions to local suppliers, customers and other organisations are, here, important
for foreign establishment (Wilkinson et al., 2000).47 In domains with strong
professions, formal or informal professional codes and norms may forge
stronger cross-border identity that may even be stronger than nationality (see
Howorth, 2001; DiMaggio & Powell, 1983). Common experiences, social
contacts networks and social mechanisms also support common activities,
where isomorphism leads to homogenisation or convergence, accelerated by
globalisation (Drezner, 2001). Contrary to these perspectives, Hall and Soskie
(2001) and Hoffman (2001) argue that pressures, particularly coercive forces,
result in industry and firm-level variations and heterogeneity. Dahan et al.
(2006), instead, observe that a policy network (i.e. issue community) with
tight and lasting links between members will result in the policy’s continuity,
where changes are likely to be incremental.

47 Wilkinson et al. (2000) use the term policy network.
For alliance creation, legitimacy facilitates cooperation (Kumar & Das, 1999), where legitimacy can be defined as a recognition of an appropriate behaviour underpinned by isomorphic behaviours. In other words, like-minded thinking can be expected to facilitate collaboration towards common goals, including the risk of working towards erroneous goals. Consequently, issue communities may adhere formally to a common discourse, whereas a counter discourse may occur informally in sub-groups. Research on strategic alliances acknowledge challenges, such as opportunism, conflicting strategic objectives, incompatibility in strategic and corporate cultures and lack of trust, to explain failures of alliances (Kumar & Das, 2007).

These observations on various types of issue communities seem to be applicable to defence equipment producing companies, as they also appear in issue communities underpinned by lasting and complex ties. Schmitt (2000) and Eriksson (2006) consider that under civilianisation and Europeanisation, the government’s role has fallen back in steering European defence business and equipment cooperation. Defence companies move ahead of political constraints, adapting to them, precipitating change, and driving issue communities. If defence businesses really drive Europeanisation, they would be able to lobby EU bodies. Indeed, Rufanges (2016) observes that business lobbies with offices in Brussels have great influence on European institutions. However, Mört and Britz (2004) observe that the interconnectedness of national and European defence business settings means transnational actor relations become diffuse, harder to control and more difficult to predict. Lundmark (2011) on the other hand consider that in defence production, ownership integration and operational integration is closely orchestrates by governments.

Bickerton, Hodson and Puetter (2015) and Baird (2017) challenge the notion that integration is associated with competence transfers from national capitals to supranational institutions. Instead, they recognise that all actors are important, where increased European integration can be understood without supranationalism. Here, more attention could be paid to transnational non-state actors’ influence on EU policymaking and integration, where private actors devise their own normative structures, logics and resources that may impact on government and EU decision-making.

Projects and joint ventures as temporary organisation of production
Temporary forms of organisation such as international projects or joint ventures are generally on the rise, but they have been considered understudied, lacking a coherent body of empirical research and theoretical structure (Lagerström, 2001; Schweiger, Atamer & Calori, 2003; Schweiger, 1998). Engwall (2003), in particular, notes that the interaction between permanent
and temporary organisation needs more research. Control and trust seem fundamental to the good functioning of temporary organisations, where path dependencies may generate more cooperation, regulations and new institutions (Manning & von Hagen, 2010). There have been calls for more empirically based studies on why projects exist and how they perform (Lundin & Söderholm, 1998; Schweiger, Atamer & Calori, 2003), and a growing body of research do study projects (Arto & Kujala, 2008).

International project marketing of complex and heavy systems, such as aerospace, energy and telecommunications, requires sophisticated arrangements where experiences in these domains also seem applicable for defence products. For instance, the uncertainty of predicting buyer’s behaviour and complexities at the seller side calls for specific strategies in systems marketing. Project marketing research suggest that projects tend to move out of strict time frames, re-positioning into more strategic, long-term and customer-oriented approaches. Project marketing can here be contrasted with business-to-business marketing by dimensions, such as production (mass vs unit), demand (standard vs to order), supplier-customer relationship (discontinued vs continued), financial amount (low vs high), mode of purchase (competitive bidding vs request), frequency of exchanges (high vs low) and number of companies involved in the transaction (numerous vs few). A distinction from business-to-business marketing is an emphasis on long-term perspective of relationships, where business-to-business marketing usually studies frequent exchanges of semi-finished products and components. In contrast, project marketing is characterised by buyer and seller interaction long before transactions occur (Bansard, Cova & Salle, 1993; Cova & Salle, 2005). A gradually higher level of buyer-seller integration with deeper and broader supplier to customer ties is common for both solutions and project marketing (Cove et al., 2002). Hence, a supplier may at first merely supply a product, bidding with a compliant offer. The supplier may then endeavour to alter specifications. In a deeper relation, the supplier may help the customer to identify the problem and lastly, in the deepest form, as an activity participant, redesign the customer’s business processes. The breadth of interaction, here, can also expand from limited day-to-day business activities, to ultimately associate the focal network of the customer and supplier.

International project collaboration is often connoted with problems rather than benefits, such as slow implementation and increased costs. The causes of such problems are often attributed to factors such as cultural distance; ‘the adjustment to something different and foreign, where government and industrial organisations (not unlike the human body) develop antibodies which tend to reject and repel anything foreign’ (Callaghan, 1975). Lundmark (2011) maintain that in defence projects, process integration is generally not encouraged. Multi-stakeholder projects may fail because key actors cannot be mobilised, or partners are incapable of establishing common ground. Strategically
coordinated projects across national boundaries may here facilitate international institution-building. Thus, global projects can be seen as intermediary organisational forms, where project-based business relationships generate subsequent projects, as the network relationships, already being there, may not require reactivation (Bengtson, Havila & Åberg, 2018). However, cultural differences may also cause problems, where lack of trust can lead to the termination of relations (Butler, 2008). Accordingly, partner legitimacy (value congruency) and trust (predictability) are key for the development of strategic alliances (Kumar & Das, 2007) that may develop from projects.

Transnational projects have often been approached as an organisational form for solving specific tasks, knowledge transfer and knowledge development, but they can also stretch across national and hierarchical borders within multinational corporations to subsidiaries (Lagerström, 2001; Bartlett & Goshal, 1991). Doz and Prahalad (1992) and Martinez and Jarillo (1991) look at projects as a means for headquarters to control subsidiaries or corporate units. Projects can also be studied as a form of joint production between firms across borders.

Collaborative defence projects and joint ventures (JVs) have increased dramatically in the EU over the years. From 1970–86, there were two; 1986–90, there were nine; and from 1991–94, there were twenty. For the period 2007–2016, JVs in military aerospace accounted for 34.2% and for equipment 10.5% of the total turnover. Within European projects in defence, difficulties lie in the reconciliation of technical requirements, different standards and specifications, secrecy and information policies, export restrictions on technology transfer, taxes, duties, national planning policies and, in addition, issues regarding power, control and cost sharing. A 1999 review by McKinsey of 75 major European defence projects noted that collaborative projects are, on average, 30% more likely to encounter cost overruns, which could be six times higher than corresponding national projects and with a service date slippage of 40%. Partners may consider that greater interoperability, important for military effectiveness, outweigh such caveats. Moreover, production volumes can be higher and, consequently, unit costs lower. The McKinsey study also concluded government officials are less able to formulate detailed systems specifications than the companies and that if the product does not deliver according to specifications, then it is hard to claim accountability for substandard performance. Consequently, they believe that collaborative projects should be industry rather than government led. The British NAO, in a 1999 review of 25 national defence projects, observed average delays of almost two years and 16 projects that exceeded budgets for a total of GBP 2.8 billion. These issues

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48 This does not seem specific for European defence projects, as the cost overruns for the Joint Stealth fighter programme development alone were estimated at USD$ 51 billion in 2005 (Sevastopulo, 2005).

49 Dowdy, 1999-05-26, i.e. the partner at McKinsey responsible for the study.
primarily relate to changes in nature, scope and timetables of these projects and a higher than general inflation rate.\textsuperscript{30}

Hadjikhani and Thilenius (2005a) express that interdependencies in projects and processes can be studied as adaptation and relation investments. High levels of adaptation require large investments. In a weak business relation, adaption is low, and the mobility of partners increases. Consequently, adaption can be measured as

1. Efforts to make unique changes adapted to the counter-parts’ requests
2. Product modification to fulfil needs of partners
3. Efforts to provide technological advice to customers
4. Service and delivery adaption
5. Administrative adaptation to increase information and production flows
6. Common staff training
7. Frequency and number of staff involved in joint meetings
8. Financial investment for adaption
9. Organisational delegation of specialised subunits with greater knowledge about the specific relation

A joint venture may provide less committing forms for collaboration, which is easier to agree than complete fusions of entities into a new company. On the other hand, power division becomes less clear if there are numerous joint ventures in operation with several actors. Joint ventures are often assumed to retain a power balance of 50/50, but there is effectively an array of possible constellations, including both majority owners and multiple actors. There are also different types of JVs, where those that are autonomous from their mother companies are fundamentally different from those where control is maintained. If the mother company maintains control, the joint venture must be seen as an extension of the mother company, whereas if the joint venture is working in independence, it should be seen as an autonomous unit. This thesis concerns ancillary actors, thus joint ventures of the latter type.

Joint ventures can be approached, for instance, from the perspective of transaction costs, strategic business activity or as instruments for knowledge transfer (Kogut, 1988; Parkhe, 1993) and as embedded relational networks rather than as dyadic relations (Mainela & Puhakka, 2008). International JVs can also be seen as a market entry mode, whereby companies enter foreign markets. As foreign partners in host countries, multinational companies can contribute advanced technology and management knowledge, whereas domestic partners offer local expertise, such as connections to the government and access to land, permits and licenses. In international JVs, foreign and local partners cooperate to share and use their complementary resources and

knowledge, but meanwhile, pursue individual interests that may conflict with their common goals, so they may compete to gain control of the JV and simultaneously cooperate in value creation making “coopetition” a salient feature of the JV (Shu et al., 2017).

2.8 Summary

For a long time, business studies focused on focal relations of suppliers and customers, much disregarding the setting of companies. Research now increasingly takes an interest in the complex interaction and embedded relations of businesses in their settings, including political relations. Industrial marketing studies show that companies engage in policymaking, policy learning and even in international diplomacy. It is also suggested in industrial marketing studies that a separate networked, but interdependent, arena for political competence work in parallel with the business market.

Ancillary actors have attracted relatively limited interest in business science. Aspects of ancillary actors that can be studied more are, for instance, political involvement, their role as temporal organisations and as actors that bridge markets.

Industrial marketing theory suggests there are four principal types of business-to-government activities: coercive, supportive, influential and adaptive. More research is called for to exploit companies’ adaptive and influential activities in relation to politics.

Project marketing and systems sales research demonstrate that suppliers are involved in more than sales and emphasises long-term actor interaction.

Research of importance for the understanding of the setting of defence companies have been conducted, for instance, on international bodies, businesses political activities, issue communities, projects and joint ventures.
3. Research design and methodology

This chapter describes the research process behind this thesis, including the choice of the topic, approach, sample, sources, data collection, encoding, interpretation and analysis, in order to examine the phenomenon of ancillary actor.

This thesis traces its roots to reports on institutions for defence business collaboration in Europe, written at the Swedish defence research establishment (FOA) and the Institution for Political Science, Stockholm University (Gunnarsson, 1990; 1988; 1987). A trigger of research interest in this field was a seminar with the CEO of the Swedish industrial conglomerate Investor, Peter Wallenberg, who stated that there were no ties between the EU and NATO, between economics and security policy. This prompted several papers devoted to studies of European institutions, defence and the defence industry. Meanwhile, an increasing body of research looked at the interaction of firms, observing that politics and business interact constantly and cannot easily be separated (Boddewyn, 1988; Campbell, 1985; Hallén & Johansson, 1990).

3.1 Accessing empirical data – the opaque defence setting

As observed by Bizzi and Langley (2012), there are pragmatic challenges with inter-organisational studies making these more demanding than studies of a specific organisation. Studying EU defence primes in their business setting is challenging, as it means studying complex multi-actor relations over time. The defence market implies project cycles spanning decades, with secrecy for military, technical, political and business reasons. This also means opacity and data access issues, where activities cannot be readily identified by quantitative approaches. Furthermore, interviews are difficult to rely on, as many defence actors are unlikely to expose their inner activities. Also, official policies must be carefully interpreted, as they may conceal real agendas and objectives. Indeed, approaching the sector as a researcher, requests for meetings or information gave little response, as defence companies and associated institutions

were simply not interested in participating. Meetings between public institutions and defence actors also often take place in closed contexts. As it is hard to attribute quantitative value to complex connections, quantitative methods are ill suited to assess activities in the defence sector. Instead, narrative approaches seem suitable for capturing, analysing and explaining such multi-actor and multilayer activities (Makkonen et al., 2012). This longitudinal study relies on narrative approaches as it covers multiple types of actors and activities involved in the EU defence manufacturing over more than 30 years. Fortunately, there are valid and reliable open sources of information that further the understanding in the midst of all the military and commercial secrecy. Also, in collegial contexts, e.g. in trusted relations between professionals, defence actors are instead quite open or even foster a “common strategic culture”. So, in contexts of like-minded professionals, militaries, administrators and defence business leaders interact based on common professional values.

The empirical focus here is on defence platforms, implying very large and costly equipment projects with long product life cycles at the system’s integration level. In open societies, such projects are underpinned by public decisions and publicly available and readily accessible information. Thus, there will be accessible sources such as project presentations, parliamentary scrutiny, state budgets, corporate and public reports, information and media coverage by specialised press and expert studies. These will be readily accessible, irrespective of the position of the researcher. The data collection is therefore based on qualitative longitudinal research covering the EU defence market for some 30 years and the gathering and review of vast amounts of secondary data, e.g. thousands of press articles, public documentation from meetings, conferences, publicly available expert reports and secondary interviews. For instance, Defense News is a weekly publication that has been systematically reviewed. Each issue of Defense News covers an interview with a senior defence acquisition official. In total, there are 48 issues annually over 30 years, which means 1,440 interview accounts. Moreover, on average, Defense News used to have about three articles that, at least partly, covered the subjects studied in this thesis, meaning some 4,500 articles perused in this paper alone.

3.2 A qualitative research approach

Industrial marketing studies are multidisciplinary in scope and methodology, lending themselves to an array of research methods, although tending to rely much on quantitative methods. As observed by many business scholars, multidimensional and dynamic long-term actor connections and complex multi-party collaboration and competition could benefit from a greater emphasis on

48 Reforms to the academic system seem to support expedient quantitative research at the expense of more arduous qualitative approaches.
context based exploratory case descriptions and longitudinal research (Birkinshaw et al., 2011; Doz, 2011; Marschan-Piekkari & Welch, 2004; Pettigrew, 2012; Stake, 2005; Welch et al., 2011). Industrial marketing within business studies at Uppsala University seems, however, to be strong in qualitative research, judging from their list of thesis publications.

In this research project, quantitative data were used only when identifying the four main primes through size and volume of activities, ties, holdings and sales results. However, even such fundamental corporate data are sometimes manipulated. Indeed, managers from some of the studied primes have been outright accused of tampering with business information (see arena 2 in Chapter 5) and when acquiring or devolving shares, manipulation of corporate values may occur. It is recognised that calculation of profit margin, costs, price, value, depreciation and devaluation can be easily manipulated due to generic ‘fussiness of social data’ and the illusiveness of business data to represent value accurately (Morgenstern, 1950). In defence activities, values and costs seem even more ambiguous than in other areas.53

Explaining and contextualising have been regarded as fundamentally opposed by some scholars. Welch et al. (2011) remark that theorising is to generalise away from context. Mintzberg (1979), on the other hand, states that theory building requires rich anecdotal data. As noted by Bhaskar (1998), there is not necessarily a conflict between explaining and understanding as the two reinforce each other, as implied by Hegelian dialectic.54

Empirical case research is appropriate for the understanding of phenomena in their context (Yin, 1994). Such studies can provide significant contributions to our understanding of purchasing and supply management, capturing dynamics, boundary issues and temporality (Dubois & Araujo, 2007). Using multiple approaches to a case can be useful when studying several actors and units over a long time (Anderson, Håkansson & Johanson, 1994). Thus, multiple qualitative approaches may capture complex activities, such as those within the defence equipment business. The chosen approach can also be characterised as explorative, since the phenomenon of interest unveils gradually and iteratively. Van Maanen (1979) defines techniques that describe, decode, translate and come to terms with the meaning of social phenomena as qualitative research. The qualitative approach is particularly useful to understand the complex contexts and cooperation of large companies (Doz, 2011)55 but may challenge the researcher’s endurance and persistence if there is a need to cover

53 For instance, the value of a combat system is close to nil, or even negative, in peace time. It is difficult to assign adequate values to the depreciation and indexation of unique products without references to consumer goods.
54 “Dialectics” is a term used by the German philosopher Hegel (drawing from Plato and Socrates), where processing opposing views leads to a gradual evolution of understanding, drawing from emergent and imposed references.
55 Van Maanen (1988) refers to thick tales, i.e. broad multi-actor narrative stories.
a field over many years. The approach also requires a multidisciplinary, eclectic and deep understanding of the business context. This may require a combination of first-hand experience and thorough methodology knowledge in social science research and conceptual maps\(^{56}\) from which to build theory. This research project corresponds very much to that outlined by Doz. Within the frame of this multi-year study, direct interaction was possible on a professional basis on several occasions. Direct access, however, generates vast amounts of data, where the research became open-ended as it was unclear when the material actually became saturated. Pettigrew (1988) call this ‘death by data asphyxiation’, meaning there is no end to how detailed a narrative can become. Main developments, oversight and focus may be lost here amongst details, and readers will hesitate to read massive tales with undefined ends. Pettigrew (ibid.) suggests studying cases with extreme situations to achieve more transparency. Any theoretical approach may be overflowed by the multiplicity and multidimensionality of reality, and the researcher may risk cutting off the most fruitful branches of knowledge when trimming the tree of understanding. Amongst the many press clippings and materials gathered, seemingly interesting episodes sometimes derailed research, just to later be discharged. Hence, in this research project, interpretation of data grew out of gradually acquired knowledge from four parallel longitudinal studies, capturing the case from different angles. Additional data were then added as more information was gathered, reviewed and first encoded, according to a crude 2x2 model assuming four arenas for business and political relations. Whereas this grid was valuable for sorting facts and structure findings, the four simple dichotomies constrained the analysis, as it was challenging to sort complex activities. The questions may be posed if it is possible to sort complex activities in dichotomies. For instance, is government strategy a supportive or coercive tool? And cannot governments also be influential as proposed by Lundmark (2011)?

In going through the material, an interplay occurred between theory, empirics and new data, generating an evolving description with reformulation and more precision to the research questions. Theoretical inputs were acquired, resembling a “snowballing” of observations, e.g. as one relevant article gave further references to similar, which then gave references to others. Also, the initial scope was revised, and entire sections were dropped. For instance, a section capturing the arguments for and against defence business collaboration was excluded entirely.

\(^{56}\) E.g. relating concepts to each other.
3.3 Empirical case in four arenas

The EU defence business setting is chosen to empirically identify ancillary actors in this research project. Four arenas emerge from the four activity combinations as defined in Chapter 1.7. Each of these arenas is covered by a study. Whereas it might have sufficed to cover the empirical case through one study, complex phenomena also benefit from being analysed from several angles (Pettigrew, 2012). Andersen and Skaates (2004) believe that approaching phenomenon from multiple angles is the most important method for qualitative business research. Each perspective here serves to explore multiple variables, helping with the understanding of phenomena in their settings (Ghauri, 2004; Yin, 1994; 1981). Similarly, Havila (1996) describes several perspectives pertinent to observe actors outside the focal relation, because of actors’ different roles. She also proposes to cover several perspectives to cover the main variations of roles amongst actors and the impact of their environment.

Departing from these notions on why multiple perspectives are useful, Håkansson and Johansson (1992) also propose how to examine relations over time, by studying actors such as projects, companies, clusters of companies, political actors and how they are interrelated. They propose to examine:

1) Functional interdependencies, which link resources, activities and actors
2) Power structures between actors where the control over activities and resources is the base
3) Knowledge structures that tie the knowledge of earlier and present actors and
4) Temporal dependencies, in terms of memories, investments in relations, knowledge, routines, etc.

The definition of a case is not clear. Ghauri (2004) claims that case study is not a methodological choice, but rather a choice of an object to study. A case study can also be defined as ‘a detailed investigation, often with data collected over a period of time, of one or more organisations, or groups within organisations, with a view to providing an analysis of the context and processes involved in the phenomenon under study’ (Hartley, 1994). Multiple research methods, or triangulation, are useful for the understanding of a case from multiple angles. This also implies corroboration of various types of information to understand how phenomenon relate to each other. The research methods need to be carefully selected so that they supply structure (Spencer & Dale, 1979). Studying a case is suitable for areas where boundaries between phenomena and context are unclear and stretching over time. To illuminate a case,

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57 Testing validity, qualitative confirmation and falsification of propositions, discovering how the facts fit together, which implies problems with comparison, analysis and explanation.
the researcher can combine longitudinal or historical information, particularly when relying on documents and artefacts as main sources of evidence (Ghauri, 2004; Yin, 1994), but may also use a number of other quantitative and qualitative evidence. Such evidence can stem from fieldwork, archival records, interviews, financial statements, budgets, verbal reports and observations. The weakness of any single data collection should here be counterbalanced by other methods or sources. The combination of methods implies triangulation of methods, or triangulation of studies of a phenomenon from a variety of angles, in order to understand or draw conclusions, to explore different dimensions of the research issues or examine different levels of research variables. Inherent to studying a case and the methods employed is that they are time-consuming (Pauwels & MathysSENS, 2004) when they aim to generate narratives.

In this thesis, the choice of methodology is based on the contextual grid with four types of activities in four arenas as seen in Figure 3.1. The grid is useful to sort, encode and analyse empirical data, where each activity combination correlates with an arena.

Thus, for the case of products sold or purchased, i.e. EU defence equipment, in the arenas:

1) Political actors may use EU bodies for coercion upon business actors, who need to adapt
2) Business actors may seek to adapt to political actors to obtain support
3) Political actors may act supportive towards an issue community, where business actors would seek to adapt
4) Political actors may exercise coercion in multilateral projects where business actors would seek to influence these.

For the relational combinations outlined in Figure 3.1, four ‘clearly delineated but connected levels of analysis’, to quote Pettigrew (1987), are utilised to identify relevant business relations and activities. These levels of analysis are the EU’s political setting, the business primes and their market context, an issue community (e.g. a policy network) and an EU project (see Figure 3.2).

![Figure 3.2 The case, with its four arenas, approached from four levels of analysis.](image)

The four arenas are complementary. They identify ancillary actors and their activities from several angles, covering the context and interaction of European primes in boundary spanning relations. Identification of relevant business actors and clients in this field is straightforward, with the four primes and their main clients.

As proposed by Eisenhardt (1989), iterative changes in research questions and methods are normal in social science research and can be incrementally adapted according to needs. Indeed, the four levels of analysis were not initially clear, but gradually earned a higher degree of precision, as did the initial research question. For all four perspectives on the case, organisational change can be seen as triggered by changes in policy content, process and context, as noted by Pettigrew (1987). A significant issue, here, is to determine the content of the change process, where transfer of coercive powers and legitimacy can impact upon business conditions. Any assessment here will suffer from causality problems in tracing change to a specific action. Full transfer of authority in the sense of replacing focal actors is, however, readily identifiable.
The first section of arena 1 of the case (Chapter 4.1) examines the political setting for EU’s defence equipment companies as the historical evolution of EU bodies for defence, where Latham and Slack (1990) observe that ‘successful industrial integration requires an effective and comprehensive institutional structure’. Here, a power transfer over time to EU bodies would thus indicate evolution. Such power could be identified in a narrative over historical development in the transfer of authority, based on treaty texts and statements by leading actors over time. Thus, increased legitimacy can be operationalised as a transfer of authority to normative frameworks for coordinated acquisition. Concrete examples of such authority transfer would then be, for instance, common guidelines, rules, procurement law, the suspension of national award procedures and increased joint procurement, resource commitments (budget appropriations and staff) and reduction of national control over business activities. Here, business firms may also use branch bodies to collectively manage political actor relations as companies seek to influence or change institutions and regulations in a way that supports business activities (Dahan et al., 2006; Pettigrew, 2012; Sell, 2003). Therefore, the second section of arena 1 (Chapter 4.2) also covers branch associations. In studies of such associations, Dahan et al. (2006) observe that a select club of CEOs58 push EU governments to harmonise regulations and lower trade barriers. Business associations’ legitimacy can here be assessed as recognition of the association as a speaking partner for advice (Kumar & Das, 2007). Measurable indicators of the legitimacy of business associations include consultations and implementation of strategies, planning, research, sales and marketing. The formal discourse in EU bodies and reality may diverge, where states may officially adhere to collaborative rhetoric, whilst in reality retaining national capabilities. Therefore, a third section treating arena 1, Chapter 4.3, covers state control and coercion of the setting for defence production. This Chapter seeks to contrast observations of ‘pooled sovereignty’ (Keohane, 2002) with observations on state controls maintained to protect national geopolitical objectives, value for money, security of supply, knowledge access, employment, exports, non-proliferation and sovereignty. Such policy activities vary between EU nations, depending on political traditions, such as protectionist, or oriented towards free trade, value for money and military self-sufficiency.59 A toolbox of state interventions is unearthed and contrasted with the transfer of mandates to EU bodies.

Arena 2 (Chapter 5) of the case seeks to understand primes’ market positioning activities based on corporate reporting and press articles. Proxies for political activity may be compliance, avoidance, circumvention, conflicting and partnership bargaining (Boddewyn & Brewer, 1994) and search for local

58 European Roundtable of Industrialists (ERT) helped shape the European Single Market Program of 1983. In 2019, only Leonardo was a member out of the four studied companies.
59 SERA XI, 1999; Sveriges Riksdag, 2008.
legitimacy, either by conquering strategies or collaborative approaches (Rizopoulos & Sergakis, 2010). Such activities can be studied in, for instance, memberships or funding of bodies, policy departments, recruitment, representation in capitals, participation in projects, joint ventures and mergers & acquisitions.

Arena 3 (Chapter 6) of the case examines the issue community of EU defence actors in a paradigmatic discussion on a single European Aerospace and Defence Company (EADC) Focusing on an issue community may seem esoteric and pose the question of how to identify and delineate relevant actors, but the discussion around 1999 took manifest expressions in media and politics with distinct episodes. Critical events resulted in structural change as business mergers and acquisitions reorganised the business landscape of EU defence primes. Dubois (1994) believes that activities and change are connected, as changes by one actor may result in adjustments by other actors. Here, defence mergers represent critical events, observable as flows of actors, activities and resources, with money, product portfolios and staff involved. These critical episodes form narratives of business interaction and activities.

Arena 4 (Chapter 7) of the case, the Eurofighter project, examines a transnational EU defence project. The only multinational collaborative combat platform projects of EU members states reaching international marketing are the Eurofighter Typhoon and Tornado projects. The Eurofighter project is understood through a historical, descriptive, qualitative approach, from inception to the export sales. To assess project performance, workshare division and actual results in terms of timeliness, cost, technical performance, knowledge generation and sales are examined. Also, sharing of production facilities, ownership distribution, partner interaction, knowledge sharing, sales organisation

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60 Programmes are often seen as composed of several projects, where projects are temporary means for solving assignments without integration into a line organisation (In practice, projects frequently occur inside line organisations) to organise coordination or collaboration. By contrast, a Joint Venture may be both more lasting than a project and imply a legal identity. There are, however, several types of joint ventures. In the context of this research project, it is important to observe joint ventures as disconnected from the mother company, as they would otherwise be an extension of the mother company, rather than ancillary actors.

61 The identification of the Eurofighter project followed a thorough analysis of all major equipment projects in the EU and a complete in-stock review of defence equipment, in terms of combat platforms i.e. naval vessels, aircraft and vehicles within the EU 15 (i.e. EU up to 2004) since World War II. This analysis used The Military Balance from the Institute for International Strategic Studies (IISS) and Jane’s defence encyclopaedias amongst other sources. Although there are several multilateral projects within EU countries, such as the Meteor missile system, these do not qualify as combat platforms. There are also combat platforms that are not first line, such as maritime patrol aircraft. There are also many bilateral international platform projects, such as the Horizon frigates or the Jaguar combat aircraft, which might have started as multilateral, where partners left as the projects evolved. There are also several multilateral defence platforms that are not combat platforms, such as the A400M transport aircraft. In addition, there is a number of multilateral transatlantic projects that fall outside, because knowledge stays with a non-EU main designer, such as F-16 and F35 combat aircraft) or multilateral European projects that entail licence production, such as the Fiat-G91 combat aircraft. The project started at a time where UAVs (drones) did not yet fully emerge as platform technology.
and distribution of marketing amongst partners, and dependency on single or multiple customers are studied.

3.4 Data collection

Collection of empirical data need to consider the data availability and access, the position of the researcher, available funding and available information sources. Large firms tend to be rich in research problems, but relatively difficult to access, as observed by Ghauri (2004).

This study relies, as stated in Chapter 3.3, on triangulation, where triangulation refers to the collection of data through different methods or different data on the same phenomenon, ensuring a higher degree of validation. Apart from validation, triangulation can also produce a more complete, holistic and contextual portrait of the object under study using several sources, such as archives, articles and accounts (ibid.). Case research is time and resource consuming and therefore often considered less pertinent by business students. In this thesis, however, data collection spans a very significant period, including arduous encoding and information processing. The choice of methods was affected by funding, employment, access to sources, travelling opportunities, and availability of information and communication tools. The most important point of departure was the vast information readily available but not systematically reviewed, categorised, encoded and structured. Consequently, this project is basically a descriptive and exploratory literature study that predominantly relies on widely available qualitative and descriptive secondary data, such as web pages, press articles, conference proceedings, reference periodicals, consultant-, research- and audit reports. Unusually for research in industrial marketing, a significant source of information is steering documents in the forms of international treaties, MoUs and alike, covering the political setting.

Methods used

The initial orientation of this research project was to look at the entire setting for defence platform manufacturing in the EU since 1945. Already in 2006, a draft of this thesis was presented for Associate Professor Gunnar Sjöstedt, the Research Director of the Institute of Foreign Policy (Utrikespolitiska institutet) and then considered adequate as a PhD thesis, albeit in international relations. As the text was not aligned with the academic practices of the Uppsala University, School of Business, the material was entirely reshaped as Professors Thilenius and Hadjikhani took over the project under their wings, in 2009. A linear, rational, historical, meso- perspective on the EU 15 defence industry then refocused on industrial marketing and gradually evolved into the present shape. Changes included dismissing a coverage of all manufacturing within
three platform areas in the EU 15, a discursive analysis of drivers and inhibitors for European, national and transatlantic defence equipment collaboration (the latter covered by Lundmark, 2011). Despite the changes, the information and data collection methods remained consistent and valid throughout, but with a more focused scope. Information and data were collected during a 30-year period, where the empirical subject under observation underwent dramatic changes, from a policy area under strict state control and secrecy during the Cold War to more of a policy field amongst others. The European security situation sharpened again after the EU sanctions against Russia over Ukraine, migration crisis, regional instability in the EU, international terrorism and Britain’s exit from the EU. Also, businesses activities changed and evolved through reorganisations, mergers and interaction patterns, although with a stability amongst primes after 1999.

Direct observation
According to Flyvbjerg (2004), studying a case underlines the importance of real-life observations to understand the situation at hand. Fortunately, in several instances, direct observation of actors and events covered by this thesis was possible. I attended seminars, conferences, meetings, networks and trainings with defence business actors. As opposed to the great difficulties in getting access to companies for interviews, such meetings are often transparent and cordial. Professions here interact across borders with what sometimes could be their adversaries, even publicly criticising interlocutors of their home countries. Conference proceedings document many such meetings. Participation in conferences means, in a sense, employing an “ethnographic” approach of participant-observer. Westney and Van Maanen (2011) have remarked that the foundation of some of the most influential work in business studies is, in what appears as, ethnographic fieldwork in which researchers follow the executives of the companies they study. This thesis was preceded by research on the EU’s political defence cooperation at the Swedish defence research establishment in 1989–1991 (See Gunnarsson, 1990), performance audits within the Swedish National Audit Office of the material acquisition bureau and material acquisitions projects, such as the Swedish Gripen combat fighter project 1992–1995 and 2006–2009. In addition, work within EU institutions, in particular, with defence companies and authorities during the ‘unparalleled 1998-2000 merger wave’, with ensuing involvement at the French Defence Academy, the École Militaire, and the Session Européenne des responsables d’armement (SERA), a network of European defence acquisition officials.

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62 The information and views set out in this publication are solely those of the author and do not, in any way, reflect the opinion or involvement of any stakeholder whatsoever. The research is entirely unfunded, and only open sources are used.
63 Boessenkool, 2010-03-29.
Studies were also conducted at the Swedish Defence University (Försvarshögskolan), on EU security policy and Stockholm University on naval industries as well as at the Copenhagen, Oslo and Stockholm Business schools. In conjunction with these activities, there were visits to Belgium, Denmark, France, Germany, Norway, United Kingdom and Sweden to observe military installations, companies, procurement organisations, projects, ministries, exhibitions, factories, military units and schools, political bodies and think tanks, such as the Centre for European reform, European Parliament, the Commission, the Council, WEAG, EDIG, NATO HQs and Defence SMEs.

Printed sources

Both printed and non-printed primary sources of data have been reviewed. Primary data are directly observable through participation in more than 55 conferences, seminars and meetings, and through direct observations of facilities and projects. Moreover, official documents or statements, treaty texts or proceedings, evaluations, reports and press communiques, annual reports or articles directly from studied actors are considered primary sources.

Expert analyses, research or consultant reports and press articles are considered secondary sources, along with minutes from working groups or from the scientific community, unless being a participant. Secondary sources have been analysed and interpreted by others, implying a greater degree of caution when interpreting statements and recourse to sources of verification. Scientific publications are presented as references, other publications as sources.

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Table 3.3 gives an overview of references, primary sources and secondary sources\textsuperscript{65}.

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|}
\hline
11. References & Scientific Publications & 313 papers \\
\hline
12. Sources (primary) & 12.2 Public print & 152 documents \\
& 12.3 Corporate reporting & 27 speeches \\
& 12.5 Seminar participation, etc. & 20 annual reports \\
& & 63 corporate statements\textsuperscript{66} \\
& & 29 publications by business association \\
& & 59 seminars and conferences \\
\hline
12. Sources (secondary) & 12.1 Press articles and reports & 1028 articles and documents \\
& 12.4 Applied research bodies & 45 papers \\
\hline
\end{tabular}
\caption{Sources quoted, sorted\textsuperscript{67} by categories, with reference Chapters indicated.}
\end{table}

A major source of information is press articles from selected press (e.g. branch papers). In the course of this thesis, thousands of articles were reviewed. The sources listed in the reference (Chapter 11.1) are those quoted, but many more have been collected, reviewed and discarded on grounds of containing information that was either outside the scope or already covered. Table 3.4, in the following, gives an account of the press sources quoted.

\textsuperscript{65} Slight deviations from actual numbers may occur.

\textsuperscript{66} Announcements, publications, web pages or articles by business leaders

\textsuperscript{67} Quoting sources, actor positions are considered in relation to the date of quotation. Thus, when the former Defence Minister Rexach or Head of EDA Witney publishes in a new capacity, they are quoted as experts (11.1 in the sources), rather than public source (11.2).
Table 3.4: Main press quoted

In addition to Table 3.4, web pages of primes, defence cooperation bodies, EU bodies and National Audit Offices were consulted. Typically, such web pages include corporate information, press releases and reporting on, for instance, major orders, acquisitions or mergers, along with strategic goals and orientations. Also, databases or web pages such as the EU Market Access Database

---

68 Air letter Ltd was a specialised news agency, supplying aerospace and defence newsletters on a daily basis to targeted clients, such as the European Commission (up to its liquidation in 2004).

69 European Voice was reshaped in 2015 into Politico, a Brussels based weekly newspaper targeting, in particular, EU affairs. In 2018, a Burson-Marsteller media survey ranked it the most influential media source for EU influencers, before Financial Times, BBC and the Economist, amongst EU staff, opinion formers and members of the EU Parliament, (Politico 2018-07-12). The paper is produced in 49 issues annually.

70 Defence News publishes some 40,000 copies of 48 issues per year. The Publisher is Army Times Publishing company, Springfield, owned by Gannet Co Inc. (Defense News 2005-10-24)

71 Includes papers from the above sources outside the given time span, for instance, Financial Times after 2002.
and the *EU Database on EU-US relations* and of international organisations such as OECD and NATO were consulted.

Out of the selected sources, corporate reports seem least reliable, seconded by applied research bodies. Corporate information, in particular printed leaflets, often miss basic information such as sources, references, editorial responsibilities, date of issuance, although they are full of empirical information. Here, statements often seem biased, poorly substantiated, politicised or misleading. Within the defence business policy field, numerous think tanks and policy bodies also do not clearly explain the status of their organisation, its publications or quality controls.\(^\text{72}\) Over a period spanning 30 years, it is also apparent that renowned academics make predictions, which, in hindsight, are not always correct about defence businesses relations. There is thus reason to be careful when reviewing sources of all types.

Interviews or surveys have not been conducted as actor relations in defence are sensitive, because companies are unwilling to interact with researchers and because of the researcher’s position. In one of the rare prior business studies of defence companies, a researcher had to refrain from studying the defence part of the company (Anderson, 1984), confirming the observation by Dahan et al. (2006) that actors with sensitive agendas tend to prefer little publicity. Thus, interviews or statistical sampling do not seem to be value adding methodologies for the research questions here.\(^\text{73}\) Instead, specialised and public press provide adequate information on major defence deals at the platform level as they also pass parliamentary and government scrutiny. The wealth of open information available regarding defence procurement merits collection, encoding and analysis, which few have the patience to do. The wealth of data already existing provide a vast and sufficient source to respond to the research questions. An example is that as each issue of *Defense News* contains an interview with a leading defence actor representative, practically all CEO’s of EU defence primes and political bodies are interviewed. These interviews provide a rich source of information for further analysis. Although secondary interviews may not target the research questions, there are quite often statements that do refer to the central research questions. The major challenge is thus endurance to go through the articles in order to identify valid material. For informal governance, interviews may show a lot more of companies’ most inner workings, if the researcher has such access. Defence companies and defence authorities tend to avoid, however, to reveal sensitive information via interviews. Studies based on anonymous results or singular cannot be validated, although applied defence research supplies such studies.

\(^\text{72}\) For instance, *De defensa*.

\(^\text{73}\) An advantage using secondary data is that these are “non-triggered” i.e. implies information not deliberately sought, reducing the possible impact by the researcher to the studied setting and hence the bias (Spencer & Dale).
Sifting information

Relying on massive amounts of printed documentation, the question becomes how to select the empirical information. What should be considered important or significant? Ultimately, selecting information considered relevant is quite subjective. In effect, what has been employed is an approach of sifting, where a massive press has been scanned and where headings trigger deeper reading. Such triggers are:

- Aerospace/Defence+business/company+relations/associations/ties+EC/EU/European
- EU+defence+industry/market+institutions+procurement/research
- Aérospatiale, Airbus, BAE, CASA, DASA, Dassault, DCN, EADC, EADS, Finmeccanica, Leonardo, MBB, Thales, Thomson
- ASD, BDLI, BDSV, DGA, EDA, EDIG, EUCLID, European Arms Agency, GARTEUR IEPG, Lol, MoD, OCCAR, WEAG, WEAO, WEU,
- EFA, Eurofighter, Tornado, defence Platform, NETMA
- Actor, acquisition, collaboration, cooperation, joint-venture, merger, strategy

In principle, these identifiers should be reflected in the texts under Chapter 12.1 where the quoted material can be estimated to about 12% of the articles vetted. Articles vetted, about 8,000, are then a small part of the population (see table 3.4). There is also a wealth of other information perused that have indirectly or directly affected the work, which is not quoted here, for instance, from courses or seminars attended.

Reliability

Studies on business relations rely extensively on interpretation (Hägg & Wiedersheim-Paul, 1984). It cannot be expected that social phenomenon remain the same over time or that two researchers have exactly the same interpretation of the same phenomenon. In business relationship studies, phenomena are complex, dynamic and interconnected, and simple measurable variables are difficult to establish. Causal chains are also difficult to establish as interaction occurs through multiple connections. This also permits a wide range of data collection methods where, however, in-depth comparative studies of business relations are missing, greatly due to resource constraints (Henders, 1992).

A main source of research data in this project is articles from specialised press (see Table 3.4). As the 1998–2000 merger wave amongst primes took precedence, business mergers and collaborative projects received wider interest and became mainstream news. Then, also general press, such as BBC, Financial Times, Dagens Nyheter, Le Monde, more frequently appeared in the
reporting. The 1998–2000 reporting on EU defence business reached saturation as the reporting tended to be quite repetitive, to a large extent covering the same content. The same events were reported in a number of papers, often with similar wording. Probably, the press was based on the same corporate or government press releases, seminars and sessions. From a reliability perspective, this meant validation of the source material. After having made a significant number of validity controls, the specialised defence press was considered a reliable and valid source of information. However, non-specialised press was less reliable in terms of analysis: For instance, BBC in 1999 reported that ‘Frustrated by the lack of progress’, BAE merged with GEC.\textsuperscript{74} As can be seen, Chapter 6.2 reveals entirely other mechanisms behind this process. Specialised \textit{Defense News} proved to be an adequate source of readily available information to follow the EU defence market, particularly before 2015.\textsuperscript{75} Moreover, \textit{Jane’s defence weekly} is a reliable source, as is \textit{Air & Cosmos}. Financial Times (1998–2003), Dagens Nyheter (1988–2006) and Defence Daily (1998–2003) were less utilised but still reliable papers, at least in terms of factual information.\textsuperscript{76} It was possible to validate information by cross-referencing with other sources or original sources on a sample basis. This type of validation was performed, as several articles reported on the same events. The factual descriptions then showed little discrepancy. What proved relatively difficult to establish is the exact amount of values of order amounts, values, company sizes, budgets and dates. There were particular problems in reconciling basic quantitative data on values and volumes in mergers. There were discrepancies of anticipated indicative values, for instance, as the estimates of value of a 1999 merger of \textit{Aérospatiale-Matra} shows:

\begin{verbatim}
Airletter 1999-02-16 annual sales FFr 75 billion
Airletter 1999-02-03 estimated revenues FFr 92 billion
Airletter 1999-02-03 annual sales FFr 80 billion\textsuperscript{77}
\end{verbatim}

The example above indicates possibly the inherent difficulties in establishing reliable values for defence companies due to their particular market context, but also the generic difficulties in appropriately valuing companies.

More important, however, qualitative interpretations such as of the sentiments of executives, politicians, companies or even nations vary dramatically.

\textsuperscript{74} BBC, 1999-10-14.
\textsuperscript{75} Around this time, reports on EU defence business became scarcer than before.
\textsuperscript{76} As for analysis, generic press appear less reliable, for instance, shortly before the governments encouraged mergers in defence in 1997, daily press wrote that a Franco-German cultural divide, without shared views, threatened European collaboration (Hedström, 1996-12-12).
\textsuperscript{77} The same figure confirmed by Sutton, 1999-07.
For instance, for the same event, different papers attribute such different sentiments as “disappointment”, “surprise”, “fury” and “anger” to the reactions of the British Premier Tony Blair’s to the Marconi-BAE fusion in 1999.

It was considered sufficient to follow the evolution of the field on the basis of Defense News78 and company’s electronic newsletters as, after many controls, this paper was deemed of sufficient reliability to representatively cover the research questions. Cross validation by inference of the content in general press, press releases and competing specialised press shows that Defense News is accurate, credible and timely in its reporting. This paper was followed for a period of some 30 years before it changed into electronic online publication. Not all articles in the publications were relevant, but sometimes up to five articles from the same issue had relevance for this thesis. Some issues do not contain any relevant material to cover the research questions. In total, some 500 articles are quoted from Defense News alone where the most frequently quoted authors are Tran, Chuter and Kington. Some 100 references are also from the news service Airletter (now closed).

A notable particularity of the defence business reporting is confusion in actor roles, reflected in the terminology used where specialised press interchangeably refers to nations and primes79. Thus, the expert press does not always distinguishes between actors, depicting a prime and government as one and the same. Interestingly, also the actors themselves interchangeably refer to companies by reference to state or nation. For instance, when referring to the Airbus project, a senior British manager said: ‘I have no doubt we and our partners will create a single corporate entity. We have to do that to take on Boeing – and that’s in the best interests of the French and Germans too’.

Interestingly, for this thesis, it seems precisely in the intersection of business and government that actors appear who can neither be characterised as business (i.e. primes) nor political (i.e. governments).

Several database searches for literature were conducted at public libraries and academic library services, using key word searches that provided references to reports from consultants and public bodies.

Table 3.5 shows an excerpt of some database searches for literature.

78 Defense News is an American-based weekly newspaper, specialised in monitoring defence companies, owned by Gannett Government Media (GGM), with its own network of reporters stationed around the world.
80 Sir Richard Evans, BAE Chairman (Jasper, 1999-02-24).
<table>
<thead>
<tr>
<th>Date</th>
<th>Search paths</th>
<th>Search engine</th>
<th>Hits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-11-10</td>
<td><em>European Defence industry and Economy</em></td>
<td>Riksrevisionsverket library service, Libris</td>
<td>120</td>
</tr>
<tr>
<td>1993-11-19</td>
<td><em>Defence and Economy</em></td>
<td>Riksrevisionsverke library service, Libris</td>
<td>24</td>
</tr>
<tr>
<td>1995-06-01</td>
<td><em>WEU and IEPG</em></td>
<td>Libris</td>
<td>17</td>
</tr>
<tr>
<td>1995-06-02</td>
<td><em>NATO, EUROPA, Försvar</em></td>
<td>Affärsdata (TT)</td>
<td>114</td>
</tr>
<tr>
<td>1995-06-08</td>
<td><em>WEU and IEPG</em></td>
<td>NAO library service, Libris</td>
<td>30</td>
</tr>
<tr>
<td>2001-10-12</td>
<td>Headlines</td>
<td>Defence aerospace.com</td>
<td>1</td>
</tr>
<tr>
<td>2001-11-22</td>
<td>Company names</td>
<td>Financial Times</td>
<td>30</td>
</tr>
<tr>
<td>2002-01-11</td>
<td>Headlines</td>
<td>Defence-data.com</td>
<td>16</td>
</tr>
<tr>
<td>2002-01-11</td>
<td>Headlines</td>
<td>Defence aerospace.com</td>
<td>42</td>
</tr>
<tr>
<td>2002-07-29</td>
<td>Headlines</td>
<td>Financial Times</td>
<td>3</td>
</tr>
<tr>
<td>2002-03-26</td>
<td><em>EU Military capability</em></td>
<td>Defence aerospace.com</td>
<td>1</td>
</tr>
<tr>
<td>2002-03-01</td>
<td>Company names</td>
<td>Financial Times</td>
<td>3</td>
</tr>
<tr>
<td>2002-04-17</td>
<td>Headlines</td>
<td>Financial Times</td>
<td>4</td>
</tr>
<tr>
<td>2002-04-22</td>
<td><em>Defence Company</em></td>
<td>Defence aerospace.com</td>
<td>4</td>
</tr>
<tr>
<td>2003-01-22</td>
<td>Projects, Western European Ownership Jigsaw</td>
<td>Defence-data.com</td>
<td>23</td>
</tr>
<tr>
<td>2003-07-09</td>
<td><em>European defence industry</em></td>
<td>RAND publications website</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td><em>EU/European defence business and business science and thesis</em></td>
<td>Uppsala University library service</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td><em>EU/European defence business within business science and publication</em></td>
<td>Uppsala University library service</td>
<td>9</td>
</tr>
</tbody>
</table>

Table 3.5: Examples of library and internet searches
Quantitative data input

This research project was initially launched as a quantitative analysis of all major equipment projects in the EU 15 countries (EU up to 2004). Mapping of EU defence equipment expenditures and production is a research discipline in its own right, covered by institutions for applied research and state research institutions. Deployed defence equipment, in terms of combat platforms within the EU 15 since World War II, can be identified on the basis of open sources compiled by the Military Balance, Jane’s defence encyclopaedias, Jane’s annual defence reports and SIPRI overviews, for instance. Quantitative data also emanate from historical stock exchange data and financial performance figures, mainly in order to identify their size of operations. Also, public defence procurement expenditures were reviewed in this project.

Quality assurance

In the quality assurance of this thesis, all four studied primes and EDA, the European Commission, Eurofighter and ASD were approached. In one case, a company outright declined to review the content on grounds that there were no resources available (BAE). Finmeccanica and Thales referred to business units that never replied. EADS referred to various parts of the organisation; finally, no reply was received to provide the opportunity to complement or comment on drafts. Whereas interlocutors at ASD, EDA and Eurofighter agreed to review drafts, there was ultimately no feedback from these actors. No reply was received from the addressed Commission services. Within the European Commission, the thesis was in circuit for comments in 2020 to 2022 but received no comments as to the content.

3.5 Interpretation of data

Business studies have been criticised for low explanatory value and limited empirical base. The problem of limited comparators is addressed, for instance, by Kay (2000). Having limited comparators implies a tendency to perceive explanations for phenomena as satisfactory based on limited alternatives. Explanations then break down when the agenda is widened to cover broader perspectives. This observation can be applied also for other social science research. Four-field tables, models and dichotomies of government-to-businesses relations are illustrative, but they do not translate all company and government relations or more complex interaction patterns. Models are, however, useful for descriptive purposes, and help to translate reality into a narrative format. Narratives offer possibilities to capture a richness of interchange that can then lead to new insights into business constructs, as held by Birkinshaw.
et al. (2011). A narrative is then a story constructed around a plot where activities, actors and context are causally linked (Makkonen et al., 2012). Essentially, creating and synthesising various uncohesive elements into a new orderly story or discourse generates a narrative. Evidently, this approach then poses challenges as to the representability and the truthfulness of the various sub-elements. It is also challenging to synthesise massive amounts of data in a format that is stylistically appetising for a reader, in particular if both researchers and practitioners are addressed.

There is a limit to the volume of narratives, as the researcher also needs to provide the reader with structure. Then, however, structure means an imposition on reality, as there is an interpretation of what is significant, and what constitutes the central themes in the various episodes. The researcher has thus the power of defining what is important, risking biasing the interpretation of what is factual in discursive and narrative approaches. Miles (1979), considers that the most central and serious difficulty in qualitative data analysis is that the methods are not well formulated, and that the analyst is faced with a wealth of data with little protection against self-delusion and unreliable or invalid conclusions. Eisenhardt (1989) observes many sources of analytical bias in this context, such as information processing bias, drawing conclusions on limited data, a tendency to listen more to the outspoken or elites, or dropping disconfirming evidence. Obviously, this means there can be a risk for erroneous conclusions. So, how can we be sure that our conclusions are actually not biased, misleading or wrong? Ghauri (2004) suggests that a part of the reply is an interplay between analysis and data collection, using amongst other analytical tools chronologies, encoding and clustering. A ladder of abstraction can permit the researcher to go from chronologies to coding data into sets of concepts and themes. He also remarks that chronologies are particularly important for longitudinal explanations that track a phenomenon over time. Encoding data into chronologies and clustering are hallmarks of the methodology employed in this research project, with its chronological descriptive narrative approach. The four arenas of the case capture change and formation of actor relations over time and then seek to cluster patterns. With the chosen approach, patterns emerge in the roles, and, over time, a gradual transfer of responsibilities signifies changes in the powers of actors. According to Strauss and Corbin (1990), changes can be identified over time as steps, phases or stages. In the interpretation of large amounts of open-ended social science data, as in this thesis, identification of such critical steps, as deviations from other patterns, is vital.

Databases of narratives
As stated above, creation of narratives becomes voluminous and can obstruct understanding of the greater picture. Therefore, this research project has re-
resulted in the creation of three information databases as narratives. These databases are linked by references to this project and can be seen as annexes to the thesis.

The three narrative databases are uploaded in the University Database DiVA and can be updated continuously and used for other, future and expanded research projects. They are as follows:

I  Evolution of political bodies in the EU defence equipment setting
II European defence equipment projects
III Four European defence primes

The sources provided for in this thesis also include full references to the narrative databases.

How to interpret the types of ties

Hadjikhani and Thilenius (2005a) suggest actor ties can be examined in 9 dimensions, to which the three dimensions 10–12 are added here. These three additional dimensions reflect high requirements for control under formal agreements, long-term project cycles with relations and workshares decided in advance and before commercial criteria. Connections are unique, complex and lack suitable comparators, with also supranational elements. For the four arenas of the case, the coverage of these aspects can be interpreted as follows in Table 3.6. The table seems to indicate that the coverage of the case might have been satisfactory if limited to arena 2 or 4.
Table 3.6: Coverage of actor relations in the various arenas of the case

<table>
<thead>
<tr>
<th>Operationalisation of actor connections</th>
<th>Arena 1</th>
<th>Arena 2</th>
<th>Arena 3</th>
<th>Arena 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unique changes on request of the counterpart</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>2. Product modification to fulfil needs of partners</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3. Technological advice to customers</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Service and delivery adaption</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>5. Administrative adaptation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>6. Common staff training</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Joint meetings</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>8. Financial investment for adaption</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>9. Delegation to subunits with greater knowledge</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>10. Control and ownership</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>11. Workshare distribution in projects</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>12. Ancillary actor connection</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

How to interpret the strength of ties

Strong and Weak issue communities were discussed under heading 2.7, and it has been discussed that embeddedness can be analysed through aspects of relational strength. Weak relations are signified by simple and few exchanges, a low level of adaption, few actors engaged, and limited economic, social and information exchange. Also, a high degree of formalisation of contacts with standardised rules and fixed procedures is considered a weak tie (Johanson & Mattsson, 1987) since trust is seen as a better conflict resolution mechanism than formal rules and contractual obligations. In very complex activities with multiple parties, however, a relation cannot necessarily be considered weak just because of the need to formalise the agreements. On the contrary, formalisation, here, can be seen as a sign of commitment to agreements. Moreover, business dependency on governments is also considered a weak relation (Hadjikhani & Thilenius, 2005), but in a situation of mutual dependency, this actually means a strong relation. Strong relations are considered to entail complex resource exchanges, high number of exchange relations, few or large numbers of actors and complex social and information exchange. A high degree of mutuality with common language regarding products, technology and administrative rules and processes is also considered to represent strong ties. Partners adapt and become strongly interrelated when they change their marketing, purchasing, production, management or administrative units to fit the other. It is considered that adaption leads to higher independencies, as partners
make extensive technological and organisational changes to their counterparts. The durability and length of ties are related to their mobility and flexibility as it becomes harder to swap partners when ties are long-standing (Hadjikhani & Thilenius, 2005).

3.6 Theorising on the case

In order for research to contribute to a theory or paradigm, the contribution needs to have a function in the paradigm and still be in line with its underlying philosophy. As proposed by Bansal and Corley (2011), researchers need to present a trail of evidence credibly so that the who, what, where, when and how is clear, along with how the researcher moves from data to theoretical insight. A contribution then ideally changes the way scholars talk and think about a phenomenon. To reach the contribution, a research process can be described as one where studies are conducted aiming to synthesise disparate data into coherent interpretations or middle range theory. Middle range theory has received attention in organisational science and strategic management, yet more recently in the marketing discipline. Little attention has been given to the role of theorising, and how empirical evidence can be used to inform the theoretical development (Brodie, Saren & Pels, 2011).

Glaser and Strauss (1967) labelled research based on one’s own data grounded theory, which generally implies qualitative experientially-based research81, with hypothesis development and theory building based on an iterative comparison and recursive interplay between rich data and emerging conceptual insights, based on tentative coding. Tentative coding implies labelling data that is sorted, categorised and synthesised for comparison and further exploration of new data into different categories, and when these are saturated, data collection ends and the analysis is integrated (Charmaz & Bryant, 2011; Charmaz, 2006). Also, in middle range theory, a researcher disaggregates complex contexts and situations in more discrete groups that are later re-integrated (Peterson, 1998). Jumping between case selection, data collection, analysis and assessment using existing theory may look chaotic and unplanned, but it has been considered critical for theory generation (Orton, 1997). Grounded theory and middle range theory are considered useful approaches for this thesis, used to frame activities and structure the research data.

Birkinshaw et al. (2011) assert that in studies based on cases, rather than theories, conclusions drawn may be characterised as epistemological conceptual induction and interpretative analysis. Eisenhardt (1989) suggests that qualitative case research involves a verification process similar to that of hypothesis testing, namely an iterative process that matches data with theory to

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81 Covan (2007) believes that grounded theory requires wisdom and experience.
build a new theory. Doz (2011) claims that data need to relate to existing theories to allow for the creation of new theories, whereas Welch et al. (2011), on the other hand, consider that inductive theory building from cases is limiting compared to interpretive sense making. Hence, there seems to be the consideration of a contradiction between the uses of a case for description, on the one hand, and for theory generation, on the other, as the former seeks to understand the specific situation and the latter to identify generic conclusions. This study adheres to the perspective of Welch et al. (2011), looking at defence equipment companies to see what it teaches us about ancillary actor ties, rather than attempting to generate theory. As indicated in Chapter 1, the EU defence business setting is particular, thus rendering generalisation difficult.

Denzin (1984) suggests criteria to identify whether a research contribution is provided or not and considers these to be: whether reality is illuminated or revealed, research rests on contextualised and descriptive materials and concepts close to the experience; is historically embedded and temporally grounded; reflects an interactive process; incorporates other interpretations; and leads to a meaningful coherence. This thesis attempts to cover all these criteria.

The generation of theoretical insight from empirical qualitative data, taking the conceptual leap from data and information to theory, may be referred to as abduction. Abduction encapsulates a dialectic perspective on knowledge generation, where longitudinal narratives are viewed as holding explanatory values for understanding (Klag & Langley, 2013). In principle, this can be interpreted to mean extrapolation of historical experience and knowledge of actors and their activities to provide calculated predictions or assessments. In this thesis, this is done by departing from a theoretical model of four types of actor arenas, based on the rich case of the EU defence equipment market. Ancillary actors are, here, identified as the actors that are neither primes, nor political bodies under single government control, and that can operate in several intersections of the identified relational combinations identified in Figure 3.1.

3.7 Summary

The choice of method applied in this thesis entails an expansion of the model first introduced as Figure 1.1 (see Chapter 1), by examining four types of activities in order to identify ancillary actors, namely coercive and supportive political activities and influential and adaptive business activities, see Figure 3.7:
This thesis employs a chronological descriptive narrative approach to sort and encode actor data into four empirical arenas departing from the identified activity combinations, as depicted in Table 3.8.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Political coercion</td>
<td>Political support</td>
<td>Political support</td>
<td>Political coercion</td>
</tr>
<tr>
<td>combinations</td>
<td>Business adaption</td>
<td>Business adaption</td>
<td>Business influence</td>
<td>Business influence</td>
</tr>
<tr>
<td>Empirical</td>
<td>a) European bodies</td>
<td>Four EU defence Primes</td>
<td>Discourse for a</td>
<td>The Eurofighter</td>
</tr>
<tr>
<td>study object</td>
<td>b) EU Business</td>
<td></td>
<td>single European</td>
<td></td>
</tr>
<tr>
<td></td>
<td>associations</td>
<td></td>
<td>defence company</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) EU government’s</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>control</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Table 3.8: Analytical grid for sorting and encoding information.*

Within each arena, coding into chronologies is done to detect critical incidents, patterns of change and relations over time. Four narratives reflect these chronologies in Chapters 4–7. Hallmarks of the research process include a non-linear connection between theory, data collection, encoding and analysis, where there is an iterative process of “dialectic” cross-referencing.
4. Arena 1: The political setting of the EU defence equipment business

This arena within the case describes the political setting of defence equipment companies based on i) narrative covering EU bodies for defence equipment collaboration, ii) A review of business associations and iii) A review of political control measures maintained by some EU states in the domain of defence equipment manufacturing.

Political change can be measured in terms of power transfer from governments to EU bodies, regarding whether national and business control persists and if new controls are applied. Success indicators for the European Defence Agency (EDA) has, for instance, been identified as ‘...whether Europe’s armed forces are becoming more capable, the defence industry base is healthier and we are looking at a more consolidated or free defence equipment market’. Reciprocally, identifiers of failure are ‘a loss of interest...if defence ministers failed to turn up to meetings of the steering board, if the agency had no volunteers to take part in its initiatives, if the agency no longer enjoyed support from the member states’. Power transfer to EU defence equipment bodies may also be identified as budget appropriations, unique product development or duplication, efficient defence companies, increase in harmonisation, standardisation and interoperability and reduced cost of bureaucracy. There can also be benchmarks applicable from similar bodies, for instance, the European Space Agency centrally manages equipment projects funded from a significant budget with industrial offset.

4.1. Europe’s political bodies for defence business

Being exempt from the common market by waver, defence equipment activities within the EU are sometimes described as new activities under new circumstances. Whereas the EU is indeed a unique project in many regards,
extrapolation appears possible. Inference to other policy domains suggests that keeping defence business and defence policy outside of EU policymaking may be impossible in the long run.\textsuperscript{87} A gradual progression framing the political setting of defence businesses was predicted early on (see Figure 4.2 and Gunnarsson, 1990). As the EU evolved from a single market to monetary and political union, it also expanded from 6 to 28 members with increased involvement in home affairs, justice, foreign policy, security and defence. EU bodies have established their own foreign policy representatives, a European diplomatic service, and a defence and security nexus.

\textit{New Institutional Theory}\textsuperscript{88} suggests integration occurs without coercive institutions. Indeed, much of the EU integration seems to occur based on a consensus, as many EU Member States resist supranationalism (Puetter, 2012). Policy cohesion still, in 2021, remains weak in some aspects of the defence policy.\textsuperscript{89} The evolution of EU bodies for defence business has been, for decades, slow burning, arduous and complex, as detailed in narrative database I to this thesis. A number of bodies are active in the field of defence equipment collaboration, with shifting, sometimes rivalling mandates and only limited coercive powers. It is only since 2016 that resources became substantial and mandates more clearly carved out. Still, large innovative defence projects at the platform level and coercive powers remain absent. Despite political efforts to enhance EU project cooperation, most large-scale defence projects are still generated in government acquisitions by the largest defence producing nations. European aerospace and defence companies seem to drive institutionalised collaboration. Already in 1995, a senior DASA official said ‘the objective of European foreign and security policy can only be achieved supranationally. The European aerospace industry can be a vital forerunner along this path, for it bears particular responsibility in the domain of foreign and security policy’ and ‘we need a permanent organization in which the Ministers of Defence, Economy and Foreign Affairs from the European nations... can consult,...on the industrial and technological prerequisites for a feasible European Foreign and Security Policy... in doing this it makes no sense to distinguish between civil and military capabilities... The European Commission can set the pace here’.\textsuperscript{90}

By the late 1990s, several bodies with partly overlapping mandates sought to support a generic EU defence business setting, including defence equipment acquisition and the companies operating in this domain. However, rather than providing direction and clarity, these bodies had difficulties to accomplish concrete results. This can, at least, partly be explained by actor rivalry and

\textsuperscript{87} Engberg, 2021-09-08; Wetterquist, 1992.
\textsuperscript{88} Bains, 2017; Bickerton, Hodson, & Puetter, 2015.
\textsuperscript{89} Claesson, 2021-09-08.
\textsuperscript{90} Piller, 1995-01-12.
conflicting goals and expectations between the governments. There were issues of domination and control over a liberalised defence market, and competition between France and the United Kingdom. Here, Britain supported transatlantic links, whereas France sought a European power base. Other nations also took positions depending on their specific national policies and agendas. Pinnacle issues in EU defence business collaboration include a commitment of budgetary resources, along with workshares, offset and compensation arrangements. In addition, issues relating to knowledge transfer, technical control and economic rivalry have prevented attribution of powers to supra national bodies. On top of this comes the technical managerial problems of harmonising research and planning procedures with several layers of involved countries and institutions.\textsuperscript{91} In the jointly developed projects that have materialised, actors frequently came to compete for orders. Despite these issues, collaboration persisted, underpinned by many bilateral agreements.

First, outside the Common Market, defence equipment business is gradually incorporated into the EU setting from adjacent policy fields. This transition is visible in a series of treaties extending EU mandates into foreign policy, then security policy, and after that, defence policy. In relation to this, political bodies and instruments also evolve. This process has been viewed as being slow and rigid by business-, military- and political leaders; yet, in retrospect, these changes appear dynamic, as institutions moved away from a NATO context to the EU and gradually from policy to one more operational, leading up to EDA, as illustrated by Figure 4.1

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure41.png}
\caption{Transition of European defence acquisition bodies, from the NATO setting to the EU.}
\end{figure}

Whereas this development appears incremental, the persistence with which political activities reappear implies deliberate work towards a more integrated

\textsuperscript{91} See narrative database I and Chuter, 2006-03-06.
EU defence business setting. The EDA, set up in 2004, is still small in terms of staff, operating budget, project outputs and legal powers, out dwarfed by national authorities in terms of resources. It must be recalled that still in the 1980s, there were no treaty connections between the EU, the Common Market, foreign policy and defence policy, though the EEC impacted on defence businesses through community law. The connections between the Common Market and Common Foreign and Security policy (CFSP) are now explicit. The connections between these policy areas no longer seem to be controversial. Still, in the 1990s, these ties were opaque and disputed when seeking a more ambitious EU foreign and defence policy.\textsuperscript{92} The gradual forging of ties between political fields with approximately a decade’s interval was anticipated\textsuperscript{93} and outlined as below in Figure 4.2:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure42.png}
\caption{The positioning of Defence equipment cooperation between key policy areas (approximate decades)}
\end{figure}

In the year 2000, it was observed that ‘Taking the widest definition of success, the European institutions have succeeded in stimulating the debate on arma-

\textsuperscript{92} Delors, 1991.
\textsuperscript{93} Gunnarsson, 1989.
ments co-operation, but have failed to achieve substantial practical progress. Thus, EU integration regarding defence equipment, for long, lacked competencies, mandate and resources, with political inertia regarding full inclusion into the EU. As the EU policy setting expanded for defence companies, new bodies also position and network with each other, by treaty links and actual collaboration between officials from various fields. Full inclusion of defence products in the Common Market was, however, rejected in the Maastricht Treaty. The European Council instead referred to the WEU as the operational tool to prepare and carry through EU defence related activities. The WEU, in its turn, declared the intention to establish a European Armaments Agency. Taking the lead in defence procurement was IEPG, but it also lacked policy and resource commitments, a strong identity and coercive powers. Although the Commission initially kept outside defence business, it was liaising with WEAG, EDIG and other bodies as a partner on speaking terms in defence business matters. Various political and business bodies and issue communities, such as the Centre for European Reform and Centre for European Policy Studies (CEPS) also involved the same actors in workshops and reports. At this stage, the many initiatives and bodies were so entangled that the participants themselves complained they no longer knew in which context they met. Therefore, defence business actors agreed on a common schedule, coordinating initiatives in the field of the defence equipment business. NATO and EU overlap also prompted collaboration, where it was argued to reinforce common EU defence under the NATO umbrella or even to merge the two bodies. Although such close ties between the two bodies have been contested, it is now agreed that EU, including non-allied EU states, may access NATO capabilities. Yet, tension remains between European and transatlantic bodies, with variable memberships and conflicting military, economic, political, social and business objectives. The Greek EU presidency in 2002 outlined principles to delineate EU from NATO, where EU will

97 EC, 1998a.
act independently when not using NATO assets and to reject any third nation’s interest above those of EU nations. In year 2016 and 2018, EU and NATO agreed to strengthen their cooperation, announcing that capabilities developed either by EU or NATO should remain coherent, complementary, interoperable and available to both organisations.

For a long time, strivings for an EU defence market were marked by ‘a loose set of intentions and obligations with no explicit sanctions on those who choose to ignore it’ where ‘…liberalising markets in the defence sector will be fraught with difficulty, especially where it is attempted in an international setting. As the state is bound to remain the sole purchaser of military equipment, the outcome of the process will always fall short of the economist’s perfect market’ (Walker and Gummet, 1989).

Placing defence equipment into the EU setting through bodies with various justifications to collaborate and difficulties in forming a single cohesive strategy is labelled “variable geometry” in EU jargon, meaning integration at a different pace. Thus, a core group of actors can take lead before peripheral or less committed actors, as demonstrated by mandates attributed to political bodies. Central European bodies in the defence equipment setting, appearing in the narrative database I (in DiVA), are:

- Organisation Conjointe de coopération d’armement, OCCAR, which rejects offset with contractual authority over joint projects, gathering the EU’s largest defence actors.
- The Letter of Intent (LoI) is a looser club for research and knowledge transfer, with six core defence producing EU nations as members.
- Western European Armaments Group (WEAG) and the Independent European Programme Group (IEPG) did not oblige ministries to observe competitive rules and do accept defence offsets at programme level, which implies protection of weaker markets, but encourages integrated planning and research and development.
- The European Defence Agency (EDA) seeks to strive towards an internal defence market but also encourages research subsidies and exceptions safeguarding national interests. EDA has decided that offset deals cannot exceed the procurement cost.

In respect of specific mandates and legitimacy, in terms of number of members, the relations between the aforementioned bodies can be illustrated as in Figure 4.3.

104 EU-NATO, 2018-07-10; General Secretariat of the Council, 2018-06-08.
In Figure 4.3, legitimacy is seen as a function of EU policy endorsement, not the coercive mandate. In terms of mandate, OCCAR has more coercive power over practical defence equipment acquisition than the EU. The actors for defence collaboration in Figure 4.3 can be seen as both rivalling and complementary. Despite ambitious plans and political support, major defence platform systems are launched outside such fora. This is due to conflicting views on equipment production, but also due to the inherent managerial complexity of defence projects, with long acquisition cycles, technology complexity, control over know-how, lack of oversight and lack of funds. For instance, OCCAR has legitimacy as a contractual authority and manages significant projects. OCCAR’s principles of abolishing offset mean that actors cannot expect proportional compensation. Therefore, OCCAR is unlikely to attract actors with less developed defence manufacturing. EU Member States are more confident in putting activities under the EU Council, and it was only when the EU Council moved into the defence sphere that the EDA was launched in 2003 and the European Defence Fund (EDF) was realised in 2017. It has become official policy amongst EU Member States to open national defence markets, also coordinating research and policies regarding defence mergers and acquisitions. If this actually happens is another matter.

A regulation protecting strategic companies from foreign direct investments in 2020 led to an implementation directive, also outlining the need to

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105 Occar has six member states and six additional states participating to its projects.
safeguard security products, including a list that includes satellite systems and defence projects. This new intensified EU collaboration took place in the wake of Brexit discussions. Although solid budget appropriations now underpin defence initiatives, the Commission President, still in 2016, called extended defence collaboration a "Sleeping beauty". Even the, otherwise pro-integration, German Government in 2016 warned that collaboration would be a more appropriate path for defence than integration. In the 2020 State of the Union speech by the Commission President, defence and defence industry were not mentioned, although the Commission proposed significant resources, around EUR 13 billion, for the EDF for the period 2021–2027. These funds were subsequently reduced to EUR 7.9 billion. The participation is voluntary, and the leading defence business association (ASD) criticised the fund for poor outlines of management and content and missing links to common capabilities plans. Large EU Programmes with defence relevance, such as Copernicus, Ariadne or for aircraft technology existed for long, before the set up of the EDF, channelling EU research Framework Programmes and also other research funds to areas related to defence.

Compared to the national procurement offices of the larger Member States, EU bodies for defence acquisition remain comparatively small actors in staffing, mandate, budget and projects even if the 2017 plans are implemented. However, EU has succeeded in creating resources to build defence capabilities in humanitarian aid and rescue, peacekeeping and crisis management beyond national or alliance defence. EU institutions thus network and expand the policy setting, creating business opportunities for defence companies. Cross-border ties are enhanced as defence business actors forge social, political, technical and administrative bonds via treaties, projects, products, research, standards, trade and export and find new fora for discussions and commonality.

4.2 EU defence business associations

The diversity in production amongst defence companies is reflected in the organisation of their lobby groups. Until 2004, the legitimate umbrella organisation for defence companies at the European level was the European Defence Industry Group (EDIG). Aerospace companies had a specific interest body called the European Association of Aerospace Industries (AECMA). There was also an association of the European space industry called EUROSPACE. Apart from these bodies, temporary initiatives such as the STAR

106 EU Council, 2019-03-21. In Sweden, the scrutiny of Foreign Direct Investments was cancelled in 1992, but reintroduced in 2020 through this directive.
108 Political actors attribute actor roles to these business associations, asking for their advice, where EDIG explicitly targeted European governments, WEAG (now EDA), European Commission, EU, European Parliament (EDIG, 1997).
group appeared. The studied primes are members defence, aerospace, space and security business associations that seek to influence political EU bodies for defence production. In addition, the primes have their own offices in Brussels to influence political actors directly.

As business sectors in aerospace, security, space and defence reorganised, business associations also regrouped; thus, in 2004, EDIG, AECMA and EUROSPACE merged into the Aerospace and Defence Industries Association of Europe (ASD). AECMA represented a relatively homogenous core of aerospace companies with high legitimacy, that had the ears of politicians, whereas EDIG was a more heterogeneous assembly of defence companies covering diverse technologies, where defence products had a more negative connotation. Consequently, EDIG had difficulties to appear publicly and to influence political actors in the face of anti-arms lobbies and pacifists. ASD clusters defence companies as the legitimate industrial consultative group for advice and policy recommendations on defence and security matters and as a speaking partner to EU bodies. The legitimacy of ASD can largely be derived from corporate values and hundreds of thousands of qualified jobs. ASD has 30 member associations in 20 countries across Europe and represents over 2,000 companies with a further 80,000 suppliers, many of which are SMEs, around 730,000 employees and a collective turnover of over EUR 170 billion.

Programme documents and policy papers show that defence business associations seek to shape common business positions on aspects affecting the defence business settings, such as defence budgets, research, demand harmonisation and consolidation and the functioning of defence markets. As the AECMA Chairman said, ‘Increased cooperation on a European level is absolutely critical to maintaining an industrial base for European defence. The industry has restructured and continues to restructure with the aim of improving its competitiveness. But none of the efforts on the industrial side will be fruitful if corresponding actions are not taken by the European Governments. That is why we are pressing for harmonisation of European procurement structures and joint European programmes. Industrial restructuring is creating the potential economies of scale, but we really need the cooperation of European governments to exploit this potential’.

The ASD Secretary General Jan Pie, in 2014, summarised the EU’s needs as follows:
- Agreement between Member States on technology priorities and funding,
- Increased cooperation in defence research and technology projects,

111 Rainer Hertrich, President of AECMA, Chair of BDLI 2001 and co-CEO of EADS, 2000–2004.
112 Pie, 2014-12-15.
- New cooperative projects addressing pressing capability gaps,
- A functioning cross-border internal market with free circulation of goods and services.

A long-standing message from European defence business associations is that the EU defence industry is seriously under threat, or even at the brink of collapse, by fragmentation, duplication and excess capacity. At the same time, it risks losing significant capabilities in key technology and production areas. Therefore, protective positions have been taken by business associations, including European preference, strengthened EU defence research and technology funding, and support for collaborative defence projects, including financing of technology demonstrators. A Common Market in defence has been considered to mean unrestricted and reciprocal market access with interdependencies between European countries, industries and technologies and harmonised procurement procedures. In addition, military requirements and standards were supposed to harmonise to avoid duplication, exports were to be promoted and transatlantic market access enhanced. EU bodies, to this end, were to be set up, including an armaments agency and research bodies. Also, transnational centres of excellence were to be created for key technologies.

Business associations recognise the defence businesses to be political: ‘Defence trade is a political act before being commercial business... This explains and justifies the permanent intervention of officials into all matters related to defence trade, from expression of needs to export regulations’. Moreover, business associations have ushered the Commission by asking for faster and more specific progress, underlining that restructuring of EU defence companies alone will not be enough, but also welcoming political initiatives ‘to optimise the market’. In particular, it is believed that lacking common EU defence exports regulations makes it almost impossible to create truly European firms. Defence business policies are communicated in short “position papers” that target European institutions. ASD published 11 such position papers on defence from 2014–2017. For instance, in 2017, the ASD reacted to a Commission proposal for a European Defence Industrial Development Programme (EDIDP) and European Defence Research Programme (EDRP). Position

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113 EDIG, 1995, 1999b.
114 EDIG, 1995-09-27.
116 ASD, 2017-09-22.
papers from, in particular, EDIG are quite interventionistic, asking for improved intra-community transfers via a global project licence,\textsuperscript{117} tax harmonisation,\textsuperscript{118} common corporate legislation,\textsuperscript{119} clarity on the assessments of mergers and joint ventures in defence,\textsuperscript{120} interpretation of the common customs tariffs\textsuperscript{121} and access to EU research funding.\textsuperscript{122} They also analyse and seek to influence the political setting, concluding that too many similar political actors add to fragmentation. There were thus calls for concentration and coordination of political bodies and the formation of a united European Defence Equipment Market, operated by a European Armaments Agency.\textsuperscript{123} In this context, “Europe” is not necessarily synonymous with the EU, but a European preference means obstacles for companies outside of Europe, unless reciprocal market access can be organised. In addition, EU merger controls were to encourage, or at least facilitate, mergers and cross shareholdings, etc.\textsuperscript{124} ASD position papers seem more reactive than those of EDIG. This may paradoxically reflect an actual impact of the many EDIG policy positions that appear as precursors of ensuing supplier consolidation, the establishment of EDA and EDF, common defence research and common equipment requirements, investments and product replacement schemes, common procurement and a more clear division of responsibilities between EU bodies. In other words, the policies advocated by defence business associations have become official policy. Some features in EDIGs papers were however toned down, such as the call for EU work distribution to single industrial teams, e.g. oligopolies or monopolies.\textsuperscript{125}

The defence business associations are recognised counterparts to Europe’s political defence bodies, deriving legitimacy from good relations and status as a speaking partner, policy forum and reference group.\textsuperscript{126} This legitimacy is not a given as some counterparts may not recognise business associations, questioning their governance and leadership. Consequently, defence business associations may be ignored or bypassed when legitimacy is low. Then, political leaders and institutions may create their own advisories. Indeed, after its consolidation and merger, it is considered ASD fell into institutional disarray, attributed to the personal management style of its leader, who dismissed all but one director and rapidly fell out of favour with many interlocutors, including its 16 CEO strong board of directors. After dismissing its chairman, the association then had to rebuild legitimacy. ASD was on speaking terms again with

\textsuperscript{117} EDIG, 1997-03-05; Tigner, 2006-05-01a.
\textsuperscript{118} EDIG, 1996-12-06.
\textsuperscript{119} EDIG, 1996-12-05.
\textsuperscript{120} EDIG, 1997-03-07a.
\textsuperscript{121} EDIG, 1997-03-07b.
\textsuperscript{122} EDIG, 1993-07-05, 1991-01-21. The request for identification of priority technologies and areas was inspired by the US strategy on research and technology.
\textsuperscript{123} EDIG, 1999b, 1999-09-14, 1999-02-11; Zorzovilis, 2003-05-05.
\textsuperscript{124} EDIG, 1993-09-29.
\textsuperscript{125} EDIG, 1999b.
\textsuperscript{126} I EDIG, 1999a; EPG, 1991.
representatives of the political leadership of European bodies around 2013. Yet again, in December 2013, some primes were called directly to the Commission meetings, without passing through ASD. Thus, companies had no possibility to prepare or coordinate in advance. In addition, at a time when the market and industry commissioners were French and Italian, defence companies from other countries were considered as having limited exposure compared to French and Italian companies (Pie, 2014-01-24).

European defence companies have several business associations or alike, through which to voice their interests. The NATO Industrial Advisory Group - NIAG was instituted already in 1968 to provide advice to the NATO arms directors in legal, technical, economic and organisational matters. The advisory group, in particular, in the early stages of the acquisition chain, work with feasibility studies for costs and technical implementation of various NATO projects. The US domination in defence production is a driver of EU defence business collaboration. When American defence businesses advocate elimination of barriers to transatlantic trade, EU companies seek protection from exposure to these competitors with their greater economies of scale and larger production runs, where they would face difficulties to compete on prices or deliveries. EU defence companies observe that the US pursues aggressive exports policies to the point of involving the US President to support export deals.

Within the EU, there are also national, regional or functional clusters of business associations, such as a Nordic defence business association, which forms part of the ASD. Local and regional business associations organise lobby groups, exercises pressure on governments to increase spending, and seek public support for local defence companies. Defence business associations also collaborate in projects, organise exhibitions and participate in sales forums such as the Eurosatory. Local associations also develop industrial strategies, both amongst themselves and with governments, to align plans, market conditions and exports. EU defence business associations support market consolidation and institutions for defence business and trade both within the EU and NATO. This extends to supporting a political union that includes defence and security with an autonomous EU capability. Calls for autonomous European capability for combat aircraft, helicopters, guided missiles, air transports, electronic warfare, C3I, reconnaissance and situation assessment were voiced by EU business associations long before being formally enshrined in

127 Pie, 2014.
128 Piller, 1995-01-12; According to Swedish industrialist Percy Barnevik, US Foreign Trade Secretary Ron Brown in his Washington office had a world map with pins representing strategic American programmes along with plans for political and financial support (Barnevik, 2011, p114).
129 For instance, CIDEF asked for more funding under the 2003–2008 law (Tran, 2004-10-18a), and BDLI I 2006 targeted the Government with a 23-page strategy paper suggesting more funding was needed to sustain the defence industry (Aguera, 2006-01-09a, 2005-09-26).
EU policies. For instance, BDLI, the German defence business association in 1995 observed each EU country as being too small by itself to achieve the necessary economies of scale and military capabilities. However, national business associations also benchmark their domestic conditions in other EU countries, addressing local spending cuts, market opportunities, job losses, security implications and disadvantages on their home market compared to competitors’ markets. As British, French, German and Italian defence business associations present their case to political actors, these are thus quite similar in lamenting a lack of government support and ambitions, declining budgets and ensuing impact on technological capacity and exports. In the national budget preparations, business associations and companies often emphasise that appropriations for troops diminish those for equipment. In EU Member States with restrictive arms exports policies, such as Germany and Sweden, defence business associations perceive with jealousy the support exercised by French, British or American governments; ‘our competitors cheer when they hear how the talk goes in our country’. Meanwhile, the French business associations consider the British support to be greater. The British defence business association then observes variations in export rules that create difficulties in joint projects where non-proliferation rules create a ‘legal and bureaucratic nightmare for many firms now finding themselves not only subject to the regulations of the country where they are based, but potentially those of a number of other nations’.

Political actors, even ministers, may participate in business associations’ meetings to discuss how to strengthen business interests, although they do not necessarily take the same positions. In the largest defence manufacturing EU Member States, several layers of defence business associations work simultaneously. Their composition depends on size and product content and also varies over time. For instance, in the United Kingdom, the UK Security and Resilience Industry Suppliers Community (RISC), The British Security Industry Association and the ADS formed after a merger of the Society of British Aerospace Companies and the Defence Manufacturers Association (DMA). Foreign primes, such as Thales or Leonardo, are or have been members of these British associations. The French home market includes Conseil des Industries de Défense francaises (CIDEF) and trade bodies for aerospace, naval and land equipment (GIFAS, GICAN and GICAT). Although connected to the state, French companies have pushed for defence privatisation, as French state ownership and influence often hinder cross-border market access and consolidation. Yet, at the same time, close working relations between the Defence

130 Piller, 1995-01-12.
131 Aguera, 2003-11-17.
134 Christian Mons, CIDEF Chairman, in a 2012 statement to the Defence Committee of the National Assembly.
Ministry and defence companies are required for both corporate and political-strategic independence.\textsuperscript{135} Strong political relations are also natural consequences of high life cycle cost of defence projects, the high amounts involved and the need of state support for exports. Support for exports includes motivated and knowledgeable specialists at embassies, rather than those ‘…who are pacifists. Who do not consider themselves as salespeople for…industry’.\textsuperscript{136} Defence companies may also support each other on a national basis in foreign marketing, for instance, by organising a joint show rooms at exhibitions. On any home markets, governments play an export enhancing role by helping to demonstrate defence equipment in their operational environment, through licence clearances, and by asking companies to participate in the development of industrial policy. Governments would also support companies through defence spending and a number of other means (see Chapter 4.3).\textsuperscript{137}

Changing governments require different actions, where defence associations have a role by analysing policies, identifying where to adapt and influence. After Thatcher’s liberal market polices, the UK National Defence Industries Council\textsuperscript{138} turned away from competition towards preserving a British supplier base but pressing for market access in other countries.\textsuperscript{139} The 1999 drive to consolidate at the EU level was not always endorsed by all defence business associations. \textit{Enrico Gimelli}, Chairman of the Italian defence industry association considered the plans to consolidate all defence companies into one “utopia”, adding that it was ‘not good for us who are excellent in some areas but have no weight if we put all our assets on the table’.\textsuperscript{140} Primes can also set the agenda via temporary constellations in direct consultations with governments. For instance, in 2014, the CEOs of Airbus, Dassault, DCNS, MBDA, Nexter, Safran and Thales jointly wrote notes and approached the French President \textit{Francois Hollande} in response to annual defence spending cuts of EUR 1.2 billion, voicing concerns regarding ‘job losses, technology retreat, loss of competitivy and sovereignty, a step-down and deindustrialisation’.\textsuperscript{141}

The interests of primes are not necessarily the same as those of SMEs; \textit{Comité Richelieu}, gathers some 320 French high-tech defence SMEs, departing from their specific market positions to run joint projects, organise conferences and lobby French defence acquisition policy, industrial cooperation and industrial streamlining.\textsuperscript{142}

\textsuperscript{135} Charles Edelstenne, GIFAS President (Tran, 2005-10-03).
\textsuperscript{136} Christian Mons.
\textsuperscript{137} Tran, 2012-11-26a, 2012-07-09, 2012-06-04.
\textsuperscript{138} In 2011, re-labelled the \textit{Defence Suppliers Forum} with top figures, including representatives of the four primes (Chuter, 2011-07-18; 2010-06-14).
\textsuperscript{139} Chuter, 2002-06-27.
\textsuperscript{140} Endean, 1999-07-05.
\textsuperscript{141} Tran, 2014-05-19.
\textsuperscript{142} See http://www.comite-richelieu.org
Thus, defence companies can make use of several types of business associations to exercise pressure and influence national and international defence business associations, depending on size and product specificity. But what are, then, the relationships between national defence business associations? The efforts to collaborate in Unmanned Aerial Vehicles (UAVs) and to foster state support can serve as an illustrative example of the relations between business associations across borders.

In November 2010, Italian and German defence business associations reacted to the Franco-British Lancaster House Treaty, a government agreement for wide-ranging bilateral defence cooperation and resources pooling within a number of technologies, such as missiles and UAVs. The Italian defence manufacturers’ association (AIAD) considered this ‘an unsustainable threat to Italian Industry’, and a threat to other joint European projects, putting at risk competition as it addressed the Italian Senate’s defence commission. The French-British treaty was seen to derail business opportunities for others by splitting the market, leaving only 15% for external competitors. Therefore, AIAD suggested parallel initiatives by side-lined actors. The Director of the German defence industry association (BDSV) backed the AIAD, stating, ‘I am not happy about the Anglo French accord’. BDSV believed that the Italian and German CEOs needed to talk to each other, also seeking support of their defence ministries as the long-standing Franco-German collaboration could be jeopardised. Thus, in November 2011, the Italian and German Defence Ministers signed a cooperation agreement, covering technologies such as UAVs and submarines. In December 2011, BDSV and AIAD signed a cooperation deal for collaboration in five strategic development areas, such as vehicles, missiles and satellites. Lol and EDA were here seen as suitable bodies for cooperation. Business actor tie ups or discussions then followed or were reinforced, in aerospace between Alenia and Cassidian (later Airbus), between Italian and German vehicle manufacturers and in submarines between Fincantieri and Thyssen-Krupp Marine Systems (TKMS). The BDSV also encouraged other European countries to join Italo-German tie-ups ‘because of identical security and defence political interests, a growing common defence market and tight budget conditions, any form of cooperation is welcomed’. The Spanish defence industry association, TEDAE, also signalled dismay over the Franco-British deal but concluded there was little it could do about it. The Chair of the British Defence Manufacturers Association reacted to the Italian activity stating, ‘while I understand our Italian colleagues’ concern, I believe they are unfounded’ and that the Anglo-French deal was not exclusive, but supported by the EU and was an effort to give renewed impetus to collaboration and cooperation. Nevertheless, in 2012, the French and British political

143 Christian-Peter Prinz zu Waldeck of the BDSV.
144 Kington, 2011-06-13, 2011-12-19a; b.
leaders\textsuperscript{145} agreed to enter into a contract with Dassault and BAE under a 50/50 Memorandum of Understanding to set specifications for two types of UAVs in a follow-up of the \textit{Lancaster House Treaty}. Companies from other countries were invited to share the financial burden, but EADS’ call for an equal leadership role was rejected by \textit{Dassault}.\textsuperscript{146}

The interplay on UAVs thus shows a complex alliance pattern between defence business actors, where all are concerned about balancing market shares and where the roles of business associations and Member States slide over into each other’s spheres.

4.3 State Actors’ control over defence companies

The EU’s defence equipment manufacturing nations seek to afford state-of-the-art or leading defence equipment whilst maintaining self-sufficiency in at least some domains. ‘If countries of the size of the United Kingdom, or France, or Germany or Italy wish to manufacture modern weapon systems...without imposing upon themselves an insupportable burden of defence costs, they must do so on a collaborative basis. The advantages are threefold: 1) To share the heavy research and development burden, 2) to enlarge the market... and 3) to pool technological knowledge’.\textsuperscript{147} Yet, it is also recognised that ‘Defence industry is not like any other industry. More than a strategic industry, it is an industry for sovereignty, which warrants specific treatment in all countries, interventionist as well as liberal... ’.\textsuperscript{148}

The industrial policy and state aids at EU level are weak, compared to major powers, such as China or USA. EU state aid rules target the functioning of the internal market rather than exports.\textsuperscript{149} Although EU Member States express a desire to collaborate across borders, building interdependencies in the defence equipment business, EU Member States maintain a substantial number of controls. Lundmark (2011) consider, “nations are deeply restrictive towards technology transfer and technology sharing...All cross-border ownership and operational integration is closely supervised and organised by governments in order for processual integration and technology transfer to be minimized”. A toolbox of state controls, identified in this research project, includes various supportive and coercive tools, such as those depicted in Figure 4.4.


\textsuperscript{146} Tran, 2012-02-20.


\textsuperscript{149} Hettne, 2020.
The authority ceded to any political body for EU defence equipment collaboration needs to be contrasted to the various coercive and supportive means maintained by any individual EU Member State.

Ownership and direct management

The idea of linking defence companies to the state was advocated by the French Prime Minister Jean Baptiste Colbert (1670–80) who granted large private firms crown monopolies to manufacture military products, making domestic capacity and trade surplus hallmarks of mercantilism and Colbertism. New Public Management seems to suggest that the state should retreat from direct ownership of defence companies, relying more on outsourcing and tendering of public services or public-private partnerships. The old model of military arsenals survives, particularly in EU’s south. Nonetheless, relations between political actors and defence businesses remain strong in all the EU. State controls and support just seem to take other forms in more free-trade minded states, such as BAE’s “privileged” long-term government relations. Government ownership, or at least strong government control, of defence companies has existed in virtually all EU states at some time. If possible, states

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150 In 2018, the French state still held 100% of tank maker Nexter, 64% of naval yard DCNS, 11% of Airbus (which, in turn, held 46% of Dassault, which holds 25% of Thales), 22% of Safran and 26% of Thales.

151 The privileged position also comes at a cost, where Whitehall has been in disagreement with BAE CEOs over programme costs, fixed price contracts and profit margins. The BAE company share value collapsed in 2003 after cost overruns from Astute nuclear submarines and Nimrod surveillance aircraft, and friction also arose over the costs and organisation of two aircraft carriers, where BAE floated a potential exit from naval production and three US investors acquired 30% of the BAE share capital (Chuter, 2004-08-23, 2004-05-03; Kyprios & Schoder, 2003-07-14).
seek to produce domestically, where in- and outsourcing of defence production are subject to a “flux” in privatisations and nationalisations, with changing governments and perceived threats to national interests. For instance, under Socialist President Mitterrand in the 1980s, many French defence companies were nationalised. The French policy to create a European defence equipment industry was conditional upon the French industry not being weakened. At the same time as France nationalised, the development on the other side of the channel was diametrically opposite. In the United Kingdom, defence production was privatised by conservative governments. The main policy line was that in the UK, neo-liberal politics, including value for money and cost cuts, were to replace government subsidies and expensive cost-plus contracts. However, as BAE, Rolls-Royce, Royal Ordnance and shipyards were privatised, golden shares retained state control over these strategic firms. Also, the January 2022 UK National Security and Investment Act introduces control over foreign direct investment (FDI) across 17 nationally sensitive areas (including defence), defined in the Notifiable Acquisitions Regulations.

Common for both British and French defence business politics was attempts to seal arms deals before elections, thus extending their political control over time and effectively into subsequent governments. For instance, the British Conservatives made a large British aircraft carrier project (the Queen Elisabeth class) irreversible by making it too expensive to cancel for the subsequent Labour government. Similarly, Jacques Chirac committed to building French aircraft carriers just before the 2007 French election; yet he also

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152 Some defence companies in France come from family ownership as well, and these companies have had difficult government relations. For instance, Charles Edelstenne, Chairman and CEO of Dassault in 2003 said the French Government’s desires in relation to Dassault, Thales and Rafale were unclear, where lack of budget appropriations had blocked exports of Rafale combat aircrafts (Tran, 2003-06-16).
155 In 2002, Britain took public-private partnership one step further as the Private Financing Initiative (FPI) private firm may finance, own and operate military equipment, although not in the front line (Chuter, 2002-03-18).
156 In year 2000, it was also announced that the UK Defence Evaluation and Research Agency (DERA) was to be 75% privatised (Penney, 2000-04-25).
157 Golden shares are not unique for defence companies. In 2005, the Commission identified 141 companies with golden shares or “special shares”, including Volkswagen of Germany, Telefonica and Repsol of Spain, and ENI, ENEL and Telecom Italia of Italy. The companies fall into three categories: former public utilities, defence companies and competitive industries; the latter representing 38%, and particularly preponderant in Poland, with 40 companies (King, 2005-07-20).
158 House of Commons, 2021. Foreign Involvement in the Defence Supply Chain - Defence Committee - House of Commons (parliament.uk)
159 Chuter, 2008-04-23b, 2008-03-17; Chuter & Tran, 2007-03-26.
triggered privatisation of French defence manufacturing. Chirac also main-
tained state control by other means\textsuperscript{160} whilst wanting ‘to create the political
framework that would make possible development of the industrial champions
that Europe needs’\textsuperscript{161}

BAE’s relations with the UK Government were for some time deep-frozen
as it was considered; ‘relations are pretty bloody awful’,\textsuperscript{162} as the UK Defence
Procurement Agency (DPA) pushed for efficient tendering, depleting BAE’s
profit margins. DPA asked BAE to assume large parts of project risks and cost
overruns for projects, such as Astute submarines and Nimrod surveillance air-
craft. At the same time, DPA considered foreign combat and training aircraft
offers and also deprived BAE from its lead role in the construction of aircraft
carriers. This prompted BAE’s Chairman, Sir Richard Evans, to express, ‘the
lunatics (having) taken over the asylum’.\textsuperscript{163} He also implied exit by BAE from
its home market. Along the strands of the 2002 defence industry policy, Geoff
Hoon, British Secretary of Defence, expressed that defence equipment needs
are regularly re-evaluated, and that BAE was not British, as much of its capital
is foreign and ‘ownership does not matter’.\textsuperscript{164} Instead, the Government con-
sidered it important where technology is born, where skills are held, intellec-
tual property resides and jobs are maintained. Alan Sharman, a retired Major
General and CEO of the British Defence Manufacturers Association, disa-
greed with this philosophical stance. It was also remarked that ownership mat-
ters because ‘control over the future is lost with foreign ownership’.\textsuperscript{165} The
British trade unions seconded this stance, stating the government’s laissez-
faire attitude undermined defence firms’ commitment to stay within the busi-
ness sector in the United Kingdom.\textsuperscript{166} The trade unions also remarked that
many British firms were now acquired by foreign firms. For instance, Racal,
Pilkington Optronics, Short Missiles were bought by Thales, a number of de-
fence or space firms by EADS and Westland by Finmeccanica.\textsuperscript{167}

The French Prime Minister Pierre Raffarin, in 2004,\textsuperscript{168} took a position sim-
ilar to the British, stating it is not the State’s role to act as owner of companies
and gave the green light to partial privatisation and alliances. In 2010, how-
ever, the French President Nicolas Sarkozy said in a speech aboard the aircraft
carrier Charles de Gaulle, ‘We are a great country which gives us rights, but

\textsuperscript{160} Mampaey, 2001.
\textsuperscript{161} Wall Street Journal, 2005-05-14.
\textsuperscript{162} Bruce George, Defence Select Committee Chairman 2004.
\textsuperscript{163} CEO and Chairman of BAE, 1990–1998, Chairman 1998–2004, 1992 President of Society
of British Aerospace companies.
\textsuperscript{165} Tony Edwards, Chair of UK aviation interest Group Air League and also previous CEO of
the British Defence Export Sales Organisation.
\textsuperscript{166} John Ward, negotiator in Defence and Aerospace, Amicus (a British manufacturing union).
\textsuperscript{168} Tran, 2004-03-01.
that gives us duties first... We must have the means to weigh on the international scene as a great country. We must preserve the capacity to respond anywhere around the world by projecting our forces. If we do not, we will not be a great country; we will no longer be a great country. I will see to it, within our borders as well as beyond, that you will have the operational capabilities that you need. France must hold its rank; France must remain at the level of its responsibilities in Europe and the world’.  

The French state still retains controls over strategic companies, where strategic companies also exist in other sectors. In June 2004, Franco-German policy declarations explicitly announced the objective of creating “European champions”. Not only did this create friction between British and French market philosophies (commonly seen as free trade vs interventionistic), only days after, the French Government intervened in favour of a Franco-French consolidation, stopping a German company from acquiring shares in a French company. Although the German Government favoured Franco-German consolidations, such as merging the EU’s leading naval manufacturers, HDW and DCN, the Germans seemed not as good as the French in the craftsmanship of engineering mergers of state held companies. This created a spat between Germany and France; the German Chancellor calling French policies “nationalistic”. The French Finance Minister said ‘The way I see things, it’s not only a finance minister’s right to intervene (in corporate affairs), it’s his duty’. In October 2004, the French Defence Minister Michèle Alliot Marie met her Spanish counterpart Jose Bono ‘and gently pressured’ Spain to collaborate or ally with France in several defence equipment projects. François Lureau, as Head of DGA, in 2005, explained the French policy as one of ‘competitive autonomy’, meaning that relinquishing direct state ownership in companies would be combined with protection of critical military assets. Then, France and Spain, around 2005, fell into what the French Premier Dominique De Villepin coined ‘economic patriotism’. Although Defence Minister Michèle Alliot Marie, in 2002, announced ‘France will resume its role driving toward a European Defence industry’, and France was to abandon a policy of

169 Tran, 2010-09-06.
170 By French Premier Pierre Raffarin, and Finance Minister Nicolas Sarkozy and German Chancellor Gerhard Schröder and Economy Minister Wolfgang Clement (Spinant, 2004-06-03).
171 Sanofi-Synthelabo with Aventis.
172 Siemens in Alstom.
177 In particular, in the naval sector, the French consolidation plans were met with interest from Spain, Portugal and Italy (Tran, 2003-10-03; Aguera, 2004-10-25a).
178 Tran & Muridian, 2005-06-27.
self-reliance in 2005,\textsuperscript{179} she then called for ‘protection of strategic interests and the oversight of foreign investments’. Economic patriotism was criticised by industry, bankers and scrutiny bodies. The CEO of Thales\textsuperscript{180} said, ‘excess of protectionism causes foreign companies to flee and causes countries to shun French companies’. The investment bank Goldman Sachs\textsuperscript{181} asked ‘how does such a regime fit in the global marketplace’, referring to an unclear separation of supply and demand. The UK Parliamentary Select Committee, already in 2000, remarked that in the Horizon frigate project, France failed to separate the supply and demand side.\textsuperscript{182} In Germany, the government\textsuperscript{183} was reluctant for decades to get involved in the arms industry. This policy gradually changed as the strategic importance of defence industry was recognised, and new laws were introduced to protect the defence companies from foreign take over. Thus, Thales was blocked from acquiring \textit{Atlas Electronic}. When facing foreign buy-ins into largely state-owned sectors, EU Member States reverted to economic patriotism.\textsuperscript{184} This occurred also in other strategic sectors, such as energy (for instance, \textit{Enel} into \textit{Suez} and \textit{EON} into \textit{Endesa}) and steel (for instance, \textit{Mittal} into \textit{Arcelor}), as well as banking (\textit{HBV} and \textit{Uncredititio}). Leading politicians now outright declared they were seeking to create national industrial champions, often called European champions, whilst maintaining golden shares, blocking foreign take overs or foreign investments, or asking companies to organise company structures to impede take overs, as did the French Premier in 2006.\textsuperscript{185} Amongst the protectionist measures discussed, a large state bank was to move in, and shares were to be distributed amongst employees. In addition, in 2005, France listed 11 strategic sectors to be protected from foreign takeovers. The list covered antidotes, defence equipment, biotech, communications interception equipment, cryptology, dual use technologies, IT security, defence secrecy and security. These policies prompted the European Commission to take France to court to stop its protectionism. Yet, the idea of also protecting defence SMEs under law was floated. In particular start-ups with cutting edge technologies exposed to foreign take overs with knowledge potentially linked to espionage, were to be protected. In 2011, the French Defence Minister \textit{Gérard Longuet} reiterated that the state remains a significant shareholder, if not the main shareholder, in all defence companies and that it is the State’s ‘duty to avoid overlaps and provide each company with the best ability to succeed in a global economy…’ and that ‘For a long

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\textsuperscript{179} Chuter, 2002-09-23, Tran, 2005-04-25.
\textsuperscript{180} Dennis Ranque, CEO of Thales.
\textsuperscript{181} Charles de Croisset, Vice Chairman, Goldman Sachs Europe.
\textsuperscript{182} Chuter, 2002-09-23.
\textsuperscript{183} and Chancellor Gerhard Schröder.
\textsuperscript{184} Advocated by Dominique De Villepin, Prime Minister; Jacques Chirac, Président; Michèle Alliot-Marie, Defence Minister and Thierry Breton, Finance Minister (later EU Commissioner).
\textsuperscript{185} Aguera, 2005-10-03; Bodson, 2006-03-13; European Voice, 2006-02-23; Hästdad 2006-03-04; King, 2006-03-02; Mallinder, 2006-02-23; Taylor, 2006-03-09; Tran, 2006-03-13, 2005-10-17.
\end{flushleft}
time, the French state has been a bystander. It now needs to define and implement a strategic vision for its shareholding...French companies need to think global and position themselves as such...They urgently need to develop European alliances and global strategies’.

A 1993 decision sought to simplify and reduce state ownership in Italian defence companies. With a view to facilitate also international business collaboration, holdings were cut along with 30,000 jobs. Yet, the Italian state retained 71.6% of naval producer Fincantieri and 30% in Leonardo. In 2012, the government reasserted the states’ interest in state holdings of the defence equipment business as the Prime Minister and previous EU Commissioner, Professor Mario Monti said he wanted special powers to control shares in defence and energy companies to prevent hostile takeovers. The government also set up a “Strategic Fund”, a war-chest of EUR 4 billion controlled by the Ministry of Economy, to invest in strategic companies and in the Italian Parliament; safeguarding the national industrial patrimony was discussed in the Italian Parliament when French Safran sought to buy Avio.

In Spain, defence equipment has largely been seen as a public utility. Privatisation has been criticised for short-term profit maximisation at the expense of long-term investments in engineering expertise. Thus, in 1999, the state holding of defence holding company Indra was still 66%. In Spain, defence production simultaneously links national, EU and transatlantic commitments. The Spanish Premier in 2005 said, Spain is ‘Definitely one of the world’s great countries. Our Foreign Policy must respond to this condition and, of course, also needs to do it in one of its instruments, the defence policy.’ At the same time, the Spanish Ministry of Defence announced, ‘We are Europe, and our security is unquestionably united to the continent’, reasserting that Spain will promote an authentic European defence and security policy and the capabilities to act autonomously in crisis prevention, whilst committed to NATO.

Germany for long avoided direct government holdings in arms companies, although the Bundesländer have subsidised German defence companies. Yet, the German Government supports consolidation and plans naval consolidation, whereby the TKMS and HDW naval yards would gradually acquire shares in each other. When in 2002, HDW was acquired by American investment bank One Equity, the German Institute for International and Security Affairs observed that the German and European supplier bases may be under threat of

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186 Tran, 2011-06-20b.
187 Kington, 2012-08-20.
188 According to SEPI, the state holding company in 1997 also owned 100% in Munitions manufacturer, Santa Barbara, and shipyards BAZAN and 99.28% in CASA aircraft along with 66.09% in the defence electronics company INDRA.
190 Aguera, 2005-01-10c.
191 Stiftung Wissenschaft und Politik.
US acquisitions. As a consequence, in 2003, the *German Foreign Trade and Payments Act*\(^\text{192}\) was designed to keep German defence companies in national hands, with state veto rights to any arrangement that would give a foreign entity more than 25% control over German firms. The new policy was officially justified by the aim of creating consolidated German defence companies to ‘the benefit of all European defence companies’, but it seemed more tailor-made to prevent hostile takeovers. German companies, however, saw the law as hindering capital injections, also signalling protectionist national thinking that would rather hurt a *Common European Defence and Security Policy*\(^\text{193}\). However, the German Government later intervened to keep national control over EADS in aerospace, also supporting convergence of German naval and land manufacturing in defence. The Chancellor *Gerhard Schröder*, in 2004, pledged to keep defence businesses in national hands, rather than being sold to US investors. In January 2005, *HDW* became a subsidiary of *TKMS* and *EADS*, where *TKMS* also acquired *STN Atlas*, from BAE, thus also blocking a potential Thales acquisition. The government again sought to block foreign takeovers as *MTU* aero engines were acquired. The idea for a *Buy European Act*, a European preference, imitating the *US Buy American Act*, was also floated, although business companies again warned this could backfire, reducing market access in America.\(^\text{194}\) It is sometimes also held that the EU Treaty exemption already sufficiently protects the European defence companies from competition and that it is safeguarding EU technology and capabilities.\(^\text{195}\)

In the UK, the Ministry of Defence orchestrated the merger of *ABRO armoured vehicles* with *DARA large aircraft and avionics support* in 2008 to create the *Defence Support Group (DSG)*, considered of strategic government interest. In 2017, the Italian shipyard *Fincantieri*\(^\text{196}\) expressed a desire to create a naval Airbus by taking a majority stake in French shipyard *STX*, with capacity to build French aircraft carriers. This challenged the political relations between Italy and France, as well as EU unity. French President *Macron* who, on the one hand, declared seeking a more active role for France in EU politics now intervened and nationalised the shipyard by keeping a 33% French state share and handing French shipyard *DCNS* a share to prevent an Italian takeover. These moves can also be seen in the light of Franco-Italian exports rivalry, such as a EUR 3.8 million naval order to Qatar by *Fincantieri* in 2016, where Italian and French naval defence companies simultaneously sought alliances.\(^\text{198}\)

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\(^\text{192}\) [https://www.gesetze-im-internet.de/englisch_awg/englisch_awg.html](https://www.gesetze-im-internet.de/englisch_awg/englisch_awg.html), where the relevant section 7 was subsequently revised to section 6.

\(^\text{193}\) Aguera, 2004-05-10, 2002-09-16.

\(^\text{194}\) Winneker, 2006-03-02; DN 2006-03-05; Tran, 2005-10-03.

\(^\text{195}\) Tran, 2005-10-03; 2005-09-05.


\(^\text{197}\) The *STX* was acquired by a South Korean Shipyard.

Measures to control and support domestic production may also include various concealed subsidies; for instance, in Germany, producers could acquire land to build manufacturing facilities at heavily subsidised prices; and in France, Thales acquired a 25% stake in its naval producer DCN valued at EUR 100 million for only EUR 55 million. In Britain, there are share acquisition thresholds, limiting foreign ownership. The Italian so called Golden Powers law (Law Decree no. 21/2012, converted into Law no. 56/2012) observes that defence products are a strategic sector, subject to government intervention. Over the years, the number of sectors considered strategic has increased implying more market exemptions. Whereas the European Commission considers golden shares anti-competitive, they are still a deeply rooted in certain sectors. Several small defence equipment actors that accept privatisation in combination with foreign ownership of defence companies have in several instances seen their defence companies absorbed by primes, under tighter state control, as in the cases of Dutch Fokker, Finnish Patria and Swedish Hägglunds, Kockums and Bofors.

Italy and France repeatedly announce intentions to reduce state holdings in defence as a widely perceived precondition for international restructuring. Yet, the French defence equipment agency (DGA) retains a pivotal role. DGA is not limited to purchases, veto or golden shares. A great deal of all European defence research and technology development spending goes through the agency, which controls arsenals; carries out- and oversees defence businesses and projects in situ; supports defence exports, restructuring and modernisation; as well as training and redeployment of company personnel. Hence, state and defence business actors in France are linked via the DGA. With its combined roles, DGA has been labelled the “glue” that holds the military industrial complex of France together (Markusen & Serfati, 2000), with unique possibilities of coordinating the roles of buyer, owner and manufacturer. Thus, France combines protectionism with aggressive state led exports and development of French interests in other countries, effectively networking its companies (see Mampaey, 2001).

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199 Tran, 2007-04-02.
201 Meanwhile, Sweden develops niche competencies, pursuing a policy of security through collaboration and dependencies. In 2014, however, the conservative Swedish Government, after having announced a policy pertaining to off-the-shelf procurement and outsourcing, in a dramatic move, recessed national control over its naval yards (Kockums) from their German acquirer HDW, putting it under SAAB’s control.
States control or supervise defence equipment production via their respective Ministry of Defence to safeguard capacities, knowledge and technologies. Control also emanates from other parts of the state apparatus, which may introduce an array of controls with reference to national security, despite Common Market legislation.

**Procurement practices**

Defence products face amongst the longest procurement cycles of all industrial goods. This means close and long-term actor relations, often with contracts under direct award and fixed prices. Multi-year acquisition strategies mean that defence companies work closely with the armed forces, being involved in the early identification, research and development phases of defence projects. A consequence of the close relations is that actors seem to identify with each other. Sitting together with their clients, a company may help to define a government’s philosophy regarding technology content, tactical doctrines and quantities.

A defence procurement budget can be considered representing the market for defence companies. This means that the market may be identifiable through the defence budget with spending targets and multi-annual budget laws, as in France. Here, primes lobby state actors to ensure long-term funding, as did Giuseppe Orsi, CEO of Leonardo, before the Italian senate, when asking for extended financing.

In addition to procurement budgets, there may be funding available through creative sources of defence funding, such as defence property sales or lease back to the government. Furthermore, other ministries than defence can also be involved in defence funding. For instance, in Italy, besides the defence budget, the Ministry of Industry and Ministry of Economic Development top-up defence procurement with several additional billions every year. This money funds domestic capabilities, where demonstrators are considered a precondition for exports. Moreover, the Italian Parliament finances international military missions outside the defence budgets, in 2009 to an amount of EUR 450 million.

Common amongst EU states’ military procurement are formal procedures and decision milestones that involve research, industry, military and politics. However, organisation and laws for defence procurement vary amongst EU Member States, reflecting national legal traditions or power divisions. The major defence producing countries have fundamentally different acquisition procedures. The UK has a model based on internal guidelines without enforce-

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202 The French prospective defence plans have a 30-year perspective, reflecting the long-range planning need (Mackenzie, 2001-06-11).

203 Kington, 2012-08-20.
able legal rules. Germany has detailed rules, but the regime is only semi-regulated, as these rules are not enforceable. France, by contrast, has a legally based and enforceable procurement.

In defence procurement, contracts are of such scale that they may affect sub-supplier structures, thus competition and the whole economy. To protect companies, defence business actors frequently evoke the EU Treaty exemption (article 346) to avoid competition probes into defence deals. France, Spain and Italy, with their large state holdings, have been seen as particularly discriminatory in procurements. Nonetheless, also, Britain, often connotated with free trade and market liberalism also directly procured, for instance, Hawk and Eurofighter aircrafts, Astute submarines and aircraft carriers, engines to its type 45 destroyers, where sometimes even the price was initially unknown. Germany, for long a bystander in defence business, increasingly intervene in aerospace and defence procurement, as observed by the French Minister of Finance and Industry. ‘The Germans always have the notion that the state does not want to be involved in major industrial adventures, but Airbus proves the contrary’. Around 2004, British, French and German defence procurement officials stated that their respective defence markets needed to be closed in order to protect employment and national security. Thus, domestic preference, acceptance of a monopoly, “strategic partnering agreements” or various forms of regulatory rigidity were to protect companies from external competition and give companies a home market base.

Domestic production arrangements

Governments control defence companies through regulatory and administrative constraints, security legislation and requirements to keep production, military laboratories, research facilities and other strategic assets domestic to ensure supplies in crises and war, although relying on foreign supplies may be cheaper. For instance, the United Kingdom requires that ‘facilities, intellectual resource and supporting technologies must be provided within the UK or under arrangements that guarantee UK control and safe ownership’. Even collaborative European projects may resort to national assembly lines. Also, the German Government pressure business actors: ‘we insist that Germany

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205 Chapman, 2000-06-29.
207 Beaver, A, 2004-09-09; Chuter, 2006-01-02, 2005-03-21; Scott, 2000-03-22.
208 Scott, 2007-08-01.
remains a high-tech location for Airbus...if not, we would have to reconsider our defence contracts with EADS'. 209

Governments’ priority lists for technologies they wish to control, maintain or develop in-country 210 result in various regulatory and administrative constraints on technology transfer, movement of goods and people. For instance, several EU countries require senior company managers to be national to ensure domestic control and regulate nominations via Government veto. Government control can also be exercised via supply chain management, PPP, co-financings and outsourcing. 211 Alliance partners may also put strains on attempts to outsource procurement. For instance, as the British Government sought Government Owned Contract Operated arrangement to reduce cost overruns and delays, the US considered such an organisation would erode government responsibilities amongst allies. The concept also met resistance within other parts of the British Government, although businesses believe that a strategic industry partner could help the government ‘close a gap in financial, commercial and legal skills’. 212

In some technologies, national supply has been suggested to be potentially more efficient and effective than collaboration, for instance, fixed-wing aircrafts, helicopters, maritime support, guided weapons, munitions and UAVs. 213 Indeed, as the Commission proposed more EU control of strategic assets, the ASD warned that a European approach is unrealistic given the close ties between Member States and their primes and that such control is outside EU’s remit. 214

Export support

There is widespread recognition that defence exports are political activities and tools of foreign policy, expressions of “soft power”, instrumental for a place at the top in international affairs: ‘Defence Exports are part of security policy...We need to learn the lesson about how we can use the business network on the ground to help with promotion. But if you want to sell defence equipment, you require uniforms and Cabinet rank to help you’. 215 Defence companies thus recognise that defence export is linked to foreign and security policy interests and typically includes wider security accords/commitments than single deals, including military training and exercises.

209 Michael Glos, German Minister for Economics and Technology 2005–2009. In this particular case, a spokesperson for Chancellor Angela Merkel later said, ‘The statements of Minister Glos have been slightly over interpreted; we make German interests clear, but we do not threaten’ (Schulte, 2007-09-17).
210 European states have difficulties to acquire all required military technologies alone.
211 DPA, 2006.
212 Chuter, 2013-10-07.
213 Chuter, 2005-10-03.
214 ASD, 2014-12-08.
215 Liam Fox, British Secretary of State for Defence (Chuter, 2009-09-14).
State policies for defence exports include various tools, such as export credits guarantees, equipment loans, rental agreements, licencing, offset claims or counter import of defence equipment. The economic muscles of the state can here also be used in under-pricing deals. For instance, France, for years, reportedly pitched sales below costs of naval yard DCN, for instance, in deals with Chile, Pakistan and Saudi Arabia and for exports of its Scorpene submarines.\textsuperscript{216} In addition, for defence exports, other parts of the state apparatus are mobilised, with government specialists in aerospace and defence in embassies and armed forces that demonstrate equipment for foreign clients. Thus, governments help to drive exports, through liaison with other states and by providing securities to guarantee performance of sale contracts. Moreover, operational use by European countries provides great marketing value as demonstrators supporting exports, as argued by the Italian Navy Chief before the Italian senate in 2012, as a justification for maintaining a sizeable fleet. Indeed, five years later, the largest ever Italian naval export order was explained by domestic Italian naval orders working as a shopping window of naval capability. By contrast, despite excellent naval technologies, Kockums loss of submarine contracts in Australia, were explained by a 20-year production standstill and doubts regarding supplier capacity, as the company had not launched new submarines for decades.

Defence export policies vary between European countries despite efforts to harmonise exports at European level. Active support on EU level seems distant, due to reputational consequences and policy differences between nations and over time. These defence export policies have been characterised as restrictive in Germany, encouraged in Italy and UK, and aggressive in France.\textsuperscript{217} Further, in Spain and Germany, regional entities largely execute defence exports policies, whereas France and UK operate central export offices. Although there are attempts to harmonise export restrictions in EU, there is no export support at the EU level. Nevertheless, there is sometimes governmental pressure between EU Member States with reference to EU policy cohesion. As an example, French President Jacques Chirac accused Britain and the Netherlands of betraying the EU industry when choosing the US Apache helicopters, instead of the German-French equivalent Eurocopter Tiger.\textsuperscript{218} As there is no sales support for defence exports via EU institutions, the ASD warns ‘EU action cannot replace national promotion campaigns, but at best complements individual Member States’ actions. In any case, the Commission should abstain from anything which could undermine supporting actions by Member States’.\textsuperscript{219}

\textsuperscript{216} Lewis, 2000-03-01.
\textsuperscript{217} Ford, 1989; Posaner & Saeed, 2019-09-19.
\textsuperscript{218} Chapman, 1999-04-15.
\textsuperscript{219} ASD, 2014-12-08.
The lack of support for defence exports at the EU level also reflects that arms’ exports are controversial in the eyes of anti-arms groups and politicians linked to these. Also within state administrations, defence exports are subject to departmental conflicts. Although the ministries of defence or industry may encourage exports, a 2002 review of the British 1939 Export Control Act triggered a spat between the Ministry for International Development and BAE over equipment supplied to Tanzania. In May 2004, the renewed British Export Control Act came into force with extensive trade licencing control. Restrictive defence export policies constrain not only national actors’ sales but may also impose restrictions upon alliance partners, discouraging cross-border consolidation. It is therefore proposed that countries with strict polices must lax their export controls as a consequence of increased interdependencies. It has also been considered that EU governments cannot talk about consolidation whilst maintaining diverging exports regulations.

Germany was barred from production of certain defence equipment for decades. In addition, its government was reluctant to provide support for defence exports, with outright prohibitions on exporting to several types of clients. During the 1998–2000 initiatives to consolidate European defence production, Germany introduced new and harder export controls. The German Defence business association BDLI then observed that German companies lack support, similar to that granted by France, US or Britain. In addition, German business actors had to wrestle with departmental fragmentation, as five ministries were involved in defence aerospace, thus BDLI asked ministries to better coordinate. Notwithstanding these issues, German defence exports are amongst the largest in the world. In France and Britain, the situation is different with explicit export targets. France in 2007, during efforts to enhance EU arms collaboration, set a national defence exports target to EUR 6 billion for 2008 and to EUR 7 billion by 2010. Around the same time, France and other EU countries introduced restrictions for certain arms, such as cluster bombs. DGA confirmed a 6 billion export target in 2015: ‘The parliamentary report for last year’s exports showed EUR 6.2 billion. We are going to beat that. We must be optimistic, active and win. That’s good for France, for employment. Our sector is positive in the balance of trade, which will be more positive. So, we are very pleased with exports’. The official aim is to bring the French market share to the same level as that of Great Britain, i.e. 13% on a world market of EUR 217 billion. Britain and France are indeed the EU’s leading

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221 Björling & Luthander, 2001-11-11; Chuter, 2002-02-11; Tran, 2014-07-07, 2012-07-09.
222 Tom Enders At the 5th Forum Europe Defence industries conference (JDW, 2000-06-14).
225 Francois Lureau, CEO of DGA and prior CEO of Thales.
226 Laurent Collet-Billon, CEO of DGA.
227 Tran, P. 2015-06-1b.
228 Tran, 2008-10-27, 2007-12-17.
defence exporters, with world market shares revolving around 14% and 8%, respectively, during 2003–2008.

In Britain and France, the support for defence exports seems consistent, irrespective of government. Both the French Defence Minister, Allan Juppe, in 2011, and his successor Jean-Yves Le Drian, in 2014, emphasised the need to boost defence exports. Earning foreign market shares is considered a state interest amongst many politicians, military and business leaders in these two countries. Thus, the political leadership engages in selling flagship programmes, such as Rafale, also blurring the borders of “normal” actor’s roles. In 2010, Prime Minister Cameron led the largest British delegation, including several CEOs, to India since 1947, with a view to boosting defence exports as a key goal.229

The French Air Force Chief, General Denis Mercier announced that France had a good chance of winning export sales for the Dassault Rafale fighter combat aircraft stating, ‘I am fairly confident there will be a good story’, assuming sales of Rafale to foreign clients were discounted in the long-term defence budget.230 In 2012, the planning of French arms exports was even centralised to the Élysée Palace and placed directly under President Sarkozy, where defence actors noted231 that ‘There is a determination to support export’. Indeed, a direct link existed between the state expenditures for Dassault fighters, exports and the defence budget.232

The British Government support may be less vocal, but exports have had solid organisational backing since 1966 when The Defence Sales Organisation was set up, as ‘we must also take what practical steps we can to ensure that this country does not fail to secure its rightful share of this valuable commercial market’.233 In 1985, renamed the Defense Export Support Organisation (DESO), it was dedicated solely to defence sales around the world. The 450 staff strong DESO lobbied foreign governments and organised marketing campaigns for arms firms. It was also, remarkably for a public authority, headed by executives of defence companies officially seconded from their employer whilst receiving corporate salary. After the infamous al Ramallah deal, estimated to bring BAE GBP 40 billion, the agency was, however, to be put under the UK Trade Investment Agency.234 This decision led to “a furious letter” from defence companies235 to the Prime Minister.236 Around the same time, the Chairman of the French Defence Business Association237 said he envied the official British Government support for exports, and thought that ‘Each

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229 Raghuvanshi, 2010.
230 Khawaji, 2006-03-13; Tran, 2014-12-15.
231 Charles Edelstenne, CEO of Dassault.
232 Agence France-Presse, 2013-08-05; Tran, 2012-07-30.
233 Denis Healey, Secretary of Defence.
234 Evans, 2007; O’Connell, 2006-08-20.
235 BAE’s CEO, Mike Turner.
237 Charles Edelstenne.
French Minister should have export, export, export stamped on his forehead’. French defence business associations since then expressed detailed demands on the government for export support,238 apparently with success as the Elysée intervened as can be seen on the previous page. It can be concluded that both French and British defence exports were successful, as around 2008 the British arms exports surpassed that of the US and the UK became the world’s largest arms exporter with 33% of the global sales. These figures “delighted” officials in UK Trade Investment. The British National Defence Export Office had some 240 employees in 2008, about half of the size during the DESO era, but still saw record exports.239

Issue communities

Business opportunities can be lost for actors that do not understand the setting of actor relations in defence, where the particularity of defence production requires an understanding, not only of technology but also of complex market conditions, actors and activities. Countries with weak issue communities/policy networks, or lack of national identity connected to firms, are here vulnerable to foreign acquisitions (Lundqvist, 1999-05-15, quoting Sjöstrand). To be approved as an insider to defence business arenas, ‘there is a modus operandi within the Department of Defence that even covers body language’.240 For instance, in 2007, the British Government threw out a contractor in naval maintenance241 due to a collapse in business to government relations. Actors therefore seek to build or gear discourses via issue communities that work in a direction conducive to actors’ power goals. Employing key persons with knowledge and contacts in military procurement is one method employed by companies to master codes. Key persons may come from business, politics, research, administration, the military and investment banks. Besides connection by background, there are occasions to meet formally and informally in social contexts, such as conferences, exhibitions, organisations, projects, networks and schools.242 Issue communities include “old-boys’ networks”. In the context of such networks, the power struggle within the French part of the EADS has, for instance, been described as a rivalry between alumni of French elite schools. Former students of the École des Mines in 2005 championed the leadership of one alumni243 with strong ties to the President of France and its

238 Chuter, 2007-12-17, 2007-07-16; Tran, 2012-07-09.
240 Kington, 2006-09-04.
241 KBR had a 51% share of Devonport Management Ltd (Chuter, A 2007-04-23).
243 Noël Forgeard
Economy Minister on behalf of another with a background from École Normale Supérieure. The alumni of École des Mines, also had within its ranks the CEOs of Thales and Eurocopter. The practice of alumni associations assigning mentors to watch over graduates has been seen to cause many structural problems in France. It is not only schools that imply power relations but also family ties, such as Lagardère and Dassault, and personal acquaintances. Executives from other companies may also gather in other types of industrial lobbies, both as rivals or in close friendship, as in the case with the CEO of Finmeccanica Alberto Lina and John Weston, CEO of BAE, in 2000, who were seen as close friends. Transnational issue communities also seek to organise actors, such as the Bilderberg Group, which in its meeting, in 2013, gathered EADS and BAE, European Commissioners and representatives of Lagardère. Governments may also formally support boundary spanning networks, such as the SERA, managed by the French École Militaire that organises EU defence procurement actors. Within the European External Action Service (EEAS), some 5,000 students are trained each year by the European Security and Defence College (ESDC). One of several disciplines is here European defence equipment cooperation and networking among defence equipment experts. EU Member States hope this networking will lead to common military capabilities for Europe. In parallel, technical collaboration occurs in, for instance, GARTEUR or CEPA. Such deliberate networking ranges from a loose character, such as British Team Complex Weapons that draws together manufacturers, to large-scale efforts to establish a European Security Research and Innovation Forum (ESRIF), drawing business, research and political actors in roughly equal proportions to canalise EU’s dual use research and technology funding. It was launched in 2007, but held back by...
deep seated concerns in some states about involving and coordinating sensitive research. Meanwhile, the ASD announced the creation of the “European Organisation for Security” as the industry’s coordinating voice within ESRIF.  

In pursuit of legitimacy, defence companies may buy into social and issue communities, but then also need to pursue this commitment for the long-term. As Finmeccanica (Leonardo) entered the British home market by acquiring significant British defence companies (Agusta Westland and parts of BAE with 10,000 employees, Leonardo hired senior British staff and advisors. In a 2007 defence exhibition, Finmeccanica dismayed the British Government by only having Italian staff manning the Agusta Westland counter. Finmeccanica managers indeed admitted that ‘We do not let our foreign units become too separated from the company’. Consequently, loyalty is important to obtain political, military, administrative or economic support in this business setting. Here, bribery or rigging of procurements occurs, and antifraud authorities have raided corporate offices in a number of cases, with ensuing arrests, prosecution, fines and imprisonments (see Chapter 5).

Government strategies

Defence producing states may formulate defence industrial strategies and policies for defence companies, including provisions for competition, exports, national capabilities or plans for research and technology development, down the supply chain and also to SMEs.

Strategies can materialise in laws that link defence expenditures to technological capabilities and specific companies. In the United Kingdom, a number of documents outline the content of the defence industrial capability, also streamlining supply chains in ‘strategic paths for enhanced performances’ and ‘Competitive partnership agreements’. Under principles of competitive tendering since the mid-1980s, the UK defence industrial policy was reformed and subject to several reviews, amongst which a Strategic Defence Review, with a planning horizon until 2015. Value for money remained in

252 Tigner, 2007-04-16.
253 For instance, the former Chief of RAF’s Strike Command, Sir Brian Burridge, was employed as a senior strategic market advisor in April 2006.
255 Sir Peter Lavene, Chief of British Defence Procurement, in 1985, assumed principles combined with ideological commitment to market liberalisation, budget austerity and value for money already set in motion under Prime Minister Margaret Thatcher. These principles meant tougher budgetary controls with fixed cost contracts, payment according to progress and competitive tendering. Indeed, better cost control resulted, but at the risk of losing product innovativeness and quality. The policies also led to concentration of large companies, although companies were barred from independent merger decisions (Walker & Gummet, 1989).
256 The future strategic Context for Defence even sought to extend the time horizon by 30 years (Barrie, 2001-10-15).
the fore, and future capability requirements were clarified where it was deemed that certain production might not need to remain domestic.\textsuperscript{257}

Governments invite defence primes to participate, officially or unofficially, collectively or as single companies, to formulation of defence industrial strategies based on their knowledge and long-term partnerships with other governments.\textsuperscript{258} They may also put together senior persons from the armed services, government, academia, business and the media as advisors, for instance, in the \textit{UK Defence Advisory Forum}.\textsuperscript{259} Moreover, governments may underline that defence requirements, not business needs, should drive procurement and consequently, businesses may align with their client, emphasising capability needs, national production and jobs, more than corporate profits.\textsuperscript{260} Yet, companies may seek to boost government funding for defence technology research, referring to the needs of maintaining domestic capabilities and technologies over time. Furthermore, whereas restructuring may formally be left to the companies themselves, strategies may still be formulated in such a way that they induce industrial transformation.\textsuperscript{261} For instance, a 2006 British \textit{Defence Technology Strategy} lists two thousand individual technologies within eleven sectors to retain, such as nuclear capabilities, signal and data protection, intelligence, surveillance, effective countermeasures and helicopter defence. The research community and businesses actors welcomed and demanded these strategies as enhancing the transparency of government priorities. In other words, they clarified which products the market demands. Also, long-term strategies can accomplish this. For instance, in 2003, the Ministry of Defence projected its requirements until 2030.\textsuperscript{262} The government may put pressure on businesses to sign up for a strategy, or the government will not procure: ‘\textit{In the end, we will decide where the orders are placed...we will reward those companies that respond proactively to the industry strategy}’.\textsuperscript{263} In such an environment, strategy updates are necessary. British defence companies have criticised their government for a sluggish renewal of the \textit{Defence Industrial Strategy}, but such complaints may lead to disappointment, as a \textit{Defence and Security Review} forestalled 20\% cost cuts, less focus on top quality capabilities and more focus on off-the-shelf procurement.\textsuperscript{264}

Although the German defence industry was kept at an arm’s length distance for decades, the government still intervened many times to support and organise defence businesses (see Chapter 6.6) and to keep defence technological

\begin{thebibliography}{99}
\bibitem{258} Ibid.
\bibitem{259} Mahon, 2009-09-21.
\bibitem{260} \textit{Alan Sharman}, retired Major General and Director General of the DMA on the efforts to formulate a 2005 defence industrial strategy (Chuter, 2005-09-12).
\bibitem{262} Chuter, 2008-04-28, 2006-05-01.
\bibitem{263} Chuter, 2006-07-24.
\bibitem{264} Muradian, 2010-07-26.
\end{thebibliography}
competencies. For instance, the German Government acted to keep the submarine company *STN Atlas* out of reach of Thales in 2005, and BAE (then owner) had to accept a weaker offer by the German conglomerate *EADS-TKMS* than Thales offered for its holding.\(^{265}\) In 2006, Germany replaced a 1994 strategy, which identified six broad capabilities for the *Bundeswehr*: Command and Control, Intelligence gathering and reconnaissance, mobility mission effectiveness, support and sustainability, survivability and protection. Procurement then oriented towards these requirements, via the *A400M* Airlifter, *NH 90* helicopters, *Puma* combat vehicles and *K130* corvettes. The document both underlines the importance of German industry and of a strong consolidated European defence industry. Yet, the German Government has expressed that it prefers national consolidation over mergers with foreign companies,\(^{266}\) although a 2015 strategy document states ‘*The strength of Germany’s security policy capabilities depends on the extent to which it is embedded in European and Transatlantic structures*’. Thus, whilst concluding that a strong defence technology base is a common European goal, the German strategy also seeks to retain competencies and jobs at the national level. In practice, a shift occurred as in 2019, the German state declared it was ready to buy company stakes to protect core industry, amongst which were defence companies, in the wake of trade wars and foreign buy-ins.\(^{267}\)

Under the Conservative French Government in 2005, a strategy to identify 10 strategic sectors, including defence, was tabled, along with a strategic investment structure under public governance. Private investment funds were to target in particular small companies with sensitive technologies, exposed to foreign takeovers. Government also intervened at various instances to engineer the business landscape, in a manner that was not always appreciated by the business community. *Charles Edelstonne*, for instance, stated that the government pushed *Dassault* to buy a company with a number of inducements, but once the deal was accomplished, the government failed to honour its promises.\(^{268}\)

The Italian Government also identifies key technologies to protect knowledge transfer and block foreign takeovers, including C4I technologies, electronic warfare, radar, military satellites, UAVs, underwater acoustics, missiles, munitions, torpedoes, pilot training systems, stealth, military aircraft and vessels. Non-military technologies are also on the list, including aerospace propulsion, cyber defence and encryption.\(^{269}\)

Other key EU defence manufacturing nations also formulate priority lists for key technologies, although they may not necessarily link to a consistent strategy or be specific. Public agencies may, for instance, have the more vague

\(^{265}\) Aguera, 2005-04-11b; Boxell; Tran, 2006-04-10; Seevaratnam, 2004.

\(^{266}\) Schulte, 2006-11-20, 2006-06-12.

\(^{267}\) Carrel & Martin, 2019-02-05; Federal Government, 2015-07-08.

\(^{268}\) Tran, 2005-02-21, 2005-10-03.

\(^{269}\) Kington, 2012-08-20, 2005-10-03.
aim of keeping some domestic competencies and capacity for systems, subsystems or components to reduce dependency on foreign suppliers in the short or medium term.270

Defence strategy and restructuring are not government matters alone but take place amongst several types of political actors and can also be directed at foreign actors, seeking to restructure the entire EU market. For instance, the French Parliament proposed that German *HDW-TKMS*, DCN and Thales should link up as the most cost-efficient solution for naval competitiveness.271 See also Chapter 6. of this thesis.

Research and development support

Defence innovation has been considered a soft power and a necessity to be an interesting collaborative partner: ‘if there are no orders, there will be no technology, then we will be of no interest as cooperative partners. Therefore, we will lose influence and the ability to shape events’.272 In their corporate reporting, the four studied primes acknowledge public subsidies amounting to some 75–80% of their research budgets. Although this gives a competitive advantage over firms without such support, EU competition law does derogate defence research expenditures with reference to national security interests.273 For instance, when DASAs’ profitability was threatened, EU legislation prohibited state aid, but direct government research subsidies were used instead.274 In Italy, state aid is explicitly granted under the Italian Law 808/1985 for research and development projects functional to national security.

As could be seen in the previous section, governments establish priority lists for technologies considered vital to state security. The primes tend to align defence research to such priorities in order to better access long-term funding. Long-term research means state-subsidised capital inflow, which also enables primes to hedge their solidity in times of recession. For instance, a French defence businesses association275 observes ‘...to have advanced technology, you need long-term government funding. Company boards will not fund R&T, which offers a return on investment in 15 years. Companies will invest with a return in five or six years, maximum...’.276 The research funding comes, however, with restrictions for diffusion of research knowledge, as the buying governments often seek to maintain domestic knowledge along with

272 *Paul Breuer*, Spokesman for the CDU (Hoschouer, 1999-09-13).
273 For many years, defence research appropriations were around 30–40% of all government research in France (Mampaey, 2001).
275 Christian Mons, Chairman with a history from Dassault, Thales, Giat and Panhard (Les Echos, 2009-09-10).
276 Tran, 2012-06-04.
technology access and benefits for its own industry. Also, arms deals often require offsets in excess of 100% of the sales value, where the cost of research and development is not properly considered, thus constituting a sort of military “aid”, intending to tie up clients where further supplies can offset costs. Indeed, free hand over of equipment takes place in alliance contexts; for instance, in 2002, the US said it would donate two 9,000 tonne destroyers to Greece.277 Such supplies without cost or “lend-lease” may lead to lasting “partnerships” or interdependencies that may be offset later, for instance, through maintenance, modifications or upgrades.

4.4 Summary

Today’s EU defence business setting has evolved after arduous gradual institutional transitions over time. Attempts to integrate defence businesses were dismissed several times, but then re-surfaced again on the EU policy agenda. The EU’s policy agenda, budget and participation in activities have expanded to defence products, underpinned by common EU values, standards, legislation, civilianisation and increased costs. Yet, the Commission still refrained from interfering in the defence market and for long only a limited transfer of resources and mandates occurred, when in 2017 more significant transfer of resources was announced. Despite this expansion, EU political bodies still have supportive, rather than coercive, powers.

Business associations and political bodies issue policies with sometimes almost identical formulations. Together, these actors seem to inject stability into the business setting. Size is, here, critical along with the state’s military posture, where actors with small capacities will seek to collaborate where they can expect offsets. Principal bodies for EU defence business cover complementary activities, as can be seen in Table 4.5.

277 Zorzovilis, 2002-03-25.
Table 4.5: Principal ancillary actors for EU defence business and their activity content in some domains.

<table>
<thead>
<tr>
<th>Activity</th>
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<th>Occar</th>
<th>LOI</th>
<th>EU</th>
<th>EDA</th>
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<td>Public procurement</td>
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<td>Competition policy and state aids</td>
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<td>European company statute</td>
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<td>Intra community transfer</td>
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<tr>
<td>Defence exports support</td>
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<td>Project management</td>
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</tbody>
</table>

EU, notably EDA and EDF, aim for more co-ordination, co-operation and integration between EU Member States and could eventually absorb LoI and OCCAR.

Collective defence procurement will probably continue to be built upon voluntary activities, based less on coercion, than peer pressure, where direct export support remains unlikely.

Business associations form part of an issue community within the EU defence business setting as counterparts, advisors or speaking partners to other actors, lobbying for various trade facilitating measures and support. The business associations do not seem powerful enough to replace defence primes in direct access to ministries and governments and do not engage in the practical sales of systems or more technical matters, such as project management and design of systems. Instead, business associations appear as complementary channels for waging influence and consensus building, representing their market and technologies in relation to National, EU or NATO bodies.

In stark contrast to the activities of EU bodies, numerous significant national controls are still maintained or strengthened by EU Member States. The same issue communities that advocate EU collaboration and integration, assist primes in their exports and marketing and also encourage their strivings for market dominance. Safeguarding national capabilities, identified in priority lists and national strategies, here goes hand in hand with evoking EU interest and setting exports targets.
5. Arena 2: The market of four EU primes

This arena part of the case seeks to understand through the ancillary actor relations market relations of the largest EU defence primes. The studied EU primes are BAE, Thales (formerly Thomson-CSF), Leonardo (formerly Finmeccanica) pan-European Airbus (formerly EADS). For an overview of the evolution and background of the four studied primes, see “Narrative database III” in DiVA. The primes’ market position vis-à-vis governments were identified based on corporate reporting (Annual reports, web pages and corporate publications), along with articles in specialised press.

This information resulted in a toolbox as summarised in Figure 5.1 below, e.g. an analytical grid of instruments for coding, where further information was sorted into categories.

![Figure 5.1: Tools for companies to manage their market situation derived from corporate reporting.](image)

The rest of this Chapter follows the structure in Figure 5.1 above, covering each of these tools.
5.1 Market strategy

In their corporate reporting, the studied primes explicitly recognise dependency on government clients and public expenditures, international bodies and private-public partnerships. The primes weather financial crises and weak defence budgets by extending to an international customer base and through diversification. They also target sustainable and emerging high-growth markets and America to reduce dependency on any individual government.

All four primes seek to build sustainable relations with government and institutional customers, maintaining local presence to enhance the mutual trust required to conduct complex long-term projects. The primes, thus, seek to emerge as local suppliers. For instance, Thales speaks of a ‘multi-domestic strategy’ and BAE ‘in selected home markets seeks to develop an industrial presence embedded as a domestic supplier with strong customer relationships’, where BAE’s ‘Strong and enduring relationships ...are playing a key role in the industrial capability’. The companies all identify ties to foreign governments and transfer of technology and expertise as corporate means to open up foreign defence markets, where close relations and visibility through domestic presence help to appear as a locally anchored supplier. For instance, as Finmeccanica acquired the larger British company Westland, it sometimes used this name in the United Kingdom. Establishing themselves as local suppliers also helps foreign contractors to profit from contracts by direct award.

The four primes all display similar changes in their marketing activities, over time moving from product sales into developing integrated solutions that extend from systems sales to through-life management, including services, consulting and financing. Market presence is thus cultivated by trying to cover the entire product life cycle. Support contracts imply lasting and extended ties that go far beyond the initial procurement. In support of sales, primes may also tie customers through financing solutions, such as leasing and chartering arrangements.

All four primes expand through acquisitions of strategic companies, diversifying into more general security solutions and border protection. The emphasis on growth through acquisitions vs organic growth varies, however. For instance, Airbus is more inclined to grow organically, through internal development, whereas Thales relies more on acquisitions. What is common for all four, however, is that the emphasis seems to be less on acquiring platforms for unique goals; instead, it is about more flexible and agile capabilities, cost

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278 For sources, see Chapter 12.3.
280 Pierre Lafourcade, Vice President, Thomson Airsys (Barrie, 2000-01-10).
281 BAE, 2009.
282 BAE, 2017.
283 Chuter, 2004-12-06.
effectiveness and ties with trusted industrial partners, including to ‘share risk with trusted industrial partners who can move from solely supplying spares and maintenance to continuous availability and incremental upgrades of capabilities’.  

Tensions with Russia (under Putin), asymmetric threats, uncertainty as to the US security posture (under Trump) and nationalistic sentiments in Europe, have shifted defence funding to an ‘Increasing requirement for in-country production’ compared to the decades after the fall of the Berlin wall.

Primes see public sector contracts as guaranteeing solvency, where ‘Strategic performance in the major countries is constantly monitored, in order to ensure alignment of corporate activities with customer needs’. Working closely with the customers also means understanding their clients’ economic situation and to seek mutual cost savings as a means of legitimising staying on the market. Another means to master and reinforce local business-to-government relations is to employ senior government officials or business management, as Thales did when buying into British companies to ensure a position on the British market or as Airbus and Leonardo did to anchor its business in North America. Many contracts in defence are uncertain, and the cost of design, development and manufacture includes demanding performance requirements with unpredictable cost estimates and delivery schedules. To remedy such business risks, companies seek to control the market through acquisitions, lasting contractual commitments, good project management and by integrating the supply chain more closely, where the state may also chip in funds by various means. Despite deficits, Thales, in particular, has continued purchases, declaring substantial acquisition budgets.

Transparency international considers that, for defence contracts, it is practically impossible to win major orders without bribery. Indeed, various corruption, litigation or ethical issues concern all the studied primes. Corporate reporting seeks to mitigate this through considerable attention to business ethics in the aftermath of various irregularities. The nature of defence products per se implies negative connotations in many camps. The primes seek to earn legitimacy by endorsing societal ethics, for instance, regarding environment.

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287 BAE, 2017.
289 Thales recruited Dr Ian Prescott, Managing Director of BAE, John Howe, Deputy CEO of the UK Defence Procurement agency along with the 65 staff strong defence consultant company Quintec Associates that provides services to both MoD and the industry (Scott, 2000-04-26). Thales also acquired Racal with 9,000 staff and revenues of around EUR 1.3 billion, Shorts Missiles with 550 staff and estimated revenues of EUR 110 million and 24.9% in Singapore and UK owned Avimo with 1,350 staff and EUR 110 million revenues (Morocco, 2000-01-24).
292 Hellberg, 2000-02-04.
human rights, business ethics, healthcare, foreign assistance or emphasise corporate units with civilian nexus.293

Governments here may take the position of both blocking and launching investigations into unethical business activities. For instance, in 2006, Britain’s Labour Government protected BAE from examination by its Serious Fraud Office, quoting national interest. Yet, in 2008, US authorities detained a BAE CEO, mining his computer and telephone for information.294 BAE has also agreed to pay fines on several occasions, for instance, GBP 248 million in 2010 to the US and GBP 30 million to Tanzania stating it ‘very much regrets and accepts full responsibility for these past shortcomings’.295 Similarly, in 2003, EADS was accused of fraud relating to a USD 5 billion arms deal with South Africa and admitted it had ‘rendered assistance’ to senior officials to obtain luxury vehicles, though the charges of bribery were later withdrawn.296 The “Clearstream affair”, for six Lafayette class frigates, meant a fine of EUR 460 million to EADS and Thales in 2010. Bribes involved Taiwanese officials and French politicians, right up to the government.297 The French Defence Minister had to leave office, though claiming allegations were false and occurred due to efforts to ‘bring order to relations between the Defence Ministry and Industry’.298 In 2017, Airbus warned about forthcoming bribery charges, media attention and a lawsuit involving ‘potentially serious consequences – including serious penalties to the company’ and ‘turbulent and confusing times’.299 Finmeccanica/Leonardo has been subject to much turmoil regarding corruption, nepotism and mismanagement allegations, including criticism about supplying undemocratic regimes with high-tech equipment, quality problems related to contractual or technical mismanagement, including default components to Boeing, costing the company EUR 780 million. In the 2017 corporate report of Leonardo, no less than 8 pages cover summary proceedings and client disputes currently underway against Leonardo and subsidiaries.300 Consultants, ministers and top managers, including two Finmeccanica CEOs, have been subject to probes, arrests and/or detention. Silvio Berlusconi301 defended the company for a long time, suggesting that probes were part of a plot seeking to damage Italy’s reputation. Berlusconi called the Italian prime a “Fantastic asset” and allegations against the company “suicidal”.

293 Corporate commitment to gain trust and legitimacy through resources that improve their market position and social projects in studies by Hadjikhani, Lee & Park, 2016.
295 BAE, 2010; Defense News, 2010-03-08.
297 Prime Minister Dominique De Villepin and, as Interior Minister, Nicolas Sarkozy.
301 Silvio Berlusconi, Prime Minister of Italy 1994–95, 2001–2006, 2008–2011. He was a member of the Deputy Chamber from 15 April 1994 – 14 March 2013 and thus not the Prime Minister when he made this statement.
On national television on 14 February 2013, he stated that bribery was part of the game in arms deals: ‘Kickbacks are a phenomenon that exists and it’s useless to ignore their necessity’. The next day, however, he said that bribery must always be punished. Several high-ranking defence company officials were arrested or had to step down, linked by prosecutors for seeking to blackmail Berlusconi. An external relations manager stated that a number of Finmeccanica appointments over the years were favours for Italian politicians. The manager then had to step down himself, accused of taking kickbacks. Several other managers had to resign due to allegations of wrongdoing and corruption. These events took place in a volatile Italian political setting with transitions between governments, lack of continuity and absence of high-ranking political staff in office at relevant ministries. As a new Italian Premier, Mario Monti asked for a rapid solution to the situation, for which he was instead criticised for lack of precision and initiative. Managerial turmoil continued as also Giuseppe Orsi, another CEO, had to step down as CEO because of allegations of corruption and poor track record. In October 2020, Alessandro Profumo, the CEO appointed to Leonardo for the period 2017–2023 was sentenced for false bookkeeping in a previous position as chairman in a bank; however, he was retained following a shareholders’ vote.

5.2 Product portfolios

The four studied companies all collaborate or compete in defence systems, platform manufacturing, defence electronics, information and communications technologies, including aeronautics, missiles, air traffic management, navigation, surveillance, satellite communications and defence electronics. Their experience from defence production is also useful to target civilian aerospace and security markets.

There are also distinct features of the four companies: BAE has a complete defence platform portfolio. Airbus is mainly civilian because of a larger civilian than military production with emphasis on civilian aviation, space and helicopters. The German part of Airbus has endeavoured to move into naval and land equipment sectors, by buying into STN Atlas, Krauss-Maffei Wegmann and Giat. Thales traditionally focuses on electronics (not explicitly defence in the 2016 Annual Report) and has a sizeable portion of the company devoted to infrastructure. Also Thales has gradually or reluctantly moved into platform manufacturing, called the nucleus of a “French BAE” as the company ties to

305 Landini, 2021-05-19.
both state shipyard DCNS and Dassault. Although Thales describes its portfolio as balanced by a diverse order base, some 75% of the orders are governmental.\footnote{Airbus, 2017; Thales, 2016; Tran, 2006-05-01b.} Leonardo’s product range includes features of all the other three and like the three other primes also links to Fincantieri, the naval yard.

As the market is one of few but large orders, companies need to be resilient to endure poor order intake. If they manage to remain viable, they can later tender for big projects and reap the benefits of outlasting others.

The companies all compete and collaborate. For instance, both BAE and Leonardo collaborate with Lockheed on the JSF, which is competing with the Eurofighter. Both BAE and Leonardo also collaborate with Boeing, a competitor of Airbus and Lockheed. For instance, BAE won a GBP 119 million contract to upgrade 400 Boeing F15s to develop and manufacture electronic warfare systems and supply integrated flight electronics for Boeing’s next-generation passenger aircraft. Leonardo also collaborates with Lockheed on the C27 Spartan Military transport Aircraft.

5.3 Business to Government relations

The studied primes sustain lasting government relations through long-term commitments and contracts. Governments invite primes to help formulate government strategies for acquisition and the defence market. Ministries sometimes admit they cannot assess the market situation to the same extent as companies and depend on their advice.\footnote{Kington & Chuter, 2012-10-01.}

The long-standing government ties are reflected in corporate reporting as goodwill. Goodwill was reported as GBP 10 billion in BAE, EUR 3.7 billion in Leonardo in 2017, and EUR 3.4 billion in Thales in 2016. Goodwill reflects expectations of continued government spending and a broadly consistent market share. Policies for more competitive bidding are instead reported as business risks.\footnote{BAE, 2009.} The primes all acknowledge that state orders hedge business risks and bridge downturns for their civilian business. Also, research spending and subsidies help corporate stability; for instance, Airbus recorded government advances of EUR 5.9 billion in 2017.\footnote{Airbus, 2017.}

BAE has emphasised as a strategic priority to implement the UK Defence Industrial Strategy in which the company enjoys a central and privileged position. Yet, BAE\footnote{John Weston, CEO of BAE, 1998–2002.} also expressed frustration over British openness to foreign competitors, arguing for more government protection of domestic firms and contracting via direct award. The relations to the Ministry of Defence were then strained, and the CEO of BAE stepped down. The incoming procurement
Minister\textsuperscript{311} took a less favourable position to BAE, considering the ‘\textit{Lead systems integrator to be not vertically integrated with the supply chain, but to be open-minded, look at the options and bring in skills and expertise’}.\textsuperscript{312} The new BAE CEO,\textsuperscript{313} however, continued along the same strands as his predecessor, by putting pressure on the government. It was suggested that BAE would have to sell out key business sectors without a preferential treatment and that a common strategy is a win-win; ‘if we sat down and worked together, BAE and MoD could put in place a tough partnership agreement where a cost-down value-for-money deal for the UK armed forces and a sensible return for our shareholders are reasonable objectives. Do they want partnership or go back to the bad old days of competition where nobody wins? If we don’t have partnering and a future for our lead system integration capacities, how can we possibly stay in the UK?’ Despite a close and privileged relation, BAE also claimed that in the Ministry of Defence ‘decisions are not being taken which the UK industry believes need to be taken for the benefit of the armed forces and the industrial base’.\textsuperscript{314} Yet, the British Government intervened directly to shape business structures. For instance, the British Defence Ministry shaped a joint venture in 2008 between \textit{VT Group} and BAE, giving BAE a lead role. The year after, BAE absorbed all of the \textit{VT Group}, placing most manufacturing of the Royal Navy’s capital vessels in BAE’s hands. BAE have also agreed on milestones and strategies with the British Ministry of Defence under 15-year business agreements. These arrangements give the company a privileged position, but also a requirement to deliver efficiencies and savings.\textsuperscript{315} The British special reliance on a prime was also attractive for the other primes: Thales previously stated, ‘\textit{We are interested in the British Defence Ministry’s revised procurement policy that involves outsourcing and reliance on super prime contractors’}.\textsuperscript{316} Thales’ Chairman, Denis Ranque, has said, ‘\textit{We have earned our stripes. We have shown the UK Government we know how to be good citizens’}.\textsuperscript{317} Similarly, Finmeccanica also gained legitimacy with the UK Ministry of Defence through British acquisitions. Meanwhile, in Italy, the company committed ‘\textit{to ensure top-quality Italian defence products and security services for the sake of national security’}.\textsuperscript{318} As the British Government wished to infuse more supplier competition, it reshaped the consortium for a main order, namely that of two aircraft carriers, by insisting Thales should take part. Later, the Government also introduced additional contractors. The British Government also accepted all the four studied primes as advisors. BAE

\begin{thebibliography}{99}
\bibitem{312} Chuter, 2006-03-12
\bibitem{313} Mike Turner, CEO of BAE, 2002–2008.
\bibitem{314} Chuter, 2006-07-10, 2002-07-22a.
\bibitem{315} BAE, 2009.
\bibitem{316} Aviation week, 1999-09-27.
\bibitem{317} Denis Ranque, CEO of Thales 1998–2009 (Airletter, 2000-02-04).
\bibitem{318} Finmeccanica, 2010; Kington, 2011-07-18.
\end{thebibliography}
then criticised the government for inviting its competitors.\textsuperscript{319} Yet, post-Brexit. BAE explicitly declared it ‘will support the government in achieving its aim to ensure that the UK maintains its key role in European security and defence post-Brexit, and to strengthen bilateral relationships with key partners in Europe. This will be important for ongoing collaboration in the development of defence capabilities’.\textsuperscript{320}

The French Government is also active in engineering the composition of national primes, for instance, the fusion by Aérospatiale-Matra (see Chapter 6.5) and Thales’ holdings of the warship manufacturer DCNS. The French Government, in 2010,\textsuperscript{321} called the CEOs of Thales and Safran\textsuperscript{322} to meetings to end their competition in overlapping areas. This raised concerns over how big the government would allow Thales to become in the wake of its already significant investments in other companies, particularly DCNS.\textsuperscript{323} The French Government was, however, still concerned about fragmentation in the defence sector. During the June 2011 Paris air show, the French Defence Minister, Gérard Longuet, and President Nicolas Sarkozy expressed that French defence companies must work together and end their internal wars. If they did not settle their differences internally, they would be instructed to do so. Sarkozy did not name any companies, but the CEOs of Dassault, EADS, Safran and Thales were sitting in the front rows as he spoke. In particular, the President was dissatisfied that no asset swap had taken place between Safran and Thales and that EADS and Dassault continued to champion two different models of UAVs. The subsequent government took a similar stance, and the new defence minister\textsuperscript{324} also sought to bring the defence industry under the control of his ministry,\textsuperscript{325} encouraging Thales to tie up with Nexter and Renault Trucks to produce new French military vehicles.\textsuperscript{326} Meanwhile, the French Government supported French defence companies on numerous occasions. The CEO of Dassault, whilst concluding that sales of combat aircraft is a political act, commended the Elysée for a ‘superb job’ in this regard.

Airbus is also subject to extensive government interest and support, none the least in the form of research subsidies and advances. Reiner Hertrich, a manager of EADS and Chairman of BDLI wrote to the German defence min-

\begin{footnotesize}
\textsuperscript{319} Thales had bought several significant suppliers in the United Kingdom, making their combined UK sales in excess of 1.2 GBP billion with 12,000 staff, and the seat in these boards were interpreted by Thales as legitimacy as UK domestic players (Chuter, 2002-09-09).
\textsuperscript{320} BAE, 2017.
\textsuperscript{321} Herve Morin, French Defence Minister 2007-2010.
\textsuperscript{322} Safran is a manufacturer of military and civilian engines and equipment. In 2010, their sales were at EUR 10.8 billion and they had 54,000 staff, which can be compared to Thales with EUR 13.1 billion and 68,000 staff (Tran, 2011-05-16).
\textsuperscript{323} Tran, 2010-04-26.
\textsuperscript{324} Jean Yves Le Drian, French Defence Minister 2012-2017.
\textsuperscript{325} Tran, 2012-12-17, 2012-11-05, 2011-06-27a,b, 2010-03-22.
\textsuperscript{326} Tran, 2014-10-27a.
\end{footnotesize}
istry, proposing the government to finance the *Trigat* missile project in advance, and also asking for government support to persuade Spain to buy its *Taurus* missile instead of the *MBDA Storm Shadow*, to arm the *Eurofighter*. *Airbus* then simultaneously held shares in *MBDA*.\(^{327}\) Although the German Government for long sought arm's length distance from its defence companies and held no formal stakes, its involvement in *Airbus* is none the less clear. In November 2006, Chancellor *Merkel* met EADS to discuss finding a buyer for the 7.5% share that *Daimler* wanted to sell.\(^{328}\) Such political involvement provoked the British Procurement Minister *Lord Drayson* to say governments should cease interfering in the corporate governance of EADS; otherwise, British contracts could be withheld ‘As a key customer, we see it as important for EADS to move in a direction that is free from political interference’. Drayson himself was, however, involved in drafting the British *Defence industrial strategy* together with BAE. Disregarding the British protest, the German state in 2011 moved from support to direct ownership as it announced intentions to buy the shares from *Daimler* for some EUR 1 billion. The German Government also exercised pressure on *Airbus* to not move their headquarters to France and to put more Germans in executive posts to preserve the Franco-German balance.\(^{329}\) Moreover, the German Government moved into other defence systems integration areas to protect suppliers from foreign takeovers. EADS’s officials, for long, argued for a move away from state control over the company in the wake of initial management difficulties and national influence over decision-making and board management. When *Airbus* tried to relocate production to low-cost countries on commercial grounds, the frosty response was that ‘France and Germany have spent huge amounts on *Airbus Industrie* over the past decades and would look most unfavourably on any relocation in view of its probable economic impact’.\(^{330}\)

*Leonardo* operates significant long-term government contracts at fixed prices, where the government affects volumes, results, debt and amounts received as advance or down payments on new orders and research & development spending. During the global financial and economic crisis (around 2009), *Finmeccanica* admitted its ‘economy is now mainly sustained by public funding stimulus packages put into effect by governments’. Up to then, corporate reporting presented excellent results, significantly above targets, with order increases in almost all divisions and growth in all the principal indicators, improved cash generation and reduction of net financial debt.\(^{331}\) However, as *Giuseppe Orsi* took over as CEO, orders valued at EUR 4.1 billion were reassessed as losses of more than EUR 2.3 billion and a debt of EUR 4.7 billion reflected ailing projects, industrial inefficiency (cost of integrating business

\(^{327}\) Aguera, 2003-11-10; Airbus, 2017.
\(^{328}\) Schulte, 2007-09-17.
\(^{329}\) Tran, 2012-03-12; Spiegel, 2011-11-10.
\(^{330}\) Lewis, 2008-01-02.
\(^{331}\) Finmeccanica, 2010.
units, deficient parts, low order intake) along with manipulated corporate reporting and valuation. To compensate for the financial problems, EUR 1 billion sell-offs were announced in 2013, bringing to a halt an era of expansion, calling for restructuring; enhanced efficiency, concentration and consolidation of cash flows; access to more public funding and customers; and greater profitability. Ansaldo Energia was sold for EUR 400 million and the propulsion firm Avio for EUR 260 million. In October 2014, Finmeccanica’s CEO was sentenced to two years for false bookkeeping, implying a reputational loss for the company. In a shake up to gain efficiencies and name change, the new CEO, Giuseppe Orsi, in 2011, expressed that he wanted to reduce the state’s influence and the many simultaneous roles of the state as a shareholder, customer, research sponsor, export authority, data controller and market regulator. He remarked that these roles were delicately intertwined and often conflicting and therefore require great attention. In 2011, Orsi stated that the state should limit its intervention to strategic issues where protection of national interests prevent competition: ‘It is this tangled web that must be unravelled if we are to avoid mixing roles...The boundaries and the responsibilities of government and partially state-owned companies must be redefined...’. In 2012, Orsi, however, said, ‘While a political deal on defence can be made without industry, industry will never be able to sign an accord without a political deal first’. This latter approach is more consistent with that of Orsi’s predecessor, Guarguaglini: ‘Berlusconi always supported us around the world. I have no regrets about that. In Russia, in Libya, in Turkey we were supported just as Romano Prodi supported us or as Sarkozy supported French industry’.

The government involvement in the relations and activities also varies over time, where it can be tempting for political or economic reasons to withdraw, for instance, to sell off holdings to compensate for budgetary deficits. For instance, in 2002, the French Government was considering loosening its grip on Thales and Airbus to fund new projects and boost defence spending. Yet, the defence industry provides political leverage in international relations and in return, primes benefit from government support in exports (see Chapter 4.3) and project collaboration. Such support can be tied to direct political government-to-government support, building actor alliances vis-à-vis third parties. For instance, in 2011 the British Government designated Brazil, Turkey and India as top, potential, strategic partners for UK defence companies, sup-

333 Kington, 2012-12-17; Orsi, 2011.
335 Chuter & Ratnam, 2002-10-20; Tran, 2002-10-07.
336 The Secretary of Defence, Liam Fox.
porting Turkey’s membership to the EU. BAE seconded this by stating a desire to work more closely with Turkish companies and jointly export arms to third countries.\textsuperscript{337} The close relations between national export support and primes are evidenced by the \textit{British Defence Exports Service} being chaired by the BAE executive \textit{Alan Garwood}.\textsuperscript{338} Exports pose a risk, in that foreign governments may expropriate assets; introduce taxes or tariffs; or by other means, change business conditions.\textsuperscript{339} In collaborative projects, such risks are small; instead, the knowledge transfer and workshare distribution are problematic, where primes often lament workshares in collaborative projects, asking for government support for increased workshares.\textsuperscript{340}

\section*{5.4 Holdings}

The primes grow via substantial acquisitions, mergers and also organically (see the corporate overview in narrative database III to the thesis in DiVA). From 1999–2009, BAE made acquisitions for over GBP 7.5 billion. Despite numerous acquisitions, at some stages seemingly cash stripped, primes continually managed to finance further acquisitions.\textsuperscript{341} Whereas Leonardo seeks balanced 50/50 holdings, Thales seeks more than 50% to ensure control under an acquisitions strategy that ‘\textit{bring players who are four or five times smaller than we are into... orbit}’\textsuperscript{342} as ‘\textit{You have to be everywhere to be a winner}’.\textsuperscript{343} The primes also justify acquisitions as a means to access complementary technologies and local partnerships. Meanwhile, acquisition of shares in the primes is subject to government approval, for instance, to acquire more than 10\% of the voting rights in Thales requires prior consent from the French Government.\textsuperscript{344}

All the primes seek to position themselves in the American market, but integration is not always successful, as shown by Thales’ attempt to merge with \textit{LTV} in the early 1990s and Leonardo’s acquisition of DRS.\textsuperscript{345} The primes also diversify horizontally into naval, land and security equipment. Governments may \textit{block} or cripple such acquisitions, and force companies to divest in order to limit concentration. This happened to \textit{DASA} before it formed \textit{EADS}, when shares in defence companies targeting naval and land forces had to be sold off to avoid too much concentration in Germany. Meanwhile, hori-

\begin{flushleft}
\textsuperscript{337} Enginsoy & Bekdil, 2011-07-18.
\textsuperscript{338} Chuter, 2007-12-17.
\textsuperscript{339} BAE, 2009.
\textsuperscript{340} Kington, 2012-01-30a.
\textsuperscript{341} BAE, 2009; Lewis, 2000-01-03.
\textsuperscript{342} Lewis, 1999-07-07b.
\textsuperscript{343} Scott, 2007-05-09.
\textsuperscript{344} Thales, 2016.
\textsuperscript{345} Fryer-Biggs, 2012-05-21; Rohatyn, 1999.
\end{flushleft}
horizontal consolidation was instead encouraged in the UK and France. Also, fusions between the studied primes in numerous combinations have been discussed. The French Government has been approached, for instance, in relation to an Airbus merger with Thales, but that idea has been rebuffed each time.\(^\text{346}\)

The primes may divest to raise capital and/or sell non-core business, for instance, Leonardo sold off its vehicles manufacturing and energy production. Primes’ expansion continues, although recognising that integration of acquired operations and personnel is risky, complex, time-consuming and requires significant management involvement, diverting attention away from other tasks. It also has a negative impact, in the short-term, on results and financial position, including goodwill and other intangible assets. There are no guarantees that the newly acquired companies will perform as expected. The means to mitigate acquisition risks include assessments, evaluations and audits before, during and after an acquisition. An acquired company is then often “streamlined” and integrated into the financial reporting system so that its performance can be monitored.\(^\text{347}\)

Thales and DCNS developed an industrial and trade cooperation agreement to coordinate market access, research and development and purchasing. The government then supported Thales’ increased shareholding in DCNS, where expected industrial benefits include sensitive information.\(^\text{348}\) For DCNS, the entry of Thales meant private stakeholders take interests, which ‘open new horizons, different ways of doing things widens the board of directors, brings in people with different vision. Secondly, this ended domestic competition in naval business and helped create a bigger group’. However, Thales has been reluctant to engage in a full takeover of DCNS. Engaging in platform manufacturing may conflict with selling sub-systems to other platform manufacturers.\(^\text{349}\) In 2009, Thales was subject to buy-ins as Dassault acquired 24.8% of Thales. Consequently, as Thales and DCNS joined up, Dassault’s buy-in formed a formidable conglomerate. Dassault’s CEO\(^\text{350}\) explicitly stated a desire to create a French equivalent of BAE.\(^\text{351}\) Thus, French actors also discussed the consolidation of Dassault, DCNS, Safran and Thales, along the strands of the BAE consolidation. This move was complex as EADS, in turn, held significant shares in Dassault. Furthermore, a potential merger between BAE and EADS has resurfaced now and then (see Chapter 6). Thales,\(^\text{352}\) instead, suggested ‘consolidation by network’, meaning looking for synergies.

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\(^\text{346}\) Tran, 2008-12-08; 2003-03-03.
\(^\text{348}\) Thales, 2009.
\(^\text{351}\) Thales, 2009; Tran, 2012-03-12.
\(^\text{352}\) CEO Luc Vigneron, CEO of Thales 2009–2012.
with foreign subsidiaries, joint ventures and minority stakes in French companies and to ‘develop a spirit of cooperation particularly in exports’, rather than the creation of a single company.\textsuperscript{353} Moreover, vertical alliances involving French land systems company \textit{Nexter, Safran} and Thales, and German land systems \textit{Krauss-Maffei Wegmann}, have been floated as measures for EU consolidation.\textsuperscript{354} Finmeccanica, however ‘remained stubbornly independent throughout the creation of the European defence giants’.\textsuperscript{355} Finmeccanica believes that it ‘holds a balancing position’ in the European jigsaw. The Italian prime seeks an equal status in any relation, regardless of possible equity imbalances and to advance collaboration ‘cluster by cluster’.\textsuperscript{356} As one of the four largest primes, this policy has an impact on the balance and interdependencies of the entire EU defence business network. A full merger with Thales, combining defence electronics and avionics, was viewed as the only option by Finmeccanica’s CEO in 2007: ‘I do not agree with a partial deal, because neither would want to cede strategic businesses to the other...No, the only way is everything immediately’.\textsuperscript{357} Such a deal would, however, need approval, not only by the governments in Italy and France but also Britain because of significant British holdings. Power considerations were also behind Finmeccanica’s rejection of teaming up with the \textit{Astrium Space} partnership due to its continental tilt.\textsuperscript{358} From the Italian business perspective, political actors must initiate mergers, as ‘While a political deal on defence can be made without industry, industry will never be able to sign an accord without a political deal first’.

### 5.5 Collaborative projects and joint ventures

Transatlantic collaborative projects are marked by protectionism and a low level of knowledge sharing and consequently little integration, much due to US protectionism (Lundmark, 2011). Also in flagship projects where European partners invest heavily, complaints are voiced that the Americans will not share key technologies.\textsuperscript{359} The studied primes maintain numerous relations through joint projects and subsidiary joint ventures that generate substantial revenues. As a consequence, there are cross dependencies between all the primes, although they vary in significance over time and are not necessarily symmetric.\textsuperscript{360}

\begin{itemize}
  \item 353 Tran, 2011-11-26b; Defense News Staff, 2012-09-17.
  \item 354 Tran, 2013-06-11, 2012-03-12, 2011-11-26b, 2007-11-05.
  \item 355 Barrie & Hitchens, 1999-12-20.
  \item 356 Airaghi, 2000; Hitchens, 1999-07-05; Nicoll & Blitz, 1999-03-19.
  \item 357 \textit{Pier Francesco Guarguaglini}, Chairman/CEO of Finmeccanica 2002–2011.
  \item 358 Betts, P. 2001-09-18; Defence Data, 2001-04-30a; Kington, 2007-05-07.
  \item 359 Chuter, 2005-06-20.
  \item 360 The precise technology content of these projects, the knowledge sharing and the corporate and state controls exercised are not examined in this thesis.
\end{itemize}
### Table: Project/Joint venture

<table>
<thead>
<tr>
<th>Project/Joint venture</th>
<th>Airbus</th>
<th>Leonardo</th>
<th>BAE</th>
<th>Thales</th>
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361 First, an Anglo-French feasibility study for a future unmanned fighter aircraft, by BAE Systems and Dassault, where Leonardo and Thales are involved in on-board sensors and mission electronics (Leonardo, 2017). Later, the same denomination was used for a constellation of France, Germany and Spain.

362 Joint venture split up in 2005 and was replaced by a new company, 75% owned by Finmeccanica and 25% by BAE (Defence News, 2005-01-31), which was subsequently dissolved or merged with other entities.

363 DGA, 2021.

364 Barrie & Hitchens, 1999-12-20.

365 Finmeccanica was invited in 1999 to take 33%.

366 Medium-Altitude Long-Endurance RPAS (Remotely Piloted Air Systems) and Telemos between BAE and Dassault.

367 Chuter, 2006-01-02.

368 DGA, 2021.
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<td><strong>SOSTAR</strong></td>
<td>28%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Tempest Future Combat Aircraft</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>ThomsonMarconiSonar</strong></td>
<td>50%*</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td><strong>Eurotorp</strong></td>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td><strong>MEADS</strong></td>
<td>28%</td>
<td></td>
<td>55% Lockheed Martin, 17% MBDA</td>
</tr>
<tr>
<td><strong>SEA 5000 anti-submarine system</strong></td>
<td></td>
<td></td>
<td>Lockheed Martin, SAAB</td>
</tr>
<tr>
<td><strong>Team Janus</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>ATR</strong></td>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td><strong>Aircraft carrier alliance</strong></td>
<td></td>
<td></td>
<td>51%</td>
</tr>
<tr>
<td><strong>Sonar JV</strong></td>
<td>49%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td><strong>Matra Marconi Space</strong></td>
<td>51%</td>
<td>49%</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.2 lists some of the main projects the primes have or had in common. The primes’ major Joint Ventures, and projects* means total divestment (Source: Narrative database II).

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369 Ibid.
370 The table does not differentiate between projects or joint ventures that arise from other joint ventures or projects, for instance, PAAMS is now managed via EUROSOAM and MBDA, where EUROSOAM has the Aster Missiles.
372 DGA, 2021.
374 Defence Data, 2003-01-22.
375 DGA, 2021.
376 NATO Tactical Ballistic Missile Defence Feasibility Studies (MBDA, 2001-06-07).
378 A unified company between DASA and Finmeccanica, also including Dornier Satelliten systeme would have had 11,000 staff and revenues of EUR 2.7 billion in four countries but was not realised as EADS was set up (Sparaco, 1999-01-25).
379 Dissolved after EADS was set up.
380 Narrative database 2 to this report provides details regarding projects identified during this study.
In year 2000, 27% of BAEs revenues were from joint venture projects with EADS. At the same time, 68% of EADS revenues were from projects with BAE participation, with EUR 3 billion coming from the common missile house MBDA alone.381

According to business actors, collaboration, restructuring and consolidation need support from political bodies and governments, ‘Whilst this activity is primarily industry led, there are a number of matters that can only be resolved by agreements between the governments and the EU...in a variety of fora’.382 Effectively, governments initiate and negotiate many of these collaborations, and they need to be at least government supported, if not government induced. The most senior politicians in the largest EU states have repeatedly stated that closer defence business ties are linked to the common EU defence.383

Joint ventures and collaborative projects may be seen as precursors for business fusions and new companies, but there are also business risks and costs of collaboration, as ‘joint ventures represent management risks and uncertainties, mainly due to the possibility of differences between partners, such as decision deadlocks’384.

5.6 Corporate Governance
State ownership and control
In Chapter 4.3, it was observed that governments maintain golden shares, veto powers and many other means of controlling defence companies. The British State’s Special Share in BAE of a symbolic one Pound, along with a requirement for government approval to alter BAE’s Articles of Association, are some examples. BAE’s Articles of Association include requirements that: foreigners may not hold more than a 15% voting interest, the majority of the directors are British, and a majority of British directors must approve decisions. The CEO and any executive chairman must also be British citizens, and upon registration, shareholders must be British. Moreover, the Government is entitled to receive notice of, and attend, shareholder meetings.385

In Airbus, governments also sought to control the balance of power between shareholders and nationalities in corporate management. In the first decade of its existence, Airbus was subject to many fights over national control, reflected in support of a twin headed chief executive, i.e. splitting the CEO post into one German CEO and one French CEO, and balanced national

381 Flight international, 2000-03-14.
382 EDIG, 1999-03-16.
383 Airletter, 1999-07-21; Barrie, 1999-08-02.
384 Finmeccanica, 2010.
influence. There was also a struggle of diverging corporate cultures, where German business units had strong autonomy for heads of divisions, whilst the French companies were more centralised. However, this multi-nationality can also be viewed as a factor of success for EADS, providing access to home markets in respective countries. In 2006, the main private shareholders in Airbus, Daimler and Lagardère, announced their intentions to reduce shareholding and publicly trade 49.15% of the shares on six European stock exchanges. As 2.25% of the shares were acquired by Caisse des Dépôts et Consignations, a French Government unit, the Franco-German shareholder balance tilted. The German Defence Minister then stated, ‘we have to prevent everything going to be French’. The German Chancellor Angela Merkel intervened, announcing she would ‘personally support EADS with the given means and support any reasonable solution’.

Also, the German business community, local governments and the political opposition intervened when Daimler signalled it wanted to sell its shares. A consortium of private German buyers was to finance 60%, and 40% was to be financed by the federal Bankengruppe and five German states. Thus, German actors united to ensure German shareholding and control. Accordingly, 22.5% of the shareholder votes remained in Daimler’s hands. Moreover, the German opposition parties applauded the Government’s efforts to keep shares German, ‘As long as the French Government holds shares in the company, Germany should do so also, because EADS is not a company like any other’. The control over Airbus was not only attracting its founder nations, but Russia, as well as Arabian, Asian and other European countries also wanted to buy-in. In 2003, it was reported the Russian aircraft manufacturing company Sukhoi and the Russian defence export agency Rosonboronexport would team up with EADS and MBDA to expand cooperation in fighter aircraft, missiles and UAVs. In 2005, Airbus procured 10% of Russian Irkur, the producer of Sukhoi jets. Then, President Putin declared Russia could also invest in EADS; hence, in 2006, Russian Vneshtorgbank acquired a 5% share. This raised concerns in both Paris and Berlin and was addressed at a trilateral summit between President Putin, President Chirac and Chancellor Merkel. The Russian buy-in impacted upon the delicate balance of corporate governance as well as high-politics. Spain also desired to increase its holdings, and the British asked for a seat on the board pursuant to the sale of its share in the Airbus programme. In 2007, Vneshtorgbank sold its EADS shares to another Russian state-controlled bank, Vneshekonombank. The same year, Dubai Holding acquired 3.12% of EADS stock, making it one of the largest institutional shareholders.

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387 Tran, 2006-10-14.
389 Schulte, 2007-09-17.
tempted to sell its shares in 2011 to the Qatar sovereign wealth fund, the German Government once again moved in to ensure control, despite the Minister of Economy’s desire to reduce government influence over Airbus. Apparently, Arab countries and Russia were not seen as appropriate shareholders; therefore, shares were instead to be held directly by the German State. In 2013, the Polish Government indicated an interest in buying into the EADS as an extension of an order for 70 helicopters and in a move to consolidate a number of Polish state defence companies, folding them into a greater European structure for a modest corporate stake (1–2%). In 2012, EADS’s Board of Directors and core shareholders agreed on a drastic change in the company’s shareholding structure and governance, ‘normalising and simplifying the governance of EADS while securing a shareholding structure that allows France, Germany and Spain to protect their legitimate strategic interests’. Thus, France and Germany formed equal balanced ownerships, while the core industrial shareholders, Daimler and Lagardère, were allowed to trade their shares at their discretion. State holdings were now limited to 12% for France and Germany and 4% for Spain. National holding companies protect specific national security interests and sensitive military assets, for instance, the French ballistic missiles. France and Germany also had a right to appoint directors to the board and to issue veto for their respective ‘national defence companies’. However, ‘after 12 years, it was time to turn EADS into a “regular” company’ and in a major overhaul of governance and shareholding, the free floating shares increased from 49% to over 70%. This was done to present ‘a financially solid and powerful EADS, which would be a magnificent symbol of European integration’. In 2013, the new EADS Chairman Denis Ranque (coming from Thales), stated that the new shareholding and governance ‘means less exposure to national politics and a mature relationship with EADS’ home countries governments, which can be rest assured that their vital security interests are protected’. Paradoxically, the German Government moved in as the owner of Airbus, and there were also complex links to Dassault. A 2012 agreement says that Airbus must consult the French State before exercising its voting rights at shareholders meetings of Dassault. Airbus also granted the French State the right of first offer in case of the sale of Dassault shares. Since 2013, the corporate balance of power is ensured by a 15% upper ownership limit for any actor, combined with an 80% breakthrough requirement for takeovers. Although there were diminishing political holdings, strategic assets must still be protected from hostile control; moreover, although it is largely

391 Arnaud Lagardère, Chairman of EADS.
392 In Thales, Denis Ranque survived several government attempts to oust him out, allegedly for not being French enough.
394 EADS, 2012-12-05.
privatised, private shareholders’ vote is limited to 30%, with essentially re-
tained political control.395

A similar segregation of voting rights can also be observed in Thales, where
the French State (2021) owns some 26% of the shares, and 25% of the shares
are owned by Dassault (in turn, for long, 46% owned by EADS) and 46% of
the shares are floated. Of the floated shares, some 13% are controlled by
French investors or staff of the company and some 30% by non-resident in-
voters. Voting rights are, however, differently proportioned, with 36% being
(French) public sector, 26% Dassault and only 32% other shareholders. EADS
and possibly Dassault have been regarded as the only possible owners of Tha-
les by the French State with regard to its security interests.396 The French De-
fence Minister, Michele Alliot-Marie, in 2005, said the Government keeps
arm’s length distance: ‘...the state is a shareholder. I do not give orders, but
I can simply influence, help establish a dialogue and say what I think is ap-
propriate as a course of action...’.397 Under French law, a reduction of the
state shareholding requires a specific authorisation from the Commission for
Government shareholdings and transfers. Thales was nationalised by the
French State from 1988–98. After privatisation, the State maintained 39.8%
ownership and a golden share.398 The French State and Thales also signed an
agreement to provide the State with control over Thales Alenia Space. Trans-
fer of shares exceeding 1/3, transfer of sensitive assets to a third party, or par-
ticular rights to a third party require State approval. A golden share gives the
State the right to block acquisitions over 10%, to have a non-voting Director
at the Board and to dispose of or assign majority interests in Thales’s to sub-
sidiaries.399 As Dassault acquired its shares in Thales in 2009, it had to agree
to protect national strategic interests in Thales. Thus, if Dassault is likely to
compromise strategic French State interests or, in the event of a change of
control in Dassault, the French State can suspend Dassault’s voting rights or
force it to sell its shares. Dassault also had to sign an agreement on the pro-
tection of strategic national interests in Thales and commit to the following:

- HQ in France,
- Directors to be nationals of the EU,
- Managers of holdings in Thales to be French nationals,
- Control of access to sensitive information concerning Thales,
- Prevention of any action or influence in Thales by foreign national interests.

395 Airbus, 2017; Adamowski, 2013-12-09.
397 Tran, 2005-03-14.
398 In 1999, the shareholding of Thomson was 34.4% public shares, 25.29% Alcatel, 5.81%
Dassault and 1.15% Thomson itself, with only 33.32% of the shares publicly traded, of which
many were shares held by employees (Thomson-CSF, 2000-08-04).
399 Thales, 2009.
Although Thales seeks to be regarded as a multinational company, untied to French interests, operating as a domestic prime in several European countries, efforts to expand internationally have frequently been hampered or rejected by clear government ties.400

Formally, the French Government is powerless to push companies to consolidate, but in 2012, the DGA froze Thales and Safran (state holding 30%) orders to push them to consolidate by exchanging assets. However, the State, as a shareholder in both companies, could not act against its interests as an investor. When discussing the share swap, officials from the Defence Ministry and the State holding company Agence des participations de l’Etat had to leave the room due to the inherent conflict between the State’s role as a buyer and that of seller.401

Finmeccanica was fully state owned up to 1993, when it was listed on the Milan stock exchange. Over the years, a number of companies have folded into the Finmeccanica conglomerate, such as Augusta Westland, Oto Melara and Alenia Aermacchi (manufacturer of the M346 trainer jet). The company pays the Italian Ministry of Economic Development for monopoly rights under Law 808/1985 for “national security”, reported as an intangible asset in the corporate reporting. By law,402 State ownership must not fall below 30%. Budgetary deficits, manipulated corporate reporting, corruption and changing governments do not seem to have led to a questioning of State shareholdings in the Italian defence prime. Amongst large investors, Leonardo’s share capital is held by Black Rock Investment Management, which owns approximately 6%. The Ministry of Economy and Finance, together with the Minister for Economic Development, holds a golden share in Leonardo.403 The Government has the right under law404 to block acquisitions, contracts or agreements exceeding a shareholding of 3% in the Company that it considers could harm the vital interests of the State and can also order divestment of shares. The Government can also veto decisions to wind up Finmeccanica, sell the business, conduct mergers or de-mergers, relocate to a different country or change its business purpose. Moreover, the Government has the right to appoint a director (without voting rights) to the Board of Directors. No compensation is proposed for directors in the case of termination following a takeover bid.405

400 2002-11-21; Nicoll, 2001-04-14; Scott, 2007-05-09; Tran, 2004-01-26; Les Echos.
401 Tran, 2012-12-17.
404 Ministerial Decree 3257 of 1 April 2005.
405 Finmeccanica AR, 2010.
Board Management

The primes’ board composition has been subject to government involvement and coercion, with, for instance, nationality requirements. In Airbus, selection of directors initially strictly balanced nationality, where Germany and France, under a dual-hatted executive, appointed four directors each, plus one independent director to the board. All of the other senior management members were also appointed according to nationality: 25 French, 23 Germans and 4 Spanish. In the early documents pertaining to the organisation, nation flags marked each managerial post. Yet, business decisions were delegated to the lowest possible level, and the seat of the company was registered in the Netherlands. The Spanish Government stepped back already in 2003 when SEPI no longer nominated a board member; however, a Spanish director was retained as the 11th member of the board. The German and French sides of the company came to deadlock each other in what was labelled “strategic paralysis” over national board member composition, chains of command and responsibilities. Moreover, within the French context, board members were rivalling each other, depending on their academic backgrounds. When France opted for a single French CEO and diminished German influence, the German engineers went on strike in a corporate climate marked by a lack of trust and tensions.406

The French Government’s moves were sidetracked by the failed push for an EU constitution when in July 2006, the French CEO resigned after accusations of insider trading.407 Many actors recognised that EADS convergence, integrated strategy, management and culture needed to replace pursuit of national interests. The views on how to do this diverged. The French President wanted to retain production and control in French hands, whilst a 2007 report from the French Senate proposed that the German State should acquire holdings in the same manner as France to counterbalance other interests. In action, the French Government still sought to block appointment of a German CEO, whilst advocating a French candidate to lead EADS.409 In 2013, after the German Government vetoed a merger with BAE, a new governance plan and company statute were launched to simplify decision-making. The governments would no longer hold a seat on the board of Directors, and unanimity requirements were to be replaced by majority decisions, thus abolishing consensus and veto rights. The governments were confined to the roles of regulator or customer without operational involvement, although defence subsidiaries

407 Noel Forgeard, with close relations with the French President Jacques Chirac, as Forgeard was Industrial Adviser when Chirac was Prime Minister. Forgeard took over from Phillipppe Camus (CEO 2000–2005) and was replaced by Louis Gallois (CEO 2006–2012). (Cross, 2004-12-04; Doyle, 2000-02-28; Tran, 2005-06-06a, b, 2004-11-29).
would still fall under an oversight board and the majority of Directors had to be EU nationals.410

Also, Thales cherished a sensitive balance in its 16-member board of directors. The composition would be five public sector members, four members from Dassault and four outside individuals, selected jointly by the Government and Dassault. Under law,411 there is also a holder of the Golden share, the head of the French defence procurement authority DGA, meaning Dassault and the public sector can control Thales. The managers responsible for Dassault’s holdings in Thales must be French nationals, and the other Directors proposed by Thales must be EU nationals; moreover, ‘Dassault aviation must make its best efforts to prevent any action or influence in the governance and businesses of Thales by foreign national interest’.412 A strategic committee of five persons, including the Chairman and the CEO, is to assess Thales’ strategy budget and acquisitions in its key business segments.413

In Finmeccanica, the Government nominated seven members of the board. Pier Francesco Guarguaglini, CEO from 2002–2011, enjoyed wide political support from both the opposition and ruling party until his dismissal. Thus, he had a wide range of responsibilities to cover strategy covering alliances, sell-offs and acquisitions. Although he seemed to have increased the revenues from EUR 9 in 2004 to 18 billion in 2011, there was later much criticism about top-down management, centralisation to Rome, massive diversification of the product portfolio, lack of accountability, failure to communicate critical information and corruption. A clash took place as the new CEO, Giuseppe Orsi, gradually took over in 2011, but the former CEO retained responsibility for strategy and external relations. Orsi emphasised technology as the primary market asset and launched plans for sell-offs and rationalisation towards the end of 2011, as Guarguaglini was absent from the relevant board meetings. Guarguaglini resigned as probes began regarding alleged bribes. Later, Orsi

410 EADS 2013; In 2017, the board gathered several senior profiles, for instance, Former British Defence Procurement Minister Lord Paul Drayson, Denis Ranque from Thales and the French Ministry of Industry and Jean Claude Trichet from the European central bank.
412 Many Thales Board Members come from elite schools, such as the École Polytechnique, and ENA, State positions, and other defence companies. For instance, the 2004 Director General of Thales, Francois Lureau, an École Polytechnique graduate, started his career in DGA, and later became its CEO. Denis Ranque, also a graduate of École Polytechnique, who had worked at Thales since 1983, became CEO of Thales in 2009, before being nominated as CEO of EADS in 2013. In 2009, Luc Vigneron, also a graduate of École Polytechnique, became Executive Chairman of Thales with a background as CEO of Nexter (formerly known as GIAT). He was also previously Chairman of SOGEPA, the French State holding company of EADS, Lagardère media group and Chair of the Council for the French Defence industries (CIDEF). Vigneron also worked within the French ministries and Alcatel. Vigneron suggested stronger ties or a merger between Nexter, DCNS and Thales to form a new defence company. Luc Vigneron lost political support from the Government in 2011, reportedly seen as too connected to Dassault (Defense News, 2009-05-18, 2006-09-25; Thales, 2009; Tran, 2013-11-05, 2012-03-12, 2011-06-13, 2011-02-21, 2009-05-25, 2008-03-03, 2004-06-14).
413 Thales, 2016.
also had to step down after allegations of irregularities. In connection with these events, Barclays concluded the company is hard to understand, hard to predict and risky to own.414

Supply chain management

In the defence sector, primes often rely on few or even single source suppliers. For such strategic suppliers, the primes seek long-term agreements to ensure availability of materials, components and sub-systems. The primes thus seek to integrate or control strategically important suppliers by fostering supply chain relations. The relations to sub suppliers aim to guarantee high-quality, tailor-made products and reporting, in agreement with corporate standards. The companies may identify "preferred partners" or alike for strong sourcing relations. Various self-assessment, monitoring or auditing mechanisms underpin supplier strategies to improve performance, ensure compliance or mitigate supply chain issues, operational performance (punctuality, compliance, etc.), technical performance, quality assurance and sensitivity to the external environment (export regulations, environmental standards, financial health, etc.). Consequently, primes require subcontractors to adhere to numerous control tools, such as management or accounting models, risk assessment procedures, “best practices”, business ethics, quality standards or framework agreements, project management, systems engineering, hardware and software, supplier control and support activities. These control tools mitigate financial risks that could lead to cash or investment constraints, liquidation or hostile takeover. In addition, sourcing strategies seek to secure dual or alternative sources as well as development, production, facilities and safety stock plans.415 The primes support their suppliers with experts, helping to diagnose and fix problems in order ‘to deliver better value and innovation for its customers’416 or by ‘shared learning paths’, which also allow secondment of company officials to SMEs.417 All the studied primes work to enhance central coordination of suppliers and integration of acquired companies. Leonardo has baptised its consolidation strategy, the "One Company approach". Thales has a “Purchasing and Corporate Responsibility Charter” that covers 10,500 suppliers and sub-contractors.418 Shared tools intended to improve technology and product positioning and effective divisional engineering are “Product and Technology

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416 BAE, 2009.
418 Ibid.
Innovation Plans”, mapping information relating to ICT methods and identifying core in-house skills\(^\text{419}\) or ‘build trust-based balanced relationships between suppliers and customers based on awareness and the performance of their respective rights and obligations’\(^\text{420}\). Governments largely support primes folding SMEs into their supply chains. BAE\(^\text{421}\) suggested this is also in the interest of the small companies, as ‘without a prime, the supply chain locally withers and dies’\(^\text{422}\). An Innovative SME charter under the French Ministry of Defence helps French SME innovation projects access defence markets in partnership with primes.\(^\text{423}\) Supply chain management may, however, also mean cancellations of business opportunities. As an example EADS declared early on that it would consolidate its suppliers, as it had 11 suppliers of fasteners.\(^\text{424}\)

5.7 Research & development

All the primes invest heavily in research & development of platforms, systems, services and capabilities. They are dependent on government support and therefore seek to attract public funding. In doing so, primes flag the needs to maintain and control skills of critical importance for both national security and business. Although the primes and defence lobbies often argue that too little funds are allocated to research,\(^\text{425}\) governments do transfer substantial research & development funding for defence research. The corporate reporting indicates subsidies for each of the four companies in the order of EUR 1.5–3.5 billion per year, representing some 75% of their investment costs for research & development, including feasibility studies.\(^\text{426}\) Moreover, there is covert support of defence research, such as tax credits or exemptions or publicly financed reimbursable advances for project development. It was estimated in 2003 that EUR 80 billion was given annually by EU governments as state aid to national companies across all business sectors.\(^\text{427}\) In defence, this support is also justified by control over knowledge to ensure national sovereignty, economic independence and the effective development of dual civil/military applications. In Thales, for instance, the State seeks control over electronics, optronics, mission critical software and information systems. Intellectual prop-

\(^{419}\) Leonardo, 2017.
\(^{420}\) Thales, 2016.
\(^{421}\) Mike Turner, CEO of BAE.
\(^{422}\) BAE, 2009; Chuter, 2006-07-10; EADS, 2009.
\(^{423}\) Thales, 2016.
\(^{424}\) Flottali, 2000-12-04.
\(^{426}\) Tran, 2006-05-01a
\(^{427}\) Guerrera, 2003-01-06.
erty rights acquired indicate that defence companies are effective in their research efforts. For instance, Thales accounted for some 11,000 patents and patent applications in 2009.428

The primes build and fund many regional, domestic and European research and innovation initiatives, projects, clusters, universities and test centres.429 For instance, in 2017, the Italian Ministry of Education and Academia defined, in a regulation, business clusters as the prime institutional partners for Italian technological research. Leonardo is a founding partner and promoter of the Italian “National Aerospace Technology Cluster” and “Regional Technology Districts”.430 To develop technologies, companies cooperate with global networks of SMEs, research laboratories, industrial clusters and academia. Laboratories are sometimes located directly on campuses, and the primes also fund universities or research chairs and are represented on the management boards of a substantial number of universities and colleges. For instance, ‘Wherever it is located, Thales seeks to build partnerships within innovation ecosystems, with academic partners, design centres, innovative businesses and industrial groups for joint innovation and applications, business models and technologies. To develop the technologies it needs, the Group relies heavily on cooperation between its research teams and the academic world...an international network of corporate laboratories is responsible for building partnerships with academic partners’.431

5.8 Participation in bodies

Based on corporate reporting and the literature reviewed, numerous bodies in which the studied primes engage simultaneously were identified. Table 5.3 is an inconclusive list over bodies to which the primes participate, but still demonstrate, as did table 5.2 the entangled relations of the studied companies.

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Table 5.3: Participation in some political bodies by the studied primes.

<table>
<thead>
<tr>
<th>Other</th>
<th>Airbus</th>
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<th>Leonardo</th>
<th>Thales</th>
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</table>

NATO, 2016.


For instance, EC 2000-11-08.


Liste des Exposants - SIAE 2023, 53rd International Paris Air Show 17 to 23 June 2019, Le Bourget

Participation in this fair was analysed for 2016 and 2004, and BAE did not participate directly (Tran & Cavas, 2004-11-01).

CEPS, 1992-06-05, 1995-12-08, 1995-10-09. Working party on Defence equipment cooperation. Under the chairmanship of Willhelm Van Eekelen, also gathering the French Government, SAAB, Alcatel, WEU, Commission services, EDIG.

All studied primes participate in several CEPA over time, for instance, Airbus CEPA 1, 2, 4, 9, 15; Thomson, CEPA 3, 11; BAE CEPA 1, 2, 10, 14; Leonardo CEPA 8 (EDIG, 1997; EUROFINDER, 2001).

In 2001, the launch of ETAP was initiated by the six largest EU defence producers and their primes (EADS, 2001-11-21). The British refrained from sharing their stealth technology due to risk of proliferation of sensitive US know how (Cook, 2000-10-04), and the CEO of Dassault, Charles Edelstenne, considered the research money available ridiculously small, in particular, as the European states committed EUR 5 billion for JSF research (Tran, 2003-03-17). In 2004, it was deemed that little progress had been achieved (Defense News, 2003-06-23).

For instance, April 1998.

Star 21 (Strategic cooperation for the 21st Century) is a 2001 initiative by the six largest defence companies, the four primes and engine manufacturers Rolls Royce and Snecma (now Safran), with direct access to five Commissioners and the high spokesperson, and the Parliament to propose military and civilian aerospace policies. The Group issued quite generic recommendations, yet they mean a specific policy arena with direct relations between top level actors (Liikanen, 2000-04-09: Defense News, 2001-07-23; Star 21, 2002-07).

This is a 2003 initiative of think tank experts, four parliamentarians, three Commissioners, former Swedish Prime Minister Carl Bildt, as well as Eriksson, Siemens, Indra to present research funding for EU defence research.
Institutionalised meetings, such as national defence industries’ councils, fairs (for instance, Le Bourget, Eurosatory or Farnborough) bring together virtually the same actors, e.g. primes, international bodies and Ministries of Defence. These events, apart from presenting new products and sales points, addresses new strategies and projects along with the need to safeguard industrial capacity, government funding, closer collaboration and re-investments. Also, independent conference organisers see a potential in bringing defence business actors together for a technical exchange of ideas; for instance on defence partnering and alliances. Such events bring together defence business actors, but has a limit to the level of innovativeness. In the CEPS seminars, for instance, to a great degree, the same actors scramble, including the four primes, conveying the same or similar messages. Furthermore, the organisation of the overall setting is a reoccurring theme, In such seminars, justifications for the 2004 set up of EDA and the 2016 establishment of the EU defence budgetary mechanisms and defence research in EU Framework Programmes appear in CEPS seminars already in 1995 and 1996. Similarly, already in the 5th Forum Europe defence industries conference, it was announced that EU defence industries are an integral part of EU’s CFSP.

The four primes thus participate in the same defence and aerospace industry contexts and associations, not only at the EU level, but to a great degree also at the national level. All four companies hold positions in the Board of Directors in the European Defence and Aerospace Industry Association and its offspring, the Aerospace and Defense Industries Association of Europe (ASD). The companies are also directly or indirectly represented in overseas lobby organisations, such as the Aerospace Industries Association of America (AIA). They also participate in numerous other lobby organisations that seek to enhance government spending, collaborate on programming and industrial government strategies, and discuss exports and market conditions, also identifying principles of business conduct and ethics. As stated by Thales, ‘Through partnerships with numerous organisations, Thales has been able to share its best practices with other companies, to anticipate changes in regulations and standards, and to promote the conditions for equal competition among the players in its business segment’. Defence companies thus seek to enhance their corporate legitimacy by adhering to common ethics, which may help them to appear as a ‘force for the good of humanity and contributes to a response to the challenges faced by society’.

In conjunction with EU defence summits the CEOs of BAE, Thales and EADS met, supported and drove consolidation by jointly addressing national leaders to support common EU defence acquisition. EADS, in this context,

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446 Thales, 2016.
has observed that the EU lacks many of the supportive institutions that exist in the US, arguing for EU set up of homologues to Pentagon’s Defense Advanced Research Projects Agency (DARPA).\footnote{Ratnam, 2003-06-23.}

Although participating in the same collective pressure groups, primes have their own representation offices in Brussels close to the EU institutions and NATO. This reflects that rivalry may also run deep, even amongst companies from the same countries or those tied by cross-holdings.\footnote{Nandorf, 2003-04-29; Taylor, P. 2019-09-12; Thomson-CSF, 1998; Zorzovilis, 2003-05-05.} The political actors\footnote{Voiced by, for instance,\textit{ Antonio Martino}, Italian Minister of Defence 2001–2006 (Kington, T. 2003-06-23).} may also, on the one hand, observe that cross-border consolidation and collaboration reduce duplication, but simultaneously create protectionist tools against competition. The primes generally support further consolidation, arguing for cost savings. Primes believe\footnote{Alessandro Pansa, COF/Co-Director General, Finmeccanica.} that on an annual EU defence material acquisition budget of EUR 45 billion, EUR 6 billion could be saved if EDA could coordinate investment budgets and exercise stronger control over consolidation or specialisation. Further, new actors such as private equity funds may then buy into EU defence companies. The primes also ask for faster reduction in trade barriers and streamlining of EU Member States’ research & development in defence. In these discussions, the leverage of primes depends much on the personal legitimacy of their CEOs, where it is sometimes difficult to judge whether a CEO is speaking on behalf of his/her company, nation, trade body, the EU or themselves.\footnote{Aguera, 2005-11-07; Chuter, 2012-11-05; Pansa, 2007-07-16.}

As already observed, all the studied primes participate in the formulation of policies and studies, for instance, the \textit{NATO Long-Term Scientific Study on Joint Operations 2030}, and in collective advances via the \textit{NATO Industrial Advisory Group (NIAG)}. Within the EDA, all the primes engage in development programmes at the technical level, such as \textit{Common European Priority Areas - CEPAs}\footnote{EDIG, 1995-07-95.} or EU Framework Programmes. It has been suggested that within the 5\textsuperscript{th} EU Framework Programme (1998–2002) of nearly EUR 15 billion, \textit{Airbus} was subsidised through the EUR 80 million-fuselage development project \textit{Tango}.\footnote{Quiret, 1999-10-29; Wise, 1995-11-02.} Moreover, generic technologies have very clear defence implications, as, for instance, within the EUR 17.5 billion 6\textsuperscript{th} Framework Programme (2002–2006), some EUR 1.3 billion were allocated to nanotechnologies amongst other generic capabilities, such as space and satellites. The 7\textsuperscript{th} Framework Programme (2007–2013), totalling some EUR 75 billion, was to include homeland security. The actual allocations depend on what finally is agreed between the EU Member States, Commission and the European Parliament and the incoming project applications. Also, the \textit{European Space
Agency funds research or complex technological systems where all the studied primes participate. From 2013–2017 alone, a budget of EUR 10 billion was allocated for further development of Ariane 5 satellite launcher and definition studies for Ariane 6. At first covering only civilian technologies, the programme evolved to include military applications. All four studied primes are suppliers to the Galileo Programme for an independent European global navigation and positioning infrastructure. This is the largest project ever by the EU and the ESA, with enormous investments in research & development. Via EDA, the primes also participate in projects, albeit under relatively small budgets. Examples include the JIP: Innovative Concepts and Emerging Technologies programme and the Mid-air Collision Avoidance System. Leonardo alone, in 2017, presented about 50 projects for the EU research programme Horizon 2020 and received funding for a number of projects in security, space, aeronautics, information and communication. The companies may also obtain direct support from the European Investment Bank (EIB). For instance, Finmeccanica, in 2009, signed a EUR 500 million-loan agreement for production and development of technologically innovative aeronautical components.

The four primes are all active in various aerospace and avionics projects within the framework of GARTEUR, a collaboration between aerospace laboratories. Moreover, over the years, the primes declared intentions to carry out joint studies in high priority areas, such as future combat air systems, stealthy platforms, C4ISR, data networking, propulsion and air vehicles in a common European Technology Acquisition Programme (ETAP) and other demonstration projects in key technology areas. Primes, here, ‘assure commitment to work with the European Governments and the major European aerospace companies to develop the necessary technologies and competences’ to sustain an efficient and globally competitive European Aerospace and Defence Systems Industry.

Primes also form bodies for their own specific purposes. For instance, EADS has founded SPACE, an association dedicated to developing aerospace suppliers.

5.9 Summary
The studied primes manufacture world-leading products and solutions in several technology areas within aerospace, defence and security, including elec-

457 EADS, 2012; Tran, 2008-03-17.
tronics and information technologies. The primes are in the lead of their supply chains, with market powers close to national monopolies or EU oligopolies.

The Primes tackle uncertainty via large forward order books, balanced spread of projects across home markets, working closely with governments to ensure their business strategy is aligned with that of governments, and by affecting the priorities of ministries, venturing into complete solution sales.

As global business actors, the primes are all connected via interrelated projects and interdependencies, such as ancillary actors, also taking the forms of joint ventures and through cross-border holdings.

All primes have a history of state ownership or influence. Political actors seek to control primes through direct holdings or by other means, such as industrial strategies, research subsidies, contracts by direct award, exports support, corporate controls, and laws or regulations, nationality requirements on staff, location of headquarters and manufacturing. There are also various social networks that seek to control corporate management, emanating from issue communities and/or national elites.

The primes observe that defence contracts bridge civilian business units’ profitability in times of recession and that domestic orders hedge overseas investments and exports, where governments have a direct interest in export sales. Primes undertake political activities as they interact with ministries, the military and ancillary actors. The studied primes are represented to a high degree in the same pressure groups, business associations and innovation clusters, forming issue communities with professional ties and mobility of staff in between. Board management in primes is, to some extent, a matter of national politics and power games of elites that seek to place their candidates in the lead. The political activities of primes include policymaking, policy learning and, for cross-border activities, activities that can be classified as diplomacy: When primes venture into foreign sales in defence, it means business-to-government relations, where primes are coupled with state policy interests.

To access foreign markets, primes recruit staff that master local language and social codes, establish partnerships and merge to acquire local knowledge, or political competency. In cross-border mergers, acquisitions or partnerships, primes seek to appear as a trusted guarantee of national security of the new partner country, as locally anchored developers of high-tech and security products, as reliable job creators and as a company that supplies income back to the state. Invited by political actors to formulate their sector strategies, the primes can also benefit from local funding and strategies, which are valued as immaterial assets or goodwill, amounting to billions of Euros in corporate reporting.

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458 Policy learning may be defined as understanding the policy formulation and reform, keeping informed about changes, and developing strategies to maximise influence.
As organic expansion is difficult in the defence sector, with single clients and limited demand, the primes adapt to the market situation by expanding into new emerging markets, through acquisitions in other EU states, by aligning the supply chain and in cross-border collaborative projects and joint ventures. They also expand by horizontal integration into related systems and complete service offers. This means expanding from traditional engineering and manufacturing into advice and total service management, including maintenance, off-the-shelf products and creative partnering, for instance, public-private partnerships. They also adapt through multinational research, divestment of non-core businesses and diversification into neighbouring fields.

There are also specifics of market strategies for each company: BAE identifies several main clients outside the EU/NATO context. Thales and Leonardo pursue an acquisition strategy of buying into virtually all smaller actors that are possible. Thales is cautious to move into a platform supplier role that may deplete other market opportunities, preferring "networking", whilst Leonardo is adamant about maintaining "balanced 50/50 partnerships" or acquiring foreign competitors to earn recognition as a national actor. EADS mostly seeks organic growth in the heavy platform systems it manufactures, drawing support from large scale EU programme funding.

The large European defence projects seem mostly government driven, where companies help supply inputs, to later benefit from support. Sales may then offset research & development costs and lower unit costs. Despite close relations with governments and multilateral institutions, all primes have been caught up in bribery allegations. Governments express that they wish to relinquish the state from operational business control and acknowledge that they are dependent on business advice to assess the market situation. The primes seem keen to relinquish the role of the state. Yet, the primes are likely to profit from continuous government spending, underpinned by political commitments to ancillary projects and joint ventures that, from a business perspective, may be identified as business risks with inherent risks of technology tapping and loss of control.
6. Arena 3: The issue community for a single European Aerospace and Defence Company

This arena within the case, identifies the policy development process for the creation of a single European Aerospace and Defence Company (EADC), in a discourse that took place in an issue community at the end of the 1990s. The participants to the issue community and its discourse can be seen as composed of the EU’s central political and business actors in defence equipment production. The discourse was carried by governments and national primes, reflecting upon focal actor relations, explicitly seeking to change or replace the market positions of focal business actors. A number of critical episodes were triggered by this discourse, which resulted in actual mergers. Below, comes first a background to the points of departure for the discourse; then follows a description of the actors’ movement to new positions vis-à-vis other actors.

6.1 Preamble

Discussions on European cross-border aerospace and defence business collaboration and integration have been going on since the Second World War amongst a variety of actors. This discourse has been characterised as emotional, lacking rigorous, unbiased and authoritative scrutiny, marked by ‘intellectual pessimism, and optimism at heart’. Already in 1989, the BAE Management foresaw a situation where European defence equipment business would rapidly move into complementary alliances, mergers and acquisitions to gain economies of scale, which would challenge national policies. A potential major alliance was considered between BAE and Thales, on the one hand, and with Aérospatiale, Dassault, GEC, on the other. Around the mid-1990s, defence companies started to communicate more as ‘everyone is talking to everyone’. Defence production still being sensitive, such talks were not obvious. By the mid-1990s, European defence and aerospace companies had whittled down in home markets to a few primes in any systems integration area in each European nation via large-scale mergers, acquisitions and busi-

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459 Beard, 1987; Cooper, 1985; Latham & Slack, 1990.
ness exits. In the largest defence manufacturing countries, a plethora of combat aircraft manufacturers had consolidated into DASA,\textsuperscript{461} BAE,\textsuperscript{462} Aérospatiale and Dassault. By the mid-1980s, transnational and sector alliances and conglomerates emerged around these companies. There were several drivers for consolidation. French Aérospatiale and German MBB, already in the 1960s, started politically driven collaboration in missiles\textsuperscript{463} and helicopters, later forming Eurocopter.\textsuperscript{464} European consolidation was also under the influence of a prior supplier concentration discourse in America,\textsuperscript{465} which, by the end of the Cold War, led to the formation of the world’s largest defence contractors, Boeing and McDonnell Douglas and Lockheed Martin. The American Government drove this consolidation, which increased the pressure on European defence companies to restructure and consolidate. Corporate size became a key symbol for market strength in defence production, whereas market fragmentation was seen as a cost driver. There was wide global political support for a vision of cross-border mergers of defence companies.\textsuperscript{466} Also, amongst business actors, the general perception was that Europeans were ‘subscale’\textsuperscript{467} or ‘of subcritical mass’\textsuperscript{468} compared to USA, supporting many more contractors on less than half of the US budget. Dr Wolfgang Piller, Executive Vice President of Daimler Benz Aerospace and President of BDI stated in a speech, already in early 1995, ‘How ties Between European Armaments Industries Can Be Strengthened’, observing that Europe’s defence businesses lack a common strategy but that this is almost completely geared by political decisions. For Europe to become an autonomous power and to maintain sovereignty, a political union should be realised ‘as soon as possible’, including an autonomous European foreign and security policy, i.e. ‘a United States of Europe’. Recognising that no European nation would allow another European country to dominate defence business, he said the solution would be ‘the creation in Europe of a network of independent, global-sized, but mutually dependent corporations in the aerospace and defence industry. Such a network of supranational corporations would ultimately promote and foster closer ties between European countries. This supranational network could well serve as a foundation for the political union of Europe…we must develop some form of

\textsuperscript{461} BMW, Bölkow, Dornier, Focker Wulf, MAN, Maybach, Messerschmitt, Weser flug.
\textsuperscript{462} Armstrong Withworth, Avro, Blackburn, Bristol Aeroplane, De Havilland, English Electric, Hawker, Hunting Percival, Scottish Aviation, Vickers Armstrong.
\textsuperscript{463} Hot, Milan and Roland.
\textsuperscript{464} Aérospatiale 70\%, MBB 30\%.
\textsuperscript{465} The US Government assembled defence companies in a session called “the last supper”, telling them to integrate.
\textsuperscript{466} Finnegan, 1999-07-26.
\textsuperscript{468} Dr Wolfgang Piller, Executive Vice President of Daimler Benz Aerospace AG and the President of BDI 1993–1998.
supranational cooperation which will lead to a close-knit network of interdependent organizations’. He also proposed supranational capital networking, single sourcing, and division of labour, mutual dependencies, harmonising capabilities and capacities, forging a team of European Aerospace industry, a ‘league of champions, as a forerunner for foreign and security policy’. An inherently supranational political objective was thus shaped by business actors, where ‘We must liberate ourselves from the straitjacket of old nationalistic thinking and bring industry into alignment of the Europe of the future’. Also, the military actors saw cross-border companies, ‘without competitive friction’ as instruments for pushing fruitful operational discussions in defence.

Around 1997, discussions such as these, oriented towards the formation of a massive company structure, labelled the European Aerospace and Defence Company (EADC), ‘the template for European aerospace and defence industry restructuring... a unified industrial structure capable of challenging American domination, similar to the Airbus project’ was envisaged. According to BAE, this corporate structure would come about by first merging Aérospatiale, BAE and DASA, then Alenia (i.e. Finmeccanica/Leonardo), GEC, Thomson-CSF (Thales) in order to be able to better compete with US companies. Ironically, as BAE formally pushed for the consolidated company, its own actions would derail this original plan.

In December 1997, the Heads of State of Britain, France and Germany voiced their desire to see European defence manufacturers restructure: ‘In the field of aerospace and related defence industries, we welcome the fact that a number of European companies, including Daimler-Benz Aerospace, Aérospatiale and British Aerospace, have already demonstrated their intention to regroup their activities. We ask that they should present a clear plan and detailed timetable for this restructuring and integration by 31 March 1998...It is primarily for industry to work out the structure required. We undertake for our part to implement the necessary measures in national policies relating to this industry in order to facilitate such restructuring’. The President of the UK Board of Trade in this context said, ‘Governments play a crucial role in shaping this industry’s thinking. We are determined to contribute positively. But we are not imposing our views. What I want to see is Government facilitating industrial solutions’. On 27 March 1998, the four Airbus

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469 Piller, 1995-01-12.
470 This view was explicitly voiced by the French Major General Jean Charles Gaudillet (Hill & Tigner, 1999-11-08).
471 Sir Richard Evans.
partners (Aérospatiale, BAE, CASA and DASA) responded to the governments’ request, copying their reply to Finmeccanica and SAAB. Now the founding principles for EADC were defined.\footnote{Schmitt, 2000.} In July 1998, the political leaders of the six main EU defence equipment-manufacturing countries backed the formation of a single European Aerospace Company. Thus, they supported transnational defence business and removal of barriers, under an explicit strategy to create mutual interdependence between countries and companies.\footnote{Harrison, 1999-01-20a; Ivarsson, 1999-11-12.}

The January 1999 declaration in Madrid, the Letter of Intent (LoI), with the six major defence producing nations of the EU set out ‘to lay down targets and principles liable to encourage the creation and to favour the efficient functioning of supranational companies in the defence equipment field in Europe’. The governments ‘Expressed political willingness to overcome the problems that come with trying to integrate six different corporate cultures’. Furthermore, the governments declared that priority would be given to transform the Airbus Industry into a genuine company ‘a big step towards greater integration of civilian and military activities in the future EADC’.\footnote{Airletter, 1999-01-25.}

Jean-Yves Helmer, Head of the DGA, suggested that the willingness to consolidate into the EADC was primarily business driven but supported by the six major defence equipment governments. Political bodies were, however, implied at an early stage, as the 1997 Amsterdam Treaty sought to develop a European Security and Defence Identity (ESDI) linked to defence business. Siegmar Mosdorf, the German Secretary of State (1998–2002) said ‘The ESDI cannot fly if we don’t give it wings. Those wings have to be provided by industry…Europe will need efficient companies and therefore the EADC is of greatest importance…Its ramifications go beyond routine business. There is a political dimension to it’.\footnote{Nicoll & Atkins, 1999-02-10, 1999-02-02.}

Also, the French President Jacques Chirac was trying to wean Europe from US domination and called on the EU to give itself a real foreign and defence policy; ‘European countries should take a bigger role in their own defence’.\footnote{Airletter, 1999-03-04.}

The discussion on mergers of defence companies mostly took place outside the context of EU institutions. British Prime Minister Tony Blair, despite having a supportive policy to EU integration, explicitly stated he saw ‘no role for the European Parliament or the Court of Justice. Nor will the European Commission have a decision-making role in military matters’.\footnote{Blair, 1999-03-08; Hall, 1998-10-26.} An industrial working group, with Aérospatiale, Alenia, BAE, CASA, DASA and SAAB started to work with the new company structure, management and ownership. The working group soon confronted difficulties in forming a company from...
three private and three partly state-owned primes, concluding that a private
distributed ownership was necessary.\footnote{Ivarsson, 1999-11-12.} 

A first possible stage of integration was to transform the \textit{Airbus consortium}
of \textit{Aérospatiale}, BAE, \textit{CASA}, and \textit{DASA} into an integrated company. Here, 
BAE and \textit{DASA}, as partners in the \textit{Tornado} and \textit{Eurofighter} projects, appeared 
to hold closer ties than \textit{Aérospatiale}. Merger discussions began between BAE and \textit{DASA} in July 1998, just as French \textit{Aérospatiale} was to merge with \textit{Matra} with diluted French Government shareholding.\footnote{Financial Times, 1998-07-24.} BAE and \textit{DASA} agreed to 
merge in December 1998. The agreement was all but signed, when on 22 De-
cember, suddenly, the British \textit{General Electric Company (GEC)} put its de-
defence electronics business \textit{Marconi Electronic Systems (MES)} up for sale. BAE, then, in the worst case, faced a potential cross-border alliance of \textit{Lock-
heed Martin} or Thales with a big UK supplier in its backyard. BAE, therefore, 
abandoned the \textit{DASA} merger in favour of purchasing \textit{MES} for EUR 11.2 bil-
lion, preventing a rivalling takeover on its home market.\footnote{BAE, 2009; Cook, 1999; Spiegel, P.} The multi-party 
working group working for consolidation was put on hold after BAE merged 
with \textit{MES}.\footnote{Ivarsson, 1999-11-12.}

The stage was now set for an intricate series of corporate moves involving 
EU’s largest defence companies and the major defence producing nations in 
the EU. The idea of a Pan-European defence company, hence, seemed to lose 
momentum as three large-scale European mergers took place in 1999 between
\begin{itemize}
  \item BAE and \textit{MES}, combined turnover of EUR 19.2 billion (13.1 and 
  6.1, respectively),
  \item \textit{Aérospatiale} and \textit{Matra}, combined turnover of EUR 12.2 billion 
  (3.1 and 9.1, respectively),
  \item \textit{Daimler} and \textit{Chrysler}, combined turnover of EUR 10.4 billion.\footnote{Airletter, 1999-01-20b; Aviation Week, 1999-01-25b; Sutton, 1999-4a; 2 January 2007, Bulletin des annonces légales obligatoires, 5.} 
\end{itemize}

The fusions did not stop here. A number of moves by actors followed suit.

\subsection*{6.2 The fusion BAE-\textit{MES}; project Super Bowl}

Around 1998, BAE strongly advocated that defence enterprises joined forces 
at the European level, in particular considering \textit{DASA} as an ally. Yet, the Brit-
ish company itself shredded this European plan through acquisition of its main 
rival in the UK defence market,\footnote{Nicoll & Skapinker, 1999-10-15.} pursuing purely national consolidation with 
\textit{MES}. The Managing Director of \textit{MES}, \textit{Lord Simpson}, replaced a 33 yearlong
predecessor, Lord Weinstock. The time was now ripe for change and the new CEO of GEC held personal ties to the Chairman of BAE. Lord Simpson said that ‘the ones that would move first would benefit from the richest pickings in the European merger game and that latecomers would be marginalised’ and that ‘Marconi was the pretty girl at the defence consolidation dance’ and that ‘Competition and consolidation are difficult bedfellows’. To pre-empt a BAE-DASA merger, he made a move contrary to the official rhetoric expressed by the British Government and Prime Minister Tony Blair. Indeed, the British Defence Ministry was opposing a merger of GEC with BAE (Britz, 2004) that side-lined German and French companies. GEC’s plan to maximise the value for MES was code named Project Super Bowl by the GEC Finance Director, John Mayo, who came with fresh experiences from a de-merger of Zeneca (the pharmaceuticals company). The analogy of Super Bowl was the American football series playoffs to determine which teams make it to the final round. Mayo believed that a timetable had to be organised for the sale of Marconi to pitch bidders against each other to increase the price. Observers, such as DASA’s CEO, thought that the GBP 8 billion paid by BAE was a huge over price for MES.

The strategic choice to merge BAE with MES has been described as both a shrewd plan to make BAE bid for GEC in view of a potential takeover and as founded on game theory, where BAE supposedly used a Stanford based computer application to simulate negotiation outcomes. According to the calculations, negotiations would result in stalemate after 10 rounds because Aérospatiale and DASA would demand too high valuation and control. However, the calculations showed that with GEC, there would be a deal already after four rounds of negotiations. BAE presented this conclusion to a British Government committee, but it was not convinced. Meanwhile, BAE also made progress in meetings with DASA. A fundamental problem with a BAE-DASA tie up rested in the distribution of ownership: BAE was bigger, but its ownership fragmented, whereas Daimler was the sole owner of DASA, which would make Daimler the largest owner of a future joint company. At the same time, Aérospatiale’s management was “furious” to be kept outside of the discussions, being exposed to a potential British-German grouping. The exclusion was due to French State control that blocked many pan-European business deals, also challenging Franco-German long-standing collaboration and ties. French privatisation was a sine non-quoi for many foreign companies to

486 Lord Simpson, CEO of GEC, and Chairman of BAE, Sir Richard Evans, worked together in the car manufacturing company Rover and GEC Marconi (Dixon & Nicoll, 1999-01-23).
487 Dixon & Nicoll, 1999-01-23
488 Harrison, M. 1999-01-20b.
489 Clayton, 1999-03-03.
490 Airletter, 1999-02-01.
491 Nicoll, 1999-06-14b.
492 At the time together with Chrysler.
consider any merger with French companies. Despite their criticism, French actors seemed relieved by the BAE-GEC deal, as it stalled a BAE-DASA deal that would have impacted on French control in the Airbus programme.493

Knowledge transfer also justified the all-British merger: GEC had complementary competencies in electronics and software that gave BAE more strength to bid for large aircraft systems. BAE would be able to in-source every large sub-system on a combat aircraft, from radar, flight control systems to cockpit avionics and arms. The deal also changed the relations within the Eurofighter consortium as BAE’s actual product content, sub-systems included, rose to some 50%. The merger also doubled the combined strength of the company in the crucial American and British markets.494

As the British Government had committed to European defence, the all-British merger was considered a major setback and embarrassment for Prime Minister Tony Blair’s ambitions, with the press suggesting he was everything from “furious” to “disappointed”.495 Yet, MES claimed after intense discussions with the Government ‘clearly they understand what is going on...they are generally supportive’.496 Indeed, the British Premier Tony Blair also stated ‘the deal was welcome from the companies’ commercial point of view’ but still wanted BAE to pursue European alliances ‘because it is absolutely in the interest of this country’497 and promised the German Chancellor that he would press for a resumption of talks between BAE and DASA on the EADC.498 Thus, the merger discourse may have been shrewd tactics from the British side, as the Government did not block the merger. The disappointed German Chancellor insisted that ‘The German Government will do all it can to realise a three-point alliance. We shouldn’t give this goal up’, stressing again that French privatisation is a prerogative for an alliance.499

The merger of BAE and MES was a GBP 8 billion de-merger of MES from GEC, where GEC remained mainly a civilian company. Shares were transferred to GEC shareholders, giving them a 36.7% share valued at GBP 5.8 billion, with additional cash and loan to GEC of GBP 2.74 billion. BAE thought that cost savings would amount to some GBP 275 million annually, through elimination of costs for head offices and joint projects, although full benefits would come only in three years, with an expected earnings boost at around 17% per year. The new firm had an order book valued at GBP 33 billion, 126,000 employees, became Europe’s largest defence firm, and the third largest defence company globally. Due to the large operations in USA, US anti-trust authorities had to approve the fusion, which it did. So did British

494 BAE, 1999; Schulte, 1999-02-03.
496 Nicoll, 1999-01-20a.
497 Financial Times, 1999-01-02.
499 Airletter, 1999-02-09.
merger authorities, although the latter required BAE to put shipyards and avionics in separate subsidiaries, preventing them from favouring in-house entities for subcontracting or preventing subsidiaries from working with competing primes. This also meant much of the UK defence business folded into a single national defence company, covering some 90–95% of all British defence procurement – a remarkable concentration of defence business activities into one company with most platform projects under the same roof. Inevitably, this aroused concern, both in the United States and on the continent, as to its impact on competition. The EC competition authorities were, however, barred from examining the deal, which was given national clearance. As this merger would not have come about without the government’s blessing and support, it seems clear that there was a discrepancy between rhetoric and reality.

BAE had few options but to acquire the defence interests of GEC once they were for sale. GEC, on the other hand, had few alternatives but to divest to BAE, since the US authorities would not put the sensitive defence business of GEC in the hands of a French company although Lord Simpson (GEC) publicly said the US concerns about technology transfer to the French approached “paranoia”. Lord Simpson also concluded that after the BAE-GEC tie up was made, it would be difficult to merge with CASA: ‘A two-way deal was hard enough. A three-way deal was too tough’.

In late 1999, the winds of restructuring led experts and analysts to also speculate over the prospects of a transatlantic alliance between Boeing or Northrop Grumman and BAE. But national security concerns, antitrust regulations, the simultaneous ownership in Airbus and the collaboration with Lockheed Martin on the JSF complicated a merger. BAE, instead, increased market presence via holdings in subsidiaries of acquired primes and a vast range of European equipment projects in Europe. It bought a 35% stake in SAAB, including cooperation in marketing and development and more involvement in the JSF project. The BAE tie up to MES also affected other British consolidation efforts as it was considered impossible to merge British Ordnance with Rheinmetal, the maker of Leopard tanks and Europe’s primary tank producer.

500 Morocco, 1999-09-27.
504 Morocco, 1999-01-25.
505 Airletter, 1999-12-15a; Aviation Week, 1999-01-25b; Bae, 1999-11-30.
506 Foss, 1999-02-03.
6.3 BAE seeks to drag *Dassault* into orbit

In September 1998, on the eve of the Farnborough Air Show, proceeding the merger of BAE-MES, Europe’s largest two combat aircraft manufacturers *Dassault* and BAE formed European *Aero systems*, a joint venture for the development of future combat aircraft, a project known as the *future offensive aircraft system (FOAS)*. Government statements expressing that they prefer a single industrial partner preceded the formation of the Joint Venture. Managing Director John Tucker concluded it was ‘necessary for the companies to work together to move traditional boundaries’. Despite being competitors and rivals, in particular, for the leadership of joint projects, there was also a history of collaboration, such as the *Jaguar* combat aircraft of the 1960s. At an early stage, the joint company ran into problems, as the companies had to shield secret product content from each other.\(^507\)

6.4 Thales pursed its own plans

Thales had sought to lay their hands on *MES*, but BAE paid more. A takeover was also unlikely as Thales asked for French management and a 50% shareholding, whilst Thales would represent only 40% of the merged company and contribute a profit margin half that of *MES*. Also, the French showed slowness in ending state ownership. Thales’ shares fell 15% after the BAE-MES tie up.\(^508\) Thales’ CEO Francois Lureau thought the British tie up was an ‘unhelpful move’ that ‘may isolate Britain for a time from consolidation’.\(^509\) The BAE-MES merger prompted Thales\(^510\) to observe that Britain, often lecturing about French national champions, now created a virtual domestic monopoly. The British deal also blocked a tie up between *MES* and Thales (i.e. *Thomson CSF,*). Thus, Thales was bidding on *MES*, but too late and too low. Thales strategy was to involve international partnerships and to focus on synergies, shareholder value, access to additional markets and to concentrate on research and development. Indeed, Thales was already involved in numerous collaborative projects with other companies.\(^511\)

As a lot of acquisition capital cumulated for the acquisition of *GEC*, an alternative for Thales was to draw smaller electronics companies into orbit.\(^512\) In November 1999, between the fusion agreement and the new company’s actual entry into force, Thales sought to pre-empt *DASA-Aérospatiale* in the field of defence electronics by reinforcing this business segment. The French

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\(^{507}\) Cook, 1999-02-24.
\(^{508}\) Airletter, 1999-01-14; 1999-02-25.
\(^{509}\) Nicoll, 1999-01-19.
\(^{510}\) Denis Ranque, CEO/Chairman of Thales.
\(^{511}\) Defense News, 2001-06-11; Sparaco, 1999-03-29
\(^{512}\) Industry, 1999-07-01; Lewis, 1999-11-17.
Government was potentially ready to hand EADS a part of the company in exchange for Thales’ leadership. A proposition that was, however, bound to have little success in DASA. Instead, the French Government sold some holdings in Thales to Alcatel, which increased its shareholding to 25.3%. The Government retained a 33% holding, Dassault 5.6%, whilst putting 33% of the shares on the stock exchange.513

A year later, Thales’ CEO said, ‘There are still too many players’ and a plan called “Jupiter” was rigged to include EADS, Finmeccanica and Thales in a major fusion. Discussions were also held with many other actors to explore cooperation or joint venture prospects.514 One possible venture would bring together the radar businesses of EADS, Finmeccanica and Thales, blocking BAE from further alliances. In these endeavours, the delicate balance within EADS had to be considered. When EADS’ French part wished to collaborate with Thales, it was seen as an attempt to tip the balance inside EADS, away from Spanish and German influence.515 Both Thales and EADS also had reasons to downplay collaboration, as that would weaken prospects on the American market, where Thales would instead benefit more as a provider of sub-systems.516 Thales meanwhile moved into platform manufacturing on the naval side, as "a naval Airbus" was envisaged, via holdings in naval shipyard DCNS. Moreover, a tie up to German naval companies, TKMS and HDW,517 was discussed, linked to the order of British Aircraft Carriers, as ‘putting the naval sector in order is the point of departure for everything’.518 Thales instead, took over Dassault Electronique and the defence electronics activities of Alcatel, and also regrouped the satellite activities of Aérospatiale, Alcatel and Thomson into Alcatel Space.519 These moves to gear the industrial landscape took place with the French Government’s involvement.

Discussions on a merger between EADS and Thales, in 2004, gave rise to concerns in both Germany and Britain, as the power balance might tilt in French favour, within EADS and reinforce Thales on the British market.520 However, Thales, reportedly advised by Wall Street bank Goldman Sachs,521 considered a merger would also undermine Thales’ networking expertise (i.e. as a sub supplier). Alcatel, a major shareholder in Thales, would only favour

513 Thus, EADS held 46% in Dassault, which held 5.6% in Thales (Dupont, 1999-11-12; Thomson CSF Annual Report, 1999). Meanwhile, the French Government held 15% in EADS and 33% in Thales. Also, the CEO of Thales had previous ties to DGA and was to become its next CEO.
514 Flight International, 2000-10-03; Moxon, 2000-10-03.
515 Aguera, 2005-04-11a; Nativi, 2000-08-29.
516 Neu, 2002-02-25; Ratnam, 2002-04-22.
519 In 2005, fusion into Alcatel Alenia Space.
521 At this time, Goldman Sachs also served as advisers to BAE (Chuter, 2004-06-14).
a deal if Thales’ communications units were reverted to Alcatel. EADS appeared to value Thales at such a low rate after low volume growth and restructuring costs, following its many acquisitions. Allegedly Thales, on its part, interpreted EADS low valuation as an attempt to destabilise Thales, plotting a takeover at low costs.522

6.5 Franco-French consolidation – Aérospatiale-Matra

Until 1998, the French defence aerospace industry was essentially divided into four main business actors: Aérospatiale, Dassault, Lagardère and Thomson CSF. A purely national consolidation took place as Aérospatiale and Matra merged in 1999, and 33% of previously fully state-owned Aérospatiale was sold to the family company Lagardère for EUR 180 million. The Chairman of the Board of the new company said the intention was ‘to be a company that shows the way...we will continue to support the Europeanisation of the defence sector’.523

The synergies of the merger were estimated at some EUR 150 million, considered as grossly undervaluing the company. Also, whereas the privatisation meant access to new financial investors, the government grip was retained with a “golden share” to safeguard national security interests, a 47% state holding and 3% employee-owned shares with merely 17% of the shares publicly traded. The Paris stock exchange responded positively to the fusion and shares rose 16% when trading began. Later, however, profits plummeted as

523 The joint company with 54,000 staff became the second largest in Europe and fifth in the world in defence, a global leader covering space launchers, helicopters, civilian jets, missiles and satellites with revenues of EUR 12.3 billion and an order book valued at EUR 35 billion (Aérospatiale Matra, 1999-04; Sutton, 1999-07).
524 Interavia, 1999-04.
restructuring costs, foreign currency hedging and dissimilar or diverging corporate cultures required vast attention. The merged Aérospatiale-Matra in 1999 thus had a net result of merely EUR 30 million but a central position in EUs defence business relations, as shown in Figure 6.2.

As can be seen above, the deal also meant a significant share, 46%, and veto powers over the previously domestic rival Dassault with its Mirage, Rafale and business jets. Dassault, since long time, expressed disbelief in the concept of consolidation for the sake of achieving economies of scale, resisting attempts by the French Government to control the company. Dassault was vocal about doubting the liberty of the company when tied to Aérospatiale and claimed, ‘small is beautiful’, meaning that a larger economic group would neither produce economies of scale nor more orders. Dassault’s CEO, Charles Edelstenne, in 1999, said ‘The Government no longer owns a stake in our company. We are again a normal private enterprise, and we retain full control over our future’, also trying to buy back the shares held by Aérospatiale Matra. EADS, however, stated that ‘Dassault is important for us and part of our core business’. Aérospatiale Matra’s Chairman, Yves Michot, expressed that whereas Dassault retains its freedom in day-to-day management, all struc-

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527 Sparaco, 2000-02-28, 1999-03-08.
tural decisions had to be approved by the two shareholders, and that any transfer of activities to subsidiaries would also need to be approved. Dassault viewed privatisation a *sine qua non* for merger with Aérospatiale. Instead, the Government’s controlling share was used to block a separation of the profitable civilian aviation from the military, as desired by private owner Serge Dassault.

Figure 6.3 presents Aérospatiale’s own representation of the company’s holdings:

![Diagram of Aérospatiale’s corporate ties](image)

6.6 DASA reacted by merging with CASA

Defence and aerospace were secondary business domains for DASA, accounting for some 30% of its owner, Daimler’s revenues, with car manufacturing generating the bulk of its profits. Yes, reactions to the BAE merger with GEC were ‘anger after long talks’. As the BAE-GEC fusion took place and the all British firm became twice as big, DASA felt that a merger would no longer

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528 Condom & Langereux, 1999-04.
529 Lewis, 1999-07-07a.
530 Schulte, 1999-02-03.
be ‘a marriage of equals’ and that this would ‘make balanced mergers impossible’ and constitute ‘an obstacle to future integration’. The DASA-BAE merger collapsed perhaps also due to disagreements on leadership. Manfred Bischoff, the CEO of DASA, said ‘The breaking point wasn’t economics. The snag was the leadership question. Where there are two top jobs, then one of them must go to us’. The domination of one actor striving for dominance and leadership was thus incompatible with a power balance of equal partnership. Furthermore, BAE had paid GBP 7.7 billion to acquire GEC, a cost DASA shareholders would subsidise in the event of a fusion with BAE.

Although initially signalling disbelief in creating a concentrated single company, Construcciones Aeronáuticas (CASA) reacted to the BAE-GEC merger in a similar manner as DASA. The Spanish State holding company, Sepi, said CASA considered being included in a European wide merger, whilst also retaining some national control. DASA and CASA both considered partnering with Aérospatiale or Thales. Thales already had significant holdings in CASA (5–10%), but again French state ties deferred a merger. CASA issued a price tag of EUR 2.35 billion to, now cash stripped, BAE. The British thought the price was too high as CASA’s highest net profit ever recorded was only EUR 47 million. Both Finmeccanica and BAE courted CASA for strategic reasons, as an acquisition of the company would tilt the European corporate power balance and influence over large transnational projects, such as Airbus and the Eurofighter. Finmeccanica was not an Airbus partner, and here was an opportunity to buy-in. Aérospatiale already held a share in CASA when it merged with Matra, but then DASA purchased CASA in June 1999. This first transnational European aerospace and defence company was called DASA-ASA. The merged company would have 43% of the Eurofighter, 42.1% of Airbus Industrie, 38.5% of Airbus Military and 12.3% of Arianespace. According to Spain’s Industry Minister, the tie up was ‘Europe’s most important transnational project, where ‘DASA-CASA complement each other perfectly, not only in their development activities but also in their production and sales capabilities’. The Minister also said DASA would better protect CASA’s specialisation and that ‘it’s a deal open to everyone and it favours the European

533 Airletter, 1999-02-02; Barrie & Hitchens, 1999-01-25.
534 Jasper, 1999-02-03.
535 Airletter, 1999-04-13; Jasper, 1999-02-03.
536 The new company had a turnover of EUR around 11 billion and 53, 294 staff in 28 German and 7 Spanish factories. The Spanish share in the new company would land between 11 and 13.5%, where CASA would bring in EUR 1 billion to the deal and DASA EUR 9 billion.
The Sepi Chairman stated that ‘...we are setting down the first stone in the construction of a European aerospace group’, although he also sought to retain parts of CASA in Spanish hands for security reasons, warning that merging into a single company would lead to ‘creating a monster’ and too much concentration. The CASA President pointed at technological complementarity between the two companies and an extended market reach with sales offices in more countries. The Spanish State would retain a golden share with veto powers over strategic decisions. BAE hailed the Hispano-German merger with ‘We’re absolutely delighted to see that happen’, referring to reform needs in the Airbus consortium. The technical merger between DASA and CASA was, however, put on hold for another, even more spectacular cross-border merger, as can be seen in the subsequent Chapter.

6.7 EADS emerges as Aérospatiale-Matra and DASA-CASA merge

Despite the failure to merge with BAE, Manfred Bischoff, the CEO of DASA, stated ‘DASA continues to see the first priority as the establishment of a company that would unite all the major aerospace capabilities of Europe’. At the same time, seeking transatlantic partners, he also said ‘It’s not the end of the world if we don’t achieve our goal’. Ties between DASA and Aérospatiale were strong since long through the collaboration between MBB and Aérospatiale in helicopters, Eurocopter from 1990, with 10% cross-holdings, and also with long-standing collaboration regarding missiles with jointly held Euromissile GIE. DASA hoped the French State would ultimately pull out and assume the role of customer. Eventually, DASA accepted a 15% French State holding. As Manfred Bischoff, the CEO of DASA, put it, DASA ‘had to swallow a stone, but it was relatively small and brought us a big prize’. Bischoff also linked the merger to prior project collaborations, ‘Both Companies are ideal partners. DASA and Aérospatiale-Matra have been working together in a wide range of European programmes for years. We know each

539 Airletter, 1999-04-13; 1999-03-16. Other prominent analysts also voiced similar concerns (see Chapman, 1999-04-15).
540 Hoschouer, 1999; Mackenzie, 1999-07-05.
542 Airletter, 1998-12-02.
543 Barber, 1999-01-29.
544 Euromissile GIE and Euromissile Dynamics GIE produced Roland, Hot and Milan tactical missiles as well as the Trigat antitank missile.
546 According to Interavia (November 1999, p. 16), Manfred Bischoff said, ‘a frog we had to swallow’. This article contains a description of the three-step merger plan for EADS.
547 Lewis, 1999-10-27.
other, complement each other and have a proven track record working together’. Immediately after the incorporation of Aérospatiale-Matra, top executives of the German and French companies sat down at Le Bourget, during the Paris Air Show, to discuss a merger with their counterparts. Over the subsequent months, business officials crisscrossed Europe in secret talks, were CEOs checked into hotels under assumed names to make the merger come true. The two companies would both hold 50% of the company, although the DASA share was actually worth 40%, a price France had to pay the Germans to accept the French Government’s presence. Yet, DASA retained the possibility of withdrawing if it judged the French Government to be too interventionist. Both the French and German Governments reserved veto rights for mergers, alliances and stock offerings. Hence, ‘after torturous negotiations’, entailing several complex moves to value the various components of the companies, Aérospatiale-Matra and DASACASA merged into the European Aeronautical, Defence and Space Company (EADS).

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Figure 6.4: The EADS signature ceremony (Interavia, 1999-04)

The French Prime Minister, Lionel Jospin, called the merger ‘an essential step forward in the consolidation of the European aerospace and Defence industry’, evidence that Franco-German collaboration is an ‘irreplaceable engine for the construction of Europe’ and ‘...Europe is no longer just a monetary project, it is now also an industrial project’. The French Finance Minister,

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548 DASA, 1999-10-14.
549 Business leaders of Daimler Chrysler, Lagardère, investment firms such as Robert Fleming, Goldman Sachs along with government counterparts such as Dominique Strauss-Kahn (Nicoll, 1999-10-15).
551 The two corporate entities were of broadly the same size, but DASA was more profitable and held a huge pension fund of EUR 1.7 billion and despite lower turnover, Daimler Chrysler, extracted extra cash of EUR 2.7 billion for the deal and left the subsidiary MTU out of the merger (Dixon, 1999-10-18; Nicoll & Skapinker, 1999-10-15).
552 Beauclair & Quiret, 1999.

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Dominique Strauss-Khan, said the deal complemented the EURO zone.\textsuperscript{553} There were also critics of the deal suggesting ‘...we are creating a monster...something so...big and complicated, it starts to seem like the most reasonable thing for it is not to happen’.\textsuperscript{554} Manfred Bishop, CEO of DASA, cautioned ‘We are not sellers out of German interests and for that reason, we won’t let ourselves be dominated by others’.\textsuperscript{555} The merger was viewed as an ‘eminently political arrangement’, stretching far beyond integrating the aerospace and defence industries, but was also considered a booster for Franco-German projects, such as the NH-90 helicopter project or the Helios 2 military observation satellites, then malingering due to lack of funds.\textsuperscript{556} The French and German Governments would have to decide where to produce satellites, where the German industry could have better possibilities to export and also where procurement plans could be aligned.\textsuperscript{557} The German and French leading actors in business and politics were thus adamant to support cross-border defence business concentration. On 14 October 1999, in Strasbourg, in the presence of the Heads of State Jospin and Schröder, Aérospatiale-Matra and DASA officially declared they would merge. Siegmar Monsdorf, German Deputy Minister of Economics, commented that ‘We are looking at a 30 year engagement that’s only now ending in marriage’.\textsuperscript{558} The political leaders declared the: ‘global value of this industrial cooperation as a symbol of Europe’s political will’,\textsuperscript{559} where ‘governments have been steadfast in their will to see this through by encouraging initiatives of our industries every step of the way towards achieving balanced European consolidation’\textsuperscript{560}, and it was also stated that ‘this grouping illustrates the irreplaceable role of Franco-German collaboration for the construction of Europe’.\textsuperscript{561} A defence industry association concluded, ‘EADS would never have been possible to build without government support’.\textsuperscript{562}

Thus, Aérospatiale-Matra, with 54,800 employees and EUR 12.3 billion sales, merged with DASA with 45,000 employees and EUR 8.8 billion sales, which resulted in the world's third largest aerospace company, the number two global civilian aircraft manufacturer and the number one satellite manufacturer, with a product range comprising, amongst others, also helicopters, launch vehicles and missiles. Banks and capital investment firms, such as Robert Fleming, Goldman Sachs and ABN Amro Rothschild, advised the political

\textsuperscript{553} Schulte, H. 1999-10-20.
\textsuperscript{554} Pedro Ferreras, Chairman of Spanish State holding company Sepi, holder of Spanish CASA (Air letter, April 1999).
\textsuperscript{555} Der Spiegel, January 1999.
\textsuperscript{556} Lewis, 1999-10-27.
\textsuperscript{557} Hitchens, T. 1999-10-25.
\textsuperscript{558} Ricks, Cole & Miller, 1999-10-15
\textsuperscript{559} Gerhard Schröder, German Chancellor, 1998–2005.
\textsuperscript{560} Lionel Jospin, French Prime Minister, 1997–2002.
\textsuperscript{561} Ibid. (Beauclair & Quiret, 1999-10-22)
\textsuperscript{562} Alm, 2014.
and business actors.\textsuperscript{563} As a result, 40\% of its shares were floated on the stock exchange and 60\% held equally by Daimler and by shareholders comprising Lagardère, the French Government and financial investors.\textsuperscript{564} As a consequence of the EADS merger, BAE shares fell 6\%.\textsuperscript{565} The new company altered the balance of interdependencies of most large players as EADS took 37\% in MBDA, 60\% in FLA and 75\% in Astrium, a key stake of 80\% in the Airbus project and 45\% of the Eurofighter project. BAE remarked that more than two thirds of EADS projects were tied up in joint ventures, \textit{‘where we have a significant say’}.\textsuperscript{566} Maintaining internal power balance was a key issue for the new company, where it was suggested that France would initially benefit from a superior position with more advanced technology know how, but that DASA’s strength would later swing powers to German advantage. To secure control, the French Defence Minister demanded veto powers for strategic decisions and, in particular, strategic technologies, such as nuclear defence and selection of future partners.\textsuperscript{567} The division of responsibilities and shareholding in the new company was organised in parallel structures, according to the perceived comparative advantages under a dual-hatted Franco-German leadership with two CEOs, two headquarters and two chairs. Co-decision would be exercised in mergers or strategic partnership discussion and investments greater than EUR 500 million. The French CEO of EADS in 2002 said that EADS was not divided along national lines, and there is no attempt to achieve a national balance in this organisation. The German CEO, in contrast, said\textsuperscript{568} \textit{‘We do not intend to create a mutual culture. We are based in Germany, France and Spain and there are cultural, historical and administrative differences’}.\textsuperscript{569} Spanish CASA, with 5.5\% ownership, received 4 manager posts and assumed leadership in the military transport aircraft segment and for composites, where ties to South America were seen as a comparative advantage. The Spanish workload was proportionally bigger, in the array of 10–13\%, but Madrid feared being marginalised in the Franco-German tug of war and signalled that EADS was operating under political rather than economical premises. France and Germany had 25 respectively 23 managers each and assumed leadership over specific business units without, for long, any signs of technology integration between divisions. The parallel structure was criticised for making rationalisation, plant closures and job losses difficult.\textsuperscript{570}

\textsuperscript{563} Major & Nicoll, 1999-10-15; Michaels, 2000-07-07; Morocco et al., 2000-03-27. Banco Santander Central Hispano, BNP-Paribas and Deutsche Bank were also implied.
\textsuperscript{564} Aérospatiale, 1999-10-14; DASA, 1999-02-12; EADS, 2009.
\textsuperscript{565} BBC, 1999-10-14.
\textsuperscript{566} Mike Turner, CEO of BAE. Indeed, an analysis shows that 68\% of EADS revenues were tied to joint ventures with BAE participation, whereas 27\% of BAE revenues were tied to joint ventures with EADS (Morrocco, 1999-12-06).
\textsuperscript{567} Lewis, 1999-10-27.
\textsuperscript{568} For the French side, Philippe Camus for the German Reiner Hertrich.
\textsuperscript{569} Financial Times, 2002-02-04.
\textsuperscript{570} Aguera, 2005-04-11a; EADS, 2009; Nicoll & Skapinker, 1999-10-15.
Yet, the merger was supposed to generate savings in the order of EUR 580 million, through rationalisation of some 600 internal projects and reduction of headquarters that separately employed 4,000 staff. The business units for finance, procurement and communication moved to Munich, where 50 *Aérospatiale Matra* managers relocated. Reciprocally, as the business units for strategy, marketing and legal affairs were located to Paris, 50 *DASA* managers relocated there. Twenty managers from *CASA* were placed in both countries. Also, competing projects in missiles, transport aircraft and engine manufacturing would need to be aligned.\(^{571}\) The foreign marketing division was viewed as a largely French operation, with a problematic situation in relation to the French *Dassault*, in which EADS came to hold a big share. *Dassault*, until then, largely family owned, saw a change of leadership as the CEO Serge *Dassault* who insisted on the autonomy of *Dassault* stepped down. The new CEO Charles Edelstenne, although stating ‘the principal change will be continuity’, also said he wanted exemplary collaboration with EADS, leaving the door open for future fusion.\(^{572}\) In particular as *Dassault’s Rafale* combat aircraft came under the same roof as the Eurofighter. EADS representatives claimed this was not a problem\(^{573}\) as there were Chinese walls within EADS between *Typhoon* activities and *Rafale*. The conflicts and tensions inside the consortium were however predominantly not seen as between the technology areas or nationalities, but between state and private interests where EADS observed that balanced integration takes time.\(^{574}\)

### 6.8 Finmeccanica ties up to all competitors

Finmeccanica, 80% state owned in 1999, sought to survive as an independent supplier, striving for balanced (50%) sector level partnership with equal rights: as ‘we don’t want to be under anyone else’.\(^{575}\) In the 1999 mergers, Finmeccanica first sought to tie up to Spanish *CASA* to get a share of the *Airbus* programme, but it was left outside the immediate consolidation cluster. With a series of deals in missiles and electronics, it tied up to other companies, but still had a war-chest of EUR 2 billion, for which it particularly looked at the *Airbus consortium*. Finmeccanica, then, in spring 2000, voiced plans for tying up to EADS, anticipating announcing a 50/50 Joint Venture company that was to gather all EADS and Finmeccanica aerospace activities. Instead, at the end of the year, the *European Military Aircraft Company (EMAC)* was

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571 Flottali, 2000-12-04; Schulte, H. 1999-10-20.  
572 Mackenzie, 2000-02-28; Tran, 2008-03-17.  
573 According to Louis Gregorin, Vice President for strategic coordination and the French CEO of the company (Doyle, 2000-02-22; Morocco, 2000-10-17).  
574 *Aérospatiale Matra*, 1999-12; Beauclair, 1999-12; Defence systems Daily, 2002-03-22; EADS, 2009; Nicoll, 2000-06-07.  
575 Airaghi, 2000-03-10.
announced, which would also include Dassault in the ‘mother of all agreements’, in terms of ‘its economic and industrial relevance’ in a bid that might be seen as a move to outflank BAE,\textsuperscript{576} whose only alliance partner would then be SAAB, with the rest of the major primes in the competing setting.

![Image](image.png)

Figure 6.5: Industrial leaders cheer in the light of a prospective merger of French, German, Italian and Spanish aerospace and defence industries (Interavia, 2000-04).

However, the EMAC did not materialise due to hard negotiations with difficulties in assigning appropriate corporate values, work shares and overlap in product content between the parties. The Italian political support also vanished as a new government was elected.\textsuperscript{577}

A parallel option was to join BAE, thus, EADS and BAE came to battle for Finmeccanica, and the CEO of BAE was several times to draw up plans, frequently at the British Embassy in Rome. Merging with the Italian firm was however problematic as Finmeccanica meticulously sought to agree, in advance, detailed objectives for projects, workshares, plants and know how. If Finmeccanica joined EADS, BAE would hold minority shares in several projects. On the other hand, the Italian prime teamed more with the British in combat jet manufacturing, after already pooling the helicopter business into Anglo-Italian Augusta Westland and the radar business into Alenia Marconi Systems (a 50/50 JV). A fusion of the aircraft business would also have tilted the company heavily into the British camp. The British deal at the time involved one-third of the company (including its shares in SAAB), where BAE would retain two-thirds.

A 50% joint venture in the field of military electronics with Thales was also considered, where BAE and Finmeccanica would each hold 25%. The French Defence Ministry was positive, but Finmeccanica’s participation in the

\textsuperscript{576} Barrie, 2001-06-18; Blitz & Nicoll, 1999-10-21; Nativi & Doyle, 2000-02-08.

\textsuperscript{577} Barrie & Aguera, 2001-11-05; Nativi, 2000-12-19 Sutton, 2000-04.
Astrium space endeavour would then mean an overly continental tilt. Thus, the Italian group, in vain, sought relations with BAE, EADS and Thales. Although Finmeccanica concluded in 2002 that a deal was effectively dead, it was once again reported in November 2003 that Finmeccanica and EADS renewed negotiations to form a military jet alliance, also merging their tactical missiles units. Then, in mid-2005, Finmeccanica, Thales and Alcatel figured in various constellations, with the Italian Government for the first time supporting such tie-ups.

6.9 Continued merger discussions

Business leaders themselves concluded that the largest companies reached a state of equilibrium in Europe through the mergers around 1999. Ideas of closer cooperation or further fusions of major European defence companies, however, float now and then since the EADC discussion, particular regarding non-core subsidiary companies or for international connections. The mergers also impacted other actor constellations. For instance, Swedish Celsius and SAAB merged at this time and BAE took a 35% holding in SAAB. EADS swiftly ensured UK participation in space activities, forming Astrium.

EADS was interested in forming a joint venture with BAE to combine their fighter businesses, whilst preparing the joint venture European Military Aircraft Company (EMAC) with Finmeccanica, but BAE then responded it was already in discussions with other European military aircraft makers. Ideas for an alliance between BAE and Finmeccanica were again floated as were ideas on one of BAE, EADS and Thales, but there was no advance of ‘political will or the psychology of states’, as Thales’ management said. On the civilian front, Finmeccanica moved into the manufacturing of the Airbus A380 Superjumbo, where EADS offered Italians to become a hub for the manufacturing of freighters with 8,000 employees and projected revenues of EUR 1 billion by 2020. Further, SAAB was tied to the project in a EUR 1 billion contract for wing beams. As the largely French led “economic patriotism” rose on the agenda in 2005, the German CEO of EADS said the 1999–2000 mergers

580 For instance, Denis Ranque, CEO of Thales and Mike Turner, CEO of BAE (in Ratnam, 2003-06-23; Ratnam & Muridian, 2003-06-23).
581 The acquisition of Celsius allowed SAAB to diversify more into defence electronics.
582 Jasper, 30-11-1999.
583 Skapinger, 1999-10-19.
would have been impossible in the new political climate and as discussions continued in 2008. A new major, group with total sales of around 40 billion appeared on the horizon, but this new attempt by EADS to merge with Thales, was rebuffed by the French Government.586

Several actors discussed possible divestments and retreated out of aerospace and defence altogether. Lagardère intended to strengthen its media activities, but eventually maintained the 15% ownership in EADS for “psychological” reasons as Arnaud Lagardère connected it to the work of his father, Jean Luc Lagardère. In addition, the possibility of diffusion, disintegration and total exit of BAE from avionics and electronic warfare was addressed in 2004 by the CEO of BAE.587

In September 2012, the CEO of EADS Tom Enders588 again floated the idea of a fusion between BAE and EADS. Labelled BEADS by the press, it would amass a turnover of EUR 96 billion, more than both Boeing and Lockheed Martin. It was to dilute government influence by registration on the Frankfurt, London, Madrid and Paris stock exchanges, with a 40% BAE and 60% EADS stake. Enders saw a possibility to balance commercial and defence business the same way as Boeing, whilst improving market access to USA and India. For BAE, the deal was a possibility to diversify into the civilian market. As a merger drew closer, German officials were concerned that the new company would move the defence business to London, side-lining German defence competencies. The German Defence Minister met Enders in closed meetings with the Parliamentary Economic Committee. Observers589 remarked that Enders will have to coordinate better with German politicians in the future, as EADS is primarily attracting shareholders because of the Airbus programme, not its defence content. As German, French and British ministers discussed the merger in conjunction with an EU meeting in Cyprus,590 EADS was busy sorting out the internal power balance between Germany and France, which created friction within EADS.591 A German objective was to dilute French Government influence in EADS, and the Germans were ready to buy-in to keep balanced stakes. After a meeting with the German Chancellor, the French President said, ‘We are determined to match closely’592 and that a shareholding of 27%, i.e. 13.5% each was sought to balance the influence. Tom Enders insisted he wished to reduce state influence in a combined company, as Britain

587 Chuter, 2004-08-23; Tran, 2003-03-03.
589 Christian Mölling, the German Institute for International and Security Affairs for the first statement, and Byron Callan at Capital Alpha Partners for the second.
and the United States were wary of state involvement. EADS and BAE, instead, offered the respective governments of France, Germany and Britain a golden share that would allow them to block any future hostile takeover but prevent any meddling in operational management.\textsuperscript{593} Whereas the French and British Governments signalled agreement, Angela Merkel blocked the deal\textsuperscript{594} for reasons such as electoral anxiety, pacifist sentiments and protection of industrial national interest. Francois Hollande noted that, contrary to the British and German Governments, France’s State shareholding in the business deal motivated raising certain conditions, particularly regarding employment and localisation of the headquarters. On the BAE side, Invesco Perpetual, with some 13.3% shares vetoed the deal for strategic reasons, and because it was considered economically unfavourable for BAE, being called “\textit{grand theft Aero\textsuperscript{\textregistered}}” by an investment bank that again raised the French Government involvement as a hurdle. The Airbus and BAE CEOs\textsuperscript{595} did not conceal their disappointment with the failure to create a larger merged company, but notwithstanding the failure of the potential merger, industrialists considered the mere proposal a game changer, again putting company mergers on the table, forcing actors to take action. Other major companies, such as Thales or Finmeccanica, had to rethink whether to be integrated in a new structure or seek a competitive alliance.\textsuperscript{596} In addition, the failed merger created a big impact upon the shareholder structure and management within EADS. After a review of the abandoned merger, EADS renegotiated shareholders’ control rights and established new corporate governance. Significantly, as a result, the free-floating shares rose from 49% to 70%, and the Management board would no longer be staffed based on ownership.\textsuperscript{597} The CEO of BAE, in connection with the failure of EADS, expressed ‘\textit{You can’t buy anything in Europe on the defence front without getting hamstrung by government restrictions...We were trying to set up a structure with the EADS merger which reduced the influence of governments and they clearly came back and said that’s not the position they want to be in’}. However, he concluded the relations with the British Government had been ‘\textit{very progressive and forwards leaning. They went above and beyond and did everything we asked of them\textsuperscript{\textregistered}}’.

\textsuperscript{593} Heller, 2012-09-28; Kington & Chuter, 2012-10-01.
\textsuperscript{594} European Voice, 2013-10-10; Gardner, 2013-12-05.
\textsuperscript{595} Ian King, CEO of BAE since 2008, Tom Enders.
\textsuperscript{596} Chuter, Tran & Fryer-Biggs, 2012-09-24; Defense News Staff, 2012-09-17, Metro, 2012-10-11.
\textsuperscript{597} EADS, 2012.
\textsuperscript{598} Tran & Chuter, 2012-10-15.
6.10 Connected relations: discourse derivatives in related markets

The discourse on the EADC, and the collaborative climate it fostered within the EU, denoted the entire EU defence business fabric of company structures, projects and relations. EADS called for European governments to commit to a single *Medium Altitude Long Endurance UAV* project to avoid duplication. Yet EADS financed the *Talarion*, and BAE the *Taranis*. *Dassault* developed a demonstrator under Government funding called *nEUROn* together with *SAAB*, EADS, Leonardo, Greek *Hellenic Aerospace (HAI)* and Swiss *RUAG* to safeguard French design capability and knowledge in the wake of the *Rafale* project.599 Later, Thales, *Dassault* and *Indra* of Spain championed one drone. In London, in November 2011, the French President and British Premier linked BAE and *Dassault* by agreement, to the dismay of others. The Franco-British move led to a German and Italian tie up in UAVs (see Chapter 4.2), which then led to French bilateral agreements with Italy and Germany in June 2012 in UAVs, helicopters, arms procurement and missile defence. This evolution took place outside EU defence bodies, despite UAVs being seen as vital to sustain EU combat aircraft manufacturing capabilities.600

Out of the limelight of the largest companies’ mergers, sizeable companies also folded into others; for instance, BAE acquired Swedish armoured vehicle manufacturer *Hägglunds*, and EADS acquired 26% in *Patria*, the Finnish defence prime, where these actors together have formed *Patria Hägglunds*, which, for instance, work on the AMOS mortar system.601

A number of possible big scale mergers reappear in the debate, involving French naval and land defence companies *DCNS*, Thales, *Safran*, *Nexter* and *Dassault*, dubbed France Aerospace, where Luc Vigneron, as CEO of Thales outlined an alternative strategy of ‘consolidation by network’.602 The French Defence Minister, in 2012,603 said France is considering forging a naval alliance with Germany, but that the issue has not advanced far. Another move, after years of collaboration and negotiations with Spanish and Italian yards, was for *DCNS* to buy *SMW Gdynia* and sell *Scorpene* submarines to Poland.604

Further transatlantic partnerships were also identified between corporate combinations, such as *BAe-Boeing*, *Northrop Grumman-EADS*, and *Thales-Raytheon*. However, it was more important to consolidate and harvest synergies after the restructuring that already took place. The global ties also within the defence sector make defence less of an exception and more just as another markets with global links.

599 Chuter & Tran, 2010-11-08; Dassault, 2020; Tran, 2011-01-17, 2005-02-21.
600 Chuter, 2014-06-16; 2012-06-25.
602 Tran, 2012-11-26a, b; Defense News Staff, 2012-09-17.
603 Jean-Yves Le Drian, addressing the Defence Committee of the National Assembly.
604 Tran, P, 2012-11-26c.
The need to enhance efficient defence spending remains. For instance, a 2010 defence review in Britain identified a GBP 38 billion spending gap in unfunded projects over the period 2010–2020.\textsuperscript{605} There is also pressure from NATO and EU politicians to tackle declining capabilities through integrated spending and reduced duplication. As stated by a French Defence Minister; ‘European companies would be better off defining alliance strategies rather than competing with each other’.\textsuperscript{606}

### 6.11 Summary

By the end of the 1990s, a policy community on a European Aerospace and Defence Company – EADC – formed around the most important defence primes and governments of the most significant defence producing nations of the EU. A surprisingly one-sided discussion in favour of business consolidation occurred in a situation where, for many primes, state control was not distant. The EADC discourse tended to be polemic, looking extensively at the benefits of consolidation, omitting a critical analysis of obstacles and barriers as “bigness” was perceived as something \textit{per se} good, mostly omitting the possible negative impacts of such extensive consolidation on competition and innovation.\textsuperscript{607} It was generally considered that EU procurement and common projects would get a boost from common sales and purchases, and this created a consolidation pressure where primes sought and received support from political actors. It proved difficult to manage the fusion of all companies in a single direction with support alone. Diverging interests and opportunism derailed common objectives as the British Government did not stop an all-British merger between BAE and GEC, paving the way for a merger between Aérospatiale and DASA. This early move influenced and reduced the alternatives and resources available for all other actors,\textsuperscript{608} due to limited resources for further acquisitions. Although EADC “failed” to be realised, EADS (Airbus) and other new companies emerged as world leaders in many market segments, still viable after decades. Moreover, the EU defence primes are all networked and have many business undertakings in common. The discussion on the EADC is also continuing, albeit at a lower level of intensity. Whereas much EU debate lament "European fragmentation", it is clear that EU’s primes are connected in a boundary spanning business network (see also figure 8.7).

\textsuperscript{605} Chuter, 2011-06-20.
\textsuperscript{606} Tran, 2011-06-20a, b.
\textsuperscript{607} For instance, the companies are all partners in many sectors, but BAE and Leonardo are also tied to American Lockheed, via the Joint Stealth Fighter project, and Leonardo also has close ties to Boeing, which is a competitor to Airbus.
\textsuperscript{608} Anderson, Häkansson and Johansson (1994) call this “anticipated actor -relationship incompatibility".
7. Arena 4: The Eurofighter project

This fourth arena within the studied case sets out to understand the evolution of a European defence project, the Eurofighter, starting from its inception during the Cold War through a period of crises, questioning the project’s rationale, to the sales efforts with complicated and intriguing relations to competing aircraft projects.

It has been observed that ‘The international fighter market is very tough and in most cases decided and influenced by political interests’ and that ‘The sale of a warplane is a political decision’. Thus, the Eurofighter project is inherently political and codified in multilateral agreements between political actors. On the business side, the company, Eurofighter GmbH, remain a subsidiary of the primes BAE, Airbus and Leonardo.

Multilateral defence projects are unpredictable, particularly when innovative, with conflicting goals, commitment and management. Also, inherent to internationally agreed projects is inherent rigidity, with an impact on the reputation of alliance and business partners.

7.1 Inception – early 1970s

In the early 1970s, Britain, France and Western Germany all formulated specifications for new combat aircrafts; after some discussions, they sought joint development. At this early stage, aircraft companies sought to influence governments’ decision-making by referring to future marketing possibilities: The British aircraft manufacturing companies argued that the McDonnell Douglas F/A-18 Hornet, ahead in its development, could limit market opportunities for future exports. As the governments redefined their requirements, MBB and BAE, in 1979, presented a joint proposal to their respective governments for a European Collaborative Fighter or European Combat Fighter (ECF). The governments were, however, not willing to commit resources at this stage and required that other nations should be involved to offset the costs. As a result,

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609 Alberto Gutierrez, CEO of Eurofighter Typhoon (Tran, 2015-05-25).
610 Charles Edelstenne, CEO of Dassault (Tran, 2007-06-11).
Dassault joined the study team, known as the European Combat Aircraft (ECA).

The ECA team aimed to produce an aircraft serving all the needs of the three nations' air forces. For Britain, this meant a multi-role aircraft capable of replacing the F-4 Phantom fighter and the Jaguar strike system around year 1987. The French Government required a small, lightweight carrier-capable ground attack aircraft to replace the Jaguar, but only in 1991. It was also less keen on a fighter, as it already had the Dassault Mirage and no urgent replacement needs. The German Government was looking for a defensive air superiority fighter to replace their F4-Phantoms but were not so interested in strike ability. As for the first time, the “Eurofighter” label was attached to the aircraft, the project collapsed in 1981 under the diverging requirements of three air forces, all with their specific doctrines and traditions. Furthermore, project leadership contributed to the failure, as the French Government insisted on a lead role for Dassault and a jet motor from the French engine producer Snecma (now Safran). The three governments thus continued their own national research, developing domestic designs: France on the Avion de Combat expérimentale, Germany on the Taktisches Kampfflugzeug 90 and Britain of the P.106, a single-engine "lightweight" fighter and the P.110 twin-engine fighter.612

7.2 The Agile Combat Aircraft/Experimental Aircraft Project – 1982

In parallel to the tripartite work and national designs, Italy was also investigating future fighter designs. Three nations that were already working on the

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Panavia Multi Role Combat Aircraft, the Tornado, Britain, Germany and Italy, started an Agile Combat Aircraft project. When departing from this already existing project, development work started to gain more concretion: Project and demonstrators were to be a Panavia run study, using the Tornado project structure, under equal funding from participating governments. The German and Italian Governments, however, soon withdrew funding. Instead, in 1982, the British Ministry of Defence committed GBP 80 million for the construction of a UK based demonstrator and an Experimental Aircraft Program (EAP). The British Ministry of Defence agreed to fund 50% of the cost, with the remaining 50% to be provided by the three companies. Thus, there was a distinct British leadership of the project with a European consortium. BAE, at the time still state owned, also financed development. Determined to stay with the project, both privately owned MBB and Aeritalia also contributed to this predominantly UK Government subsidised project, very similar to the BAE design P.110, with a cranked delta wing, canards and a twin tail. MBB and Aeritalia signed up with the aim of producing two aircrafts, one in England and one in Germany.613

In the late 1980s, as BAE was about to be privatised, the company exercised substantial pressure on the British Government to ensure support for the aircraft. BAE argued that the aircraft had to be financed at least up to the experimental stage; otherwise, the cost of the project would cause BAE to fold, and design teams would be dispersed. BAE successfully influenced its government by shaping the conditions for business survival after privatisation, as the British Defence Minister expressed strong support and released GBP 300 million for the design work to ensure jobs and company value. A construction contract was signed in May 1983. Furthermore, a demonstrator made some 256 test flights drawing from BAE (the P.106 and P.110 designs) and MBB (the TFK-90), examining a range of technologies, from advanced materials (particularly composites and titanium) and digital technologies (flight control systems), where BAE and MBB brought in their experiences from other aircraft projects.614

7.3 Future European Fighter Aircraft – 1983

In 1983, Britain, France, Germany, Italy and Spain, once again sought to initiate a joint fighter project. A plan for a Future European Fighter Aircraft project of 800 aircrafts, of which 250 German, 200 French, 150 British, 100 Italian and 100 Spanish was issued. Once again, however, diverging requirements threw the project into disarray. The project called for a Short Take Off and Landing twin-engine air superiority fighter with capability beyond visual

range, retaining a ground attack capability. France, however, put forward specific technical requirements, as they wanted a small lightweight (8 ton) system for attack missions that could operate from its aircraft carriers. In addition, they wanted a 50% work share and control of the project with Dassault as prime contractor. This was just after the British Government had financed the development costs, but Dassault was, at the time, the largest exporter of European combat aircrafts with 1,300 Mirages in service and considered that this justified a leading role, but the French terms were unacceptable, both for BAE and MBB. In July 1984, the French Defence Minister stressed the importance of jointly developing capacity in the aerospace domain through cooperation, provided security interests could be safeguarded. In the project, technology tapping was a major concern for the French, who wanted to protect their technology. Dassault regarded the project as temporary rather than a long-term strategic alliance, but the German Defence Minister stressed that technology transfer is expected and that in the future it would no longer suffice for Germany to simply produce equipment under licence. Germany was previously banned from producing combat aircrafts, but since the 1960s, Germany gradually reinforced its capability to design combat aircrafts, as did Italy, and they would not simply join a French or a British prototype. In a meeting by the five defence ministers in Paris in June 1985, France reduced its workshare claim to 46%, although the French bid was only for 25% of the total production. The British counterbid was 25% each for France, Britain and Germany, 15% for Italy and 10% for Spain. The French terms were unacceptable for Britain. With the Falklands war in fresh memory, the British wanted a heavier design of at least 10.5 ton. Also, Germany was adamant about the configuration. The French thought going up from an 8 tonne to a 9.5 tonne design was enough as a unilateral concession and pressed Western Germany to join Dassault in a bilateral project, but without giving up their requirements for disproportionate workshares, as Dassault was viewed as being strong enough to develop a design alone. Therefore, the Defence Ministers of Germany, Italy and Britain reached an agreement and left the five nation project, forming a new project. France, under President Mitterrand, wanted to produce a European aircraft, but was unable to impose its political will on Dassault, which was determined to defend its market position and competitiveness and went on to design the Rafale; therefore, this decision can be more attributed to Dassault’s strong position as manufacturer and intransigence, rather than conservative French or Gaullist defence policy.615

7.4 European Fighter Aircraft, EFA – 1985

France and Dassault pursued the Rafale, whilst other countries were invited to participate in what was now called the EFA project. USA chose to abstain and it was argued that in the context of skyrocketing defence costs and limited industrial and budgetary resources, EFA further fractured NATO’s already uncoordinated collective preparedness. The French Government hoped to attract Spain and Belgium, in particular, as it hesitated to carry alone an expected total cost of around FF 80 billion for 336 aircrafts, a unit cost 150% above Lockheed’s F-16 and SAAB’s Gripen. Despite French pressure, Spain instead joined the EFA project in early September 1985.616

Specifically, the EFA built upon the collaboration and experience from the Panavia Tornado project, partly using the same staff and institutional set up, with two parallel development organisations: one for the businesses and one for governments. The companies involved, MBB/Do (first incorporated in DASA then EADS, then Airbus), BAE, AIT (incorporated in Alenia of Finmeccanica) and CASA (later incorporated EADS) – in June 1986, formed the Eurofighter/Jagdflugzeug GmbH in Munich. The project was located in the same building as Panavia and benefitted from many of its facilities to save costs.

![Diagram](image)

*Figure 7.2: A joint venture company was set up for joint project management.*

It is administrative practice within several defence ministries to set up management teams that mirror the prime contractor organisation. Such project teams carry out contract negotiations, cost monitoring, and may take on important business responsibilities. The governments used the model of Tornado’s management organisation also for EFA. As the Tornado and the Eurofighter were in different phases of the production cycle, an International Project Office was instead established, called the NATO European Fighter

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616 Askelin, 1988; Bonnart, 1986b; Economist, 1985-09-17; Gunnarsson, 1990; Latham, 1989; Lewis, P. 1985-08-03.
Management Organisation (NEFMO). Simultaneously, the NATO Eurofighter and Tornado development, Production and Logistics Management Agency (NETMA) was co-located with the Eurofighter GmbH in Germany to function as a contractual agency with government procurement executives that decide under unanimity. A number of MoUs codify the collaboration, and each nation has a national programme office responsible for ensuring national interests, securing government approvals, national expenditure, product quality, government production facilities and working with national companies, see Figure 7.3.

Figure 7.3: The customer organisation to oversee the Eurofighter.617

The international project organisation is responsible for day-to-day management and monitoring of the project, negotiating payments, plans and changes with industrial partners. Each country allocates staff and directors proportionally to their country’s contribution. The multinational project offices for Tornado and the Eurofighter merely had a coordinating role, whilst significant decision-making remained national. Specialists recruited for multilateral project management recruited on a work share quota have been seen as disadvantaged compared to the national project offices ‘in that they may not be real specialists, but individuals appointed according to the defined workshare by the nations’.618 The official coordination is mainly through consensus based meetings. This would imply that the project is not truly integrated, but rather takes the form of bilateral agreements under continued state control. However, at operational levels, multidisciplinary integrated product teams operate. These teams cover the entire life cycle of the project development, from design and development through manufacture and life support, and are accountable for their own budget. Visual charts gauge the progression of each project

617 The international procurement organisation unfolds in the NETMA – NATO Eurofighter and Tornado Management Agency, and the project organisation NEFMO – NATO European Fighter Management Organisation.
team’s part or assembly work, helping to identify problems rapidly. Commercial, technical or operational matters are dealt with in committees, also chaired by staff, as primary interfaces to the involved companies. As observed by the British National Audit Office, a problem with this type of bureaucratic organisation structure is a discrepancy between authority and responsibility, where unanimous decisions are required, without authority. This organisation meant slow decision-making and project performance, magnified by an unclear role where national project offices identify both problems and solutions in parallel, and where many central issues, such as selecting radar, is transmitted to national governments for decisions. Thus, effectively national controls override the official collaborative project structure.619

A parallel consortium, similar to that of Tornado, was formed for the construction of the aircraft engine: Eurojet Engines GmbH, with participation from German MTU (DASA) 30%, Italian FIAT Avio 20%, Spanish Industria de Turbo Propulsores (ITP) 13%, and Rolls-Royce 36%.620 For sub-systems, such as missiles and radar, similar structures emerged.

As the British considered buying American missiles, German political and business actors exerted pressures: The CEO of DASA insisted, it was only consistent to buy European missiles as otherwise exports would depend on US approval. ‘We would also lose a piece of sovereignty...The decision over the UK Eurofighter arming is a litmus test to see how serious the British Government is about strengthening the European defence industry and exports’. The German Government and other EU states wrote to the British Government arguing in favour of the Meteor missile, whilst the US President Bill Clinton and top Pentagon officials exerted pressure on the UK, proposing a missile from Raytheon. The pro-European British Prime Minister Tony Blair recognised that a US missile purchase could undermine a European defence identity, and ultimately the Meteor was acquired.621

As the project definition started with specifications for the aircraft, a power struggle started with the involved air forces regarding the design. The air forces asked for better military performance than originally envisaged to fit their doctrines. Ultimately, the Eurofighter was a compromise where neither governments, air forces nor enterprises got exactly what they wanted. However, in 1988, the four governments agreed on a two-engine, delta wing, one seated attack and fighter aircraft produced by their primes in collaboration to enter service 1995–97 for a duration of 25 years. Contracts for airframe and engines were signed in November 1988 and development began. The US Government instead proposed that Europeans should procure a modernised version of the F-18, with all the requested performance at a much lower cost. The

621 Airletter, 2000-01-05; Beaver, 2004-09-09; Nicoll, 2000-02-18.
German Defence Ministry, however, stated that the Americans compared apples and pears regarding capacity and cost, that the American aircraft was not European, and that its purchase would significantly weaken European aerospace companies. Thus, a European aircraft was considered necessary, notwithstanding readily available aircrafts. The Eurofighter was also defended on grounds of cost efficiency, industrial competitiveness and operational performance.622

In 1988, official UK estimates concluded the European Fighter Aircraft would ‘be a major project, costing the United Kingdom about GBP 7 billion’. German calculations in 1988 suggested a total project cost of EUR 13 billion (a unit cost of EUR 17 million). The German Government negotiations had reduced the costs with some 20% and the German enterprises had to pay 86% of the research & development costs for the aircraft and 95% of the costs for the engine. However, the project had to be pursued, as a failure would have meant ‘...calamitous consequences in military, political and industrial terms...’.623 Germany, UK and Spain, around 1990, all considered reducing the number of aircrafts, with about 150 aircrafts in total. A reorientation in December 1992 again allowed German price reduction of 30% in view of the reluctance to continue the project.624 A 1995 British report concluded that Research & Development estimates alone were 43% above the 1984 budget with costs for the British aircrafts to GBP 14 billion, GBP 17 billion in 1997 and GBP 20 billion (including slippage of in-service date of 54 months) in 2003. In 2005, publication of cost forecasts for the Typhoon stopped as this was considered to affect the MoD’s negotiating powers. However, in 2011, the National Audit Office estimated the UK’s total project costs would reach GBP 37 billion. The German Government, in 1995, compensated the consortium with around EUR 250 million for modifications and a decreased level of operational ambition. Also, the homogeneity of the project decreased with diverging national specifications. The in-service date was delayed, leading to additional costs and a unit price increase that jumped from some 45 million EUR to almost double. By 2007, the German unit system cost (aircraft, training plus spare parts) was estimated to EUR 120 million. It was concluded that the Ministry of Defence had been over-optimistic on costs, and that costs were in perpetual increase.625 Indicative costs for Rafale in 2006 were EUR 113 million, for Eurofighter EUR 118.3 million, with the SAAB Gripen about half the price of the two.626 Several studies indicate similar levels. Flight cost per

626 Defence Aerospace, 2006.
hour indicates similar proportions, with USD 16,500 per flight hour for Rafale, 18,000 for the Eurofighter and 4,700 for the SAAB Gripen.627

Unexpected by many, in 1989, the Berlin Wall came down, and public debate questioned the need for advanced combat aircrafts. The reunification of East- and West Germany placed financial burdens on the German contribution to the Eurofighter and caused Chancellor Helmut Kohl to make an election promise to cancel the Eurofighter. Luftwaffe was instructed to find other solutions or look at cheaper versions of the Eurofighter. At this time also, the selection of radar became a major stumbling block: Britain, Italy and Spain supported the Ferranti Defence Systems-led ECR-90 longer range radar, while Germany preferred the cheaper and tested MSD2000 (a collaboration between Hughes, AEG and GEC-Marconi). An agreement was then reached after the UK Defence Secretary assured his West German counterpart that the British would approve the project and allow GEC to acquire Ferranti Defence Systems. This Government intervention to acquire a competing concept led to a legal dispute with Hughes that had been involved in developing the MSD2000, based on American radar technology (Miller, 1990). Thus, governments here structured the businesses supply in order to maintain project cohesion, but this was also in line with British interests, as the viability of Ferranti was at stake with the order (Walker & Gummet, 1989). In 1991, the German Defence Minister Volker Rühe sought German withdrawal from the project in favour of using Eurofighter technology in a cheaper, lighter plane.628 Spain629 and Italy shared Germany’s concern and lack of enthusiasm and suspended Eurofighter development in 1992. To avoid becoming the sole producer, the British Government exercised pressure on its partners, particularly Germany. To convince Germany to stay in the project, the British referred to resources and money already spent on the development and the number of jobs depending on the project. The British Premier referred to the project as paramount to ensure the survival of the European military aircraft industry.630 Yet, also in the United Kingdom, the Royal Air Force questioned the need of so many combat aircrafts. The Eurofighter consortium examined seven alternatives to keep Germany within the project, but only two single engine variants were cheaper, and none matched its performance. To keep the Germans aboard, the consortium had to identify 30% cost reductions and service entry delay by two years.631 At the end, Helmut Kohl was unable to withdraw from the Eurofighter project due to prior commitments, and resources tied the German Government along with pressure from its allies.

627 Hunt, 2012.
628 At the time, German humour nicknamed the plane English Fighter Aircraft.
631 EF, 2011-11-13, history.
7.5 Formation of the consortium and project start

In January 1994, the Chiefs of Air Staff of the four partner countries had agreed on the development objectives and a prototype, with the new *EJ200* engine for 1995. In 1996, UK and Spain were ready to finance the construction phase, but again Germany delayed its decision. However, in 1997, after some UK pressures, the Germans not only approved but also dropped their cost-saving requirements; thereafter, in December 1997, the Defence Ministers met in Bonn to sign a Memorandum of Understanding for the Eurofighter production.632 This was 10 years after the RAF originally wanted it to enter service.

In conjunction with this, the discussion on a single *European Aerospace and Defence Company* also gained wind (see arena 3, Chapter 6) where the Eurofighter and *Airbus* projects were seen as instrumental for the creation of the company: As the Managing Director of Finmeccanica said ‘*We could go from a project to company like structures*’.633

An objective for the EFA was to curb the ever-spiralling costs of aircraft acquisitions, where each aircraft generation tended to be more expensive than the previous and with cost overruns for each project. Remedies for this were fixed cost arrangements, production process reviews, supply chain management and innovative production technologies. The agreed work shares were still, as in many similar project efforts, based on anticipated orders, see Figure 7.4.

![Diagram](image)

*Figure 7.4: The initial distribution of Eurofighter workshares per business and political actor (EADS defence for a short while took the name Cassidian before its present name Airbus). Source, BAE.*

Such work-share arrangements require government involvement and approval, as pointed out by Lundmark (2011). Sub-suppliers were organised

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632 ibid.
633 Airletter, 1999-03-23.
along the strands of a *Continuous Improvement Programme* based on BAE’s *Supplier Excellence Programme* that focused on performance and business relations. To achieve better performance, the project sought improved organisational structure, timeliness, quality, capacity, process, capability, people/training, financial mode, technology and project control. Procedures to review internal processes were based on standards developed by the *European Foundation for Quality Management*. Although trust and not coercion was the stated driver behind the Eurofighter, contract management was tough with termination of contracts with sub suppliers failing to perform timely and to the expected quality. In 1999, 54 companies had been allocated development responsibilities for equipment items, out of these seven suppliers representing 60% of the material supplied formed a *Key supplier’s forum*. Most key suppliers were subsidiaries of the main contractors, and the task of the forum was to identify and solve problems impacting on the project performance, with goals such as increasing asset availability for the development phase.\(^6^{34}\)

Maintenance and production remained national, with national flight test centres and assembly lines. However, single sourcing meant production of any major component in one country only, thus cross-border manufacturing was interdependent with components produced at different facilities under just-in-time principles and with interchangeability from one aircraft to any other without modification. Distribution of parts also required distribution of technical design knowledge, requiring heavy investments in manufacturing plants and technology.\(^6^{35}\)

As the first production contract was signed in 1998 between *Eurofighter GmbH*, *Eurojet* and the project organisation, orders were: UK 232, Germany 180, Italy 121, and Spain 87. Then work shares were also reallocated: BAE (37.42%), DASA (29.03%), Aeritalia (19.52%) and CASA (14.03%). According to the order levels, the workshare split should have been 39/24/22/15, but Germany was unwilling to give up such a large amount of work. BAE also observed that actual workshare for the company was 43% due to leadership in key systems such as cockpit and avionics, where future upgrades would also generate more profits.\(^6^{36}\) In January 1996, after much negotiation, a compromise was reached whereby Germany would purchase another 40 aircrafts.\(^6^{37}\) An option for 90 more aircrafts was included in the contract for deliveries that were to start in 2001. When DASA and CASA merged into EADS in 1999, the balance of the industrial consortium changed to 43% for EADS, 37.5% for BAE and 19.5% for Alenia. Thus, the creation of EADS tilted the balance and meant the British company was no longer the largest partner in the consortium. Also, Finmeccanica’s Alenia became a joker in the game, as teaming up with

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\(^6^{34}\) Eurofighter, 1999b.
\(^6^{36}\) Morocco et al., 2000-03-27a.
one partner or the other would definitely tilt consortia balance. Moreover, as EADS (Airbus) also consisted of Aérospatiale, the French State gained influence over the consortium. Later, orders were again revised to 160 for the UK, Germany 143, Italy 96 and Spain 73, with early orders from Saudi Arabia (72) and Austria (15) and assembly lines in all six countries.

The Eurofighter forerunner, the Tornado, was to a large extent hand built. With the Eurofighter innovative CAD/CAM design, carbon fibre composites and alloys, high-speed precision tools and plastic forming were introduced to reduce lead-times. The aircraft performance was also modelled in computers that helped with the relatively problem free trials. The aircrafts were prepared for future technologies through built-in spare capacity for engine, power and computer processing. However, there have been production misfits or examples of politically induced requirements that hampered efficiency, for instance, a subcontract awarded to GEC-Marconi required four companies to develop computers in four countries, which led to incompatibilities, errors and delays and 1/3 higher costs compared to single sourcing. In this particular case, the resolution was to establish a joint software team and enhanced testing capacity.

Supplier connections to foreign companies on potential client markets in advance of order underpin the marketing for future contracts. For instance, to BAE Systems Australia (for fuel tanks and software), Kongsberg Protect in Norway (for front wheel well covers, carbon fibre rudder and flaprons) and companies in Greece (for external fuel tanks). Despite being European, US companies were involved in supplying components, for instance, in cockpit displays. This means that US authorities also vet EU exports. Several consortia have been set up to supply other systems in the aircraft, which sometimes also supply sub-systems to other aircrafts. Thales is, for instance, involved in the supply of radar to both Eurofighter and Rafale, and the EUROFIRST consortium with Thales, Tecnobit and Selex Galileo develop tracking equipment systems for the Eurofighter. Thales also develops Eurofighter sub-systems, such as countermeasure, optronics and simulators. National opt-outs have also occurred, for instance, Germany did not participate in the defensive aid sub-systems and infra-red search and tracking, and Britain wanted to withdraw from the synthetic training project simulation package developed under DASA. Further, due to specific military doctrines, Germany required a Mauser BK-27 cannon, whereas others rely on missiles alone.

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638 Nicoll & Blitz, 2000-02-04.
639 NAO, 1991; Cook, 1999-06-09.
642 Cook, 2000; 1999-06-09.
7.6 Project execution

The initial British plan for Eurofighter delivery was in 1987, but the project came to be protracted, delayed, expensive and did not lead up to all anticipated capabilities. Despite such problems emerging early on, a DASA executive defended the project ‘It is difficult for four European nations working together and pooling their expertise to develop and manufacture a single combat aircraft. Therefore, it is difficult to accept that a single nation, by itself, can bring forth such a combat aircraft. In the future, there will be no more Rafales, EF 2000s and Gripens beside one another. The costs render this impossible – even nonsensical’.643 The Eurofighter project was also seen as something larger than only a single aircraft project. ‘European programmes such as Eurofighter or future transport aircraft, could form the nucleus for joint headquarters, training bases and maintenance and logistics...a decisive step towards strengthening Europe’s defence capabilities and joint military planning’.644

The first Eurofighter took 3 years to assemble, double the desired time and was finished in 1999. In May 2000, the delivery for initial operational capability was projected to 2002, with full operational capability in 2005. However, there were problems in equipment deliveries, software integration, support contracts and work division after the EADS fusion. Hence, only in March 2003, the first production single seat Eurofighter, labelled PS0001, headed for final assembly in Spain.645

Deliveries to the German and British Air Forces began in June 2003. The aircraft reached operational status in December 2005 as the Italian Air Force deployed ten aircrafts at Grosseto Airbase. It was declared combat ready in the air-to-ground role only in 2008, but it had then not yet fired a missile.646 Nonetheless, the road was far from certain as British, German and Italian political actors argued the combat aircraft had become far too expensive, overburdening the defence budget. As thousands of jobs in the combat aircraft industry were also in the firing line, an alternative was to deliberately delay the project. Political actors, however, changed stance depending on their power-position: Whilst in opposition, German Defence Minister, Rudolf Sharping, opposed the purchase, but when in Government, he defended the aircraft, when asked to save by the Minister of Finance, Hans Eichel.647

In 2003, the German Bundesrechnungshof criticised the idea to acquire Tranche 3 from Eurofighter, remarking that development costs had doubled from the original estimate of EUR 3 billion and instead proposed acquisition

643 Piller, 1995-01-12.
644 Tom Enders (JDW, 2000-06-14).
647 Airletter, 1999-07-29; Chuter, 2002-10-07.
of UAVs. The audit report included a letter from the Italian Defence Minister also proposing to halt acquisition of Tranche 3, calling the progress of the project alarming and worrisome. Moreover, the Italian Government thought the capabilities were more advanced than required.648

Governments put much of the blame for the delays and failures to reach targets on the industry. The Manager of the NETMA (the Government’s international client body for the Eurofighter project) stated that the Eurofighter supplier consortium ‘can and must do better in the future. Too often, the whole has been less than the sum of its parts’. Thus, the participating countries were not happy with the project execution. In early 2004, the National Armaments Directors of the four Eurofighter countries wrote a letter to each industrial partner complaining about project effectiveness, expressing dissatisfaction with costs, timeliness and project management structure, asking for greater adherence to schedules. Eurofighter GmbH responded by business restructuring and as Tranche 2 (the multirole combat aircraft version) of the Eurofighter was to replace Tranche 1 (the fighter role), there were also calls for a revamped project management organisation. Eurofighter GmbH had primarily a coordinating function without decision-making power, relying on national approval for all development. Considerations for a shake-up included moving the Eurofighter supplier organisation to the role of a prime contractor. As a prime contractor, Eurofighter GmbH could include cross-national project teams, engineering under the direct management of contractual authority, reduced duplication in facilities, competitive subcontracts instead of direct award, and improved supply chains and flight-testing.

This concept failed due to actors’ resistance to relinquish control. Moreover, putting Eurofighter within the OCCAR frame (see Chapter 4.1) was rejected,650 as there were also fundamental problems with coordination at the client side. Every nation separately negotiated their price for the aircrafts with the consortium, where the United Kingdom felt that capability did not match intended content and price. Neither government nor business wanted to reveal the Tranche’s actual cost. The British slowness in approving Tranche 2 jeopardised the whole project, as the Germans and Italians only had a narrow time slot to approve their funding, due to mismatches between availability of decision-making bodies and replacement schedules.651 This opened up for damaging production gaps, with possible layoffs, renegotiations of prices with sub-suppliers and jeopardised corporate ties in, BAE, EADS and Finmeccanica.

651 The parliaments were to go on summer holidays and budgets had to be approved before; otherwise, funding might be cancelled.
652 Finmeccanica and BAE were negotiating a deal for a new joint venture holding company called Eurosystems, but because of the protracted negotiations on the Tranche 2, Eurosystems was delayed.
Now, the German Government instead pressed the British to stick to existing agreements. In December 2004, the German Parliament approved the purchase of 68 Eurofighters for EUR 4.6 billion. It was not until then that the Tranche 2 contract could be signed by all four partner nations. In 2006, the British Government threatened to cut further financing if the project was not revamped, with a reform of partner and workshare arrangements and, in particular, the ‘totally inflexible bureaucratic nightmare called NETMA’. The perhaps most daunting criticism was delivered by the Head of the British Defence Procurement Agency, suggesting the aircraft was not fit to deliver according to its purpose, describing the project as ‘charity’. Furthermore, in 2006, a member of the German Parliament’s Defence Committee suggested reducing the 180 ordered aircrafts in collaboration with other governments, due to resource needs in other defence projects. The German MoD observed, however, that Luftwaffe was already supposed to shrink from 746 aircrafts in 1990 to 262 by 2015, and that all the Typhoons were needed. However, in 2010, the British and Italian Air Forces sought to decrease the numbers procured. The Royal Air Force hoped to export the Tranche 1 aircraft, and the Italians cut the numbers with 25 aircrafts for budgetary reasons. In the Libyan campaign, in spring 2011, Typhoons flew their first combat missions, but weaponry and pilots were not yet completely ready as Tornados provided target designation, and there was a lack of trained pilots. Nevertheless, in 2011, the aircraft passed the milestone 100,000 flying hours across the entire fleet, where any Eurofighter has an operational lifetime expectancy of around 6,000 flight hours. Then, there were already reports about a shortage of spare parts, and protracted timescales led to “cannibalisation” of some planes to keep others flying. A first batch of the aircraft were to retire already during 2015–2018, leaving 107 Typhoon aircrafts in British service until 2030. In this situation of already diminishing the number of Eurofighters in operation, much equipment still remained to develop or procure, particularly arms. There is, thus, criticism that Eurofighter arrived too late, cost too much, crowded out other projects and lacked operational capability. The Italian Air Force Chief concluded ‘the sum of the arrangement has become less than its parts’. Whereas the aircraft’s technical quality is generally considered high, problems have been related to the complex decision-making, resulting in delays for years with agreements and implementation of key upgrades as management is ‘driven by political considerations rather than by commercial or

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654 Aguera, 2004-12-06.
655 Chuter, 2007-01-01.
656 Aguera, 2006-01-09a.
657 Chuter, 2010-12-13; Kington, 2010-08-02.
660 Tran, 2007-03-12.
military imperatives’. The British National Audit Office, in 2011, criticised the project for poor management, rigid collaborative workshare requirements, slow decision-making and lack of goal alignment, cost increases, inefficient collaborative commercial and managerial arrangements, and complexity of the technologies developed. In particular, NAO observed that where key decisions require consensus from all partners and that ‘collaborative arrangements present serious challenges if the Department is to upgrade and support the aircraft quickly and cost-effectively’. Yet, workshare arrangements were designed for equitable share production quotas and to distribute construction capability in several places, not for efficiency.

In 2011, pending signature of the last phase of the project, the so-called Tranche 3B, London signalled it would withdraw due to project cost overruns. However, contractual terms were such that withdrawal was impossible. The involved primes said they assumed the buyers’ commitments still hold’. Yet, the German Defence Minister, de Maizière, decided to reduce the last deliveries of Tranche 3B, scaling down deliveries from 180 to 143 aircrafts, but the German MoD in 2014 then had to pay a EUR 55 million compensation to the engine manufacturer MTU.

The initial requirements were excessive as the Cold War had ended, and partner nations sought to reduce their surplus through reduced orders and sales. The Italian and British order cuts also reflected the simultaneous collaboration and procurement in another multilateral project, the American led Lockheed F-35 Joint Strike Fighter. But then, as Russia annexed Crimea, the security policy situation of Europe changed once again, and EU arsenals appeared in need of military upgrades.

7.7 Eurofighter Follow on?

The Eurofighter and Tornado have for years represented the bulk of air forces in Germany, Italy, Spain and the UK, implying a great degree of standardisation and interdependency as dozens of aircraft manufacturers and designs have whittled down to this main design. Yet, without further orders, these countries’ aircraft manufacturing would come to a standstill and assembly lines shut down. In 2006, the Eurofighter represented 60% of the production

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661 House of Commons, 2011.
662 NAO, 2011.
664 The payment occurred without prior authorisation from the Defence Minister or the Bundestag. Because of this, but also alleged mismanagement and negligence of other defence programmes, the German Deputy Defence Minister and the Director General for Defence Equipment, were dismissed (Adamowski, 2014-02-24).
665 During the studied period, Spain also operated the Boeing F-18, Italy had a domestic design labelled AMX. Britain and Italy received their first F-35s whilst their navies operated the Sea Harrier. Germany phased out old Phantom F4 and MIG aircrafts.
for Finmeccanica’s subunit Alenia. Thus, without follow on orders, construction capability would be seriously jeopardised. Therefore, already in 1999, France and Britain discussed a follow on system, the Future Offensive Air system (FOAS). Germany, at this stage, refrained from participating due to the politically volatile discussions on the Eurofighter.

The consortia members early on started to look for other means to maintain competencies with negotiations for a fifth-generation aircraft within the European Technology Acquisition Programme (ETAP) in 2001, involving Dassault, SAAB, Leonardo and EADS:

![Figure 7.5: The ETAP consortium.](image)

The project aimed to develop stealthy platform technologies by 2020 and was set to start in 2000, but it started to slip already from the outset, as British actors were sensitive about technology leakage, particularly to ETAP from the American led JSF project.

A series of drone projects were launched around 2004, also linking previous competitors to sustain and develop knowledge to manufacture combat aircrafts amongst the EU primes. The experiences from the Eurofighter provide lessons from a managerial perspective, where a lead nation organisation has been advocated at the expense of joint bodies and proportionate workshares, along with greater transparency on requirements.

In 2013, the lack of orders started a new discussion between the BAE’s and EADS’s CEOs on how to make the Eurofighter collaboration survive. Leonardo and BAE were by then already deeply involved in the F-35 Lightning, and other actors were looking particularly at UAVs. In July 2014, it was reported that the Defence Ministers of France and UK planned to sign a MoU for an advanced fighter project, the Future Combat Air System (FCAS) that

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667 JDW, 1999-07-07.
would succeed the *Raphale* and *Typhoon* projects, starting around 2035. Leonardo and Thales would be involved in the manufacturing of sensors and electronics systems. Both London’s and Paris’ highest political levels supported the project, aiming to alleviate the American technology domination of the *F-35 Lightning* project and intended to later open up to other countries.670

Until 2017, 512 Eurofighters were manufactured out of a total of 599 ordered. Leonardo managed to maintain Eurofighter production, thanks to the order from Kuwait for 28 aircrafts, whereas Airbus considered closure of assembly lines, and BAE announced in 2017 a reduction of up to 1,400 staff over three years as production was sinking from 20 to 11 aircrafts per year.671

In 2017, France and Germany again looked into a new aircraft project, where also Britain and Sweden signalled interest to join. However, again EU states would divide aircraft engineering resources. At the 2018 *Berlin International Air Show*, the French and German defence ministers agreed on high-level requirements for a next generation fighter to be developed jointly by *Dassault Aviation* and Airbus to replace the Eurofighter Typhoon, with a possibility of Britain joining at a later stage. Britain, however, instead started its own GBP 2 billion project called *Tempest*. In February 2019, the *Future Air Combat System (FCAS)* was formally launched by France and Germany, where Spain later joined. The project aims to replace the *Rafale, EF 18 Hornet*, in addition to the Eurofighter by 2035. The first demonstrator flight is foreseen by the end of 2027. The *FCAS* will not only include a sixth-generation fighter jet but also swarming drones and a combat cloud, designed to ensure information superiority. In April 2021, an engine JV was formed by *Safran* and *MTU Aero Engines*. Thales and Airbus will develop the combat cloud, where other European manufacturers may join the project.672 When the commitment to *J35* already meant a challenge for European cohesion, the United Kingdom defended its independence and domestic cutting-edge capacity by developing a next generation stealth fighter jet, the *Tempest*, with four founding companies, BAE, the UK arm of Leonardo, MBDA and *Rolls-Royce*. By December 2020, *Tempest* was supposed to complete project analysis, including international partnership. In the wake of Brexit, Britain accelerated the *Tempest* project as a centrepiece of a defence review that will consider its diplomatic and military place in the world after political changes and a GBP 15 billion shortfall defence equipment budget in the next decade. In the UK, *Tempest* is to replace *Typhoon*, which will start to be retired from RAF around 2040, and it will also complement the *F-35* stealth fighter jet and include deployable drones. Sweden and Italy have joined the *Tempest* project. The two EU combat aircraft projects thus divide the previous pact of the LoI nations (see Chapter 1). Although costs suggest the projects may eventually converge,

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670 Tran, 2015-06-15a; Tran & Chuter, 2014-07-14.
671 BAE, 2017; Les Echos, 2017-10-07.
672 Safran, 2019; Taylor, P, 2018-05-03; Tran, 2017-09-11; Tyrrell, 2021.
technological convergence may be harder. Also, the experience of the Eurofighter is that too many partners multiply managerial problems, leading to delays and high costs. The new Franco-German project has already seen tensions over the leadership of the engine project, which raised concerns in the French Parliament that the project could give rise to serious disagreements between the French and German industrial partners. 673 Within the EU funding bodies, France lobbied EDF to promote only the FCAS, but the EU Commission also decided to support the Tempest. 674

7.8 Selling the Eurofighter

In 1999, a company called Eurofighter International (EFI) was set up in London for marketing and exports. Branding the fighter aircraft for an export market, the Eurofighter consortium adopted the name Typhoon. 675 with staff seconded and the same holding arrangement as Eurofighter GmbH. EFI manages exports, contracting, commercial activities and industrial participation. The primes still marketed the aircraft in their respective export countries, but they had to work closely with Eurofighter GmbH, the NETMA and ministries of defence in the four countries. 676 Under a “Partners are Customers” initiative, launched to ensure that external and internal clients are treated in the same manner, a VIP flying programme was targeting dignitaries. After a personal test flight, the UK Secretary of Defence stated, ‘the Eurofighter is an incredible aircraft, its speed and agility in the air are outstanding...and the performance of the aircraft exceeding all expectations’. 677

The set sales objective was 400 Eurofighters, representing 50% of the globally accessible market (i.e. excluding China, USA and Russia), for some 1,000 combat aircrafts in total, including the original four clients’ 600 combat aircrafts. The global market was valued at EUR 100 billion over three decades. The primes divided the international marketing, based on existing diplomatic and defence sales ties. Thus, Finmeccanica (Alenia) took responsibility for marketing in Brazil and Philippines; BAE for Australia, Bahrain, Canada, Kuwait, Malaysia, Saudi Arabia, Singapore and United Arab emirates; CASA for Chile, South Korea, Thailand and Turkey; and DASA for Belgium, Czech Republic, Denmark, Greece, Hungary, Netherlands, Norway and Poland. Amongst each other, the four partner nations have to approve any sales, but they also signed a MoU, which says that no one nation can block the sale of

673 Hollinger, 2019-12-30.
674 Johansson, D, 2021-09-08.
675 It was reported that Germany resisted both this name and the alternative Spitfire as both names are connoted with famous British aircrafts serving in World War II (Airbus, 2017; Der Tagesspiegel; BBC News, 1998-09-02).
677 Eurofighter, 1999a, 1999c.
aircrafts or transfer of technology. The 1999 fusion between CASA, DASA and Aérospatiale-Matra meant a 43% project share for the new company EADS, but also that French manufacturers were brought into the project. This meant a particular complication as the main competing project came into orbit of the consortium, through a 45.7% holding of Dassault with Rafale. The Dassault CEO, Charles Edelstene, said ‘The programmes will be separated by firewalls, and the market will decide. For EADS, this is a dreamland. They will win each time a customer selects one of the two competitors’ and noted that for Dassault ‘the major change will be continuity’. Dassault, having opted out from common production, was now 45% owned by its primary competitor. On the other hand, both Airbus and France would profit if either the Eurofighter or Rafale won orders, which is not the case for BAE and Finmeccanica/Leonardo.

In 2004, the Eurofighter CEO asked for greater possibilities to market the Eurofighter beyond the partner nations, but he faced resistance as the current arrangement of mere coordination was seen as functioning, relying on the export capacities of each firm.

Typhoon is, or has been, promoted in Austria, Australia, Bahrain, Brazil, the Czech Republic, Greece, India, Kuwait, Malaysia, Norway, Serbia, Singapore, South Korea, Switzerland, Turkey, Japan, Romania, Saudi Arabia, United Arab Emirates, South Korea, Oman, Poland, and Qatar and also other countries. Initially, the sales outlook was promising, as Greece and Austria ordered the aircraft. Yet, over time, Typhoon often lost out to competitors. Eurofighter lost in India to Rafale, and in Brazil, and the Czech Republic and Switzerland to the Swedish Gripen. Although the French President Chirac discussed, in 2006, a EUR 6 billion order of 48 Rafale aircrafts with the Saudi King Abdullah Bin Abdulaziz Al Saoud, ultimately Saudi Arabia chose 72 Eurofighters. Also, Austria has chosen the Eurofighter; furthermore, in 2017, Kuwait bought 28 and Oman 15 aircrafts. Qatar bought 24 aircrafts for delivery in 2022. Greece, however, could not afford the 60 aircrafts it set out to buy, and later ordered Rafale instead. However, customers may change their minds and, for instance, the Dutch, the Canadian and Indian Governments have been reported to revisit their previous aircraft selections.

In the sales campaigns, the Eurofighter was promoted via outsourcing, production shares or even full partnerships. Greece was offered a contract to manufacture 1,500 fuel tanks, and the Netherlands was invited to join as an equal partner. The contract awarded to Hellenic Aerospace Industries led to a controversy with the French Government, which challenged their presence in EADS, as the Government pressed French banks to lend money to Greece to

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678 Cook, 1999-06-09; Warwick, 1999-03-10.
682 The Netherlands later acquired the F-35 Lightning.
instead procure aircrafts from Dassault, i.e. Mirage or Rafale. This caused friction within EADS and was later also considered to hit back on France, by weakening French bank ratings due to the Greek default.683

Austria became the first export customer in July 2002. Despite the 2005 resistance from the opposition party SPÖ, considering it to be “the most expensive mistake”, 15 aircrafts were ordered in 2007. Ten years later, the Austrian Government sued Airbus and the Eurofighter consortium for EUR 1.1 billion over this EUR 2 billion deal on grounds of being misled over purchase price, quality, offsets and operating costs. The Austrian Government684 said the investigation suggested that Austria would not have decided to purchase the Eurofighter without fraudulent deception. In 2017, Austria first announced that it would replace all Typhoons by 2020, but it may need to keep the plane longer.685

In 2004, there was great turmoil within the Eurofighter consortium regarding the supply of a Tranche 2 of the combat aircraft. Countries deadlocked against each other over funding as each Member State had to approve further procurements, but there was a diminishing demand for combat aircrafts. As agreements fixed prices and quantities, one way out for governments was to enhance the efforts to export aircrafts.686

In a 2005 Singapore evaluation, the Typhoon won or completed all tests. However, a number of issues worked against the Eurofighter on this market described as a US monopoly: Singapore was already a junior member of the JSF team, there was a perceived lack of all-weather ground attack capability, limits to the capability package and unclarity about timely delivery. It was also thought that the sales organisation was too complex with joint marketing, whereas competitors only had a single sales contact. In addition, the incentives were said to be weaker for the Eurofighter consortium of four nations/companies with a secured order book.687

An international breakthrough was the 2006 decision by Saudi Arabia to purchase 72 Typhoons. Later the same year, Saudi Arabia, however, threatened to withdraw in favour of the Dassault Rafale because of a British fraud investigation into the 1985 BAE GBP 43 billion Al-Yamamah deal, i.e. the sale of Tornados and Jaguars to Saudi Arabia supported in person by the British Prime Minister, Margaret Thatcher.688 In December 2006, Britain's Attorney General, supported by Prime Minister Tony Blair, ordered the discontinuation of scrutiny of BAE’s alleged bribery of Saudi officials, referring to ‘the need to safeguard national and international security’. Saudi Arabia is a home

683 Airletter, 2000-10-25; Barrie, 2000-10-23, 2000-10-16; Tran, 2012-02-13; Zorzovilis, 2001-12-10.
market for BAE, complemented by long standing British political relations. The Saudi Prince, concerned, categorically denied bribes from BAE and insisted that the funds he received went to the Saudi Government. Allegedly, as much as USD 20 billion were transferred to Swiss bank accounts. In September 2007, Saudi Arabia signed the GBP 4.43 billion contract for 72 aircrafts. The first ones were delivered in 2008, and 48 aircrafts were to be assembled in Saudi Arabia and delivered from 2011. In 2010, BAE Systems started to train Saudi personnel to set up an assembly plant in Saudi Arabia. In August 2010, Saudi Arabia also ordered 84 new F-15s. The American involvement in Saudi Arabia did not only cover the sale of the F-15s, as US Government approval was also required for the Eurofighter due to US technology content.

In 2007, Typhoon was reportedly Japan's favourite for a next-generation fighter against American competitors. Again, US approval was required for the Typhoon to be allowed license production and integration with Japanese equipment. Yet, in July 2010, the Japanese Air Force favoured F-35 ahead of Typhoon to fulfil its stealth requirements. Meanwhile, the British Foreign Office moved in, proposing that Japan could be a partner in the continuing development of the Eurofighter. BAE announced in September 2011 that Eurofighter partner companies, nations and their ally, the Sumitomo Corporation, had submitted an offer to the Japanese Ministry of Defence; however, in 2017, F-35 won the deal. Also, Denmark and Norway welcomed the Eurofighter to submit offers, but the Eurofighter walked away from the contest citing dissatisfaction with tendering arrangements, which ultimately led to acquisitions of F-35s.

In 2010, Oman announced discussions to purchase Typhoons as a replacement for its Jaguar aircrafts, but ultimately ordered 18 F-16s; a deal reverted in favour of the Eurofighter six years later. In April 2010, Serbia displayed interest in some 20 Eurofighters to replace its MiG-21s and MiG-29s. The acquisition has been linked to Belgrade's pursuit of EU membership, where a fighter acquisition could potentially also be achieved by sourcing second-hand aircrafts from one of the Eurofighter nations. Despite decisions to buy American aircrafts in Romania and Oman, Eurofighter still sought to persuade these nations to reverse their decisions, and in the case of Oman, won another order in the Middle East.

Furthermore, the Qatar Air Force evaluated the Typhoon to replace its Dassault Mirage 2000. The Eurofighter first seemed out of contest but reappeared after a visit by British Foreign Secretary and Defence Procurement Minister

689 Bodin & Öhman, 2014.  
690 Defense Industry Daily, 2010-08-16; Entous, 2010; Ghafour, Oliver & Derhally, 2007-09-17.  
693 Hoyle, 2010-06-10.
in Qatar in February 2013.\textsuperscript{694} Then, it was reported \textit{Typhoon} ultimately lost to the \textit{Rafale}, an export that \textit{Dassault’s} management explained as founded on geopolitical factors and mobilisation of the French authorities already well established relations with Qatar and where the President and ministers were personally involved in the deal. However, in December 2017, a contract valued at approximately GBP 5 billion was signed to supply 24 \textit{Typhoon} aircrafts.\textsuperscript{695} The Qatari solution is thus to buy from several different manufactures, including American \textit{F15}.

In November 2011, United Arab Emirates also signalled interest in a possible deal,\textsuperscript{696} but instead selected \textit{Rafale} in 2021.

In 2004, before the Eurofighter was export ready, the Indian Defence Ministry was looking into the purchase of 125 combat aircrafts, addressing \textit{Dassault}, \textit{SAAB} and \textit{Lockheed}. At the time, BAE had a 36\% share in \textit{SAAB} and helped with marketing the \textit{Gripen}.\textsuperscript{697} In 2012, with a big order, India signalled again a procurement requirement, and the Eurofighter and \textit{Rafale} were the runners-up for an Indian contract for 124 aircrafts. EADS invited India to join the Eurofighter \textit{Typhoon} project as a partner. To win the contract, it was prepared to move jobs from Germany to India, in a campaign massively supported by the four European governments, their air forces and the three companies. For instance, the British Defence Minister was in New Delhi in 2012 to promote the Eurofighter.\textsuperscript{698} The Europeans estimated that transfer of knowledge and technology in military aircraft manufacturing could create more than 20,000 high-skilled jobs in India, including the development of a self-reliant indigenous defence industry. To reinforce this strategy, EADS opened a first defence-engineering centre in India.\textsuperscript{699} The companies also demonstrated readiness to adapt to customer requirements: the Indian Navy required a carrier-based aircraft; a naval \textit{Typhoon} version was presented although dismissed at the design stage by other partners, largely leading to the French exodus from the Eurofighter and their \textit{Rafale}. These efforts were to no avail, as in a EUR 11 billion decision, later challenged in the Indian Parliament, the Indian Government chose the \textit{Rafale}. Already in 2000 and 2001, the French and Indian Defence Ministers agreed on technology and arms transfers for USD 2 billion over 3–5 years and the forging of alliances in development and cooperation on submarines and fighter planes.\textsuperscript{700} \textit{Dassault’s} Indian Director, \textit{Eric Trappier}, in 2009, said he and the Head of the \textit{DGA} met Indian offi-

\begin{thebibliography}{99}
\bibitem{Chuter, 2013-04-01} Chuter, 2013-04-01; Gale, 2011-01-06.
\bibitem{BAE, 2017} BAE, 2017; Guillermard, 2015-05-03; Tran, 2015-05-25.
\bibitem{Raghuvanshi, 2004-08-09} Raghuvanshi, 2004-08-09.
\bibitem{Agence France Presse, 2011-11-03} Agence France Presse, 2011-11-03, Eurofighter, 2011-11-13; Muradian & Chuter, 2012; Padmanabhan & Chandran.
\bibitem{Eurofighter, 2011-10-23} Eurofighter, 2011-10-23.
\bibitem{Raghuvanshi, 2004-08-09} Raghuvanshi, 2012-05-19, 2001-08-06.
\end{thebibliography}
cials, with the French Government giving Rafale full government support, including President Nicolas Sarkozy in person.\footnote{Tran, 2009-06-15.} In conjunction with this, the CEO of Dassault said ‘the sale of a warplane is a political decision. It was also in the past, but it is becoming more so now: You can do all the technical and operational tests, negotiate the sale price, etc., but when it comes to buying, it’s really a political decision’.\footnote{Tran, 2007-06-11.} The British Premier, David Cameron, said India should rethink the decision, claiming Typhoon was both cheaper and better than the French rival. Cameron also stated in parliament that he ‘was very disappointed by what has happened in India, but Eurofighter is not out of contest, and we need to reengage as hard as we can’. To reverse the Indian decision, the British Minister for Defence met his Indian counterpart in February 2012. The British Minister stated, ‘a new set of proposals were developed...’ and that ‘The four nations can produce a winning financial proposal, and I fully expect EADS will be doing that’.\footnote{Chuter, 2012-02-13.} Thus, the British Government actually implied pressure on a foreign company to promote common exports. At the same time, the French Defence Minister, Jean-Yves Le Drian, made significant sales efforts for the competing Rafale. It is illustrative that in the deal with India, negotiations were reportedly made by government officials at the Indian MoD as company officials waited outside. This can be contrasted with the image that in the later phases of the project, British Government officials claimed they were in the hands of the multinational companies, relying on the companies’ technical and design capability to build, upgrade and support Typhoon.\footnote{Agence France-Presse, 2013-05-08; House of Commons, 2011; Tran, 2015-05-25.} However, the British Defence Procurement Minister, in 2013, stated: ‘I am actually gauging and supporting the campaigns...we are working hard to put the best foot forward for the referred Typhoon...we have had success with Saudi Arabia. In December, we secured orders from Oman. We are in active discussions with supporting the company’s campaign in a number of other countries’.\footnote{Defense News, 2013-05-13.} Hence, even after the deal was sealed, competitors continued to woo the Indian Government; then, in 2015, the Indian Government made two surprising decisions. It decided, overnight, to buy 36 Rafales in fly-away conditions on a government-to-government basis, the stated motive being capacity needs of the air force. However, the rest of the aircraft deal was cancelled.\footnote{Raghuvanshi, 2015-08-10.}

A potential sale of 12–14 Typhoons to Bahrain has been linked to British policy ambitions in the region. The Royal Navy has warships permanently based at the Mina Salman naval base since 1971. It was agreed to extend the base in the Arabian Gulf, reinforcing relations between the two governments, including defence collaboration and defence equipment sales. These measures
enabled a wider engagement also in other areas and in the region where Saudi Arabia is a close ally. Although BAE is responsible for Typhoon exports in the Gulf, the Italian Government and Finmeccanica led the Kuwait sales exports. First reported as failed, in April 2016, Kuwait signed a deal for 28 Eurofighters, also equipped by the Euroradar consortium.

By the end of 2017, Eurofighter orders had reached 599 with 532 delivered to eight customer governments. How then do these sales compare to sales objectives and that of competitors? With a sales objective of 400 aircrafts and hitherto sales of 141, the Eurofighter consortium has reached about 35% of its export objective. Benchmarking production to exports ratio of the three main combat aircrafts in Europe, Eurofighter appears at a disadvantage, as can be seen in Table 7.6.

<table>
<thead>
<tr>
<th></th>
<th>Total orders</th>
<th>Export orders</th>
<th>Export ratio</th>
<th>Operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rafale</td>
<td>276</td>
<td>224&lt;sup&gt;708&lt;/sup&gt;</td>
<td>81%</td>
<td>7</td>
</tr>
<tr>
<td>Gripen</td>
<td>271</td>
<td>125&lt;sup&gt;709&lt;/sup&gt;</td>
<td>46%</td>
<td>8</td>
</tr>
<tr>
<td>Eurofighter</td>
<td>623&lt;sup&gt;710&lt;/sup&gt;</td>
<td>151&lt;sup&gt;711&lt;/sup&gt;</td>
<td>24%</td>
<td>9</td>
</tr>
</tbody>
</table>

Table 7.6: The relative production and export of the Eurofighter consortium.<sup>712</sup>

Contributing to their success is relatively lower costs of the SAAB Gripen and Dassault Rafale.<sup>713</sup> Despite a ten-year delay of Rafale, the cost overrun stopped at 4%.

The sales of Eurofighter show that its governments exert pressure during sales on other governments.<sup>714</sup> The sales of Eurofighter also link to other European joint ventures companies, such as the MBDA in missiles, where all Eurofighter partners also participate.

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<sup>708</sup> India 36, Egypt 54, Qatar 24, Greece 18, Croatia 12, UAE 80, out of which several are used aircraft. An order to Indonesia of 42 aircrafts are not included here.
<sup>709</sup> Brazil 36 (with 100 pending), Czech Republic 14, Hungary, 14, South Africa 26, Switzerland 22 (no deliveries), Thailand 12, UK 1, out of which several are used aircrafts.
<sup>710</sup> Revised order stock stands at 472 with 160, 143, 96 and 73 to the four original project countries.
<sup>711</sup> Austria 15, Kuwait 28, Saudi Arabia 72, Oman 12, Qatar 24, out of which several are used aircrafts.
<sup>712</sup> The figures are indicative, as deliveries are ongoing.
<sup>713</sup> Twenty per cent, according to Charles Edelstenne, CEO of Dassault (Tran, 2005-02-21, 2003-06-16).
<sup>714</sup> Chuter, 2002-04-18.
The primes also tie to their competitors: Leonardo is closely linked to Boeing, which has won several tenders over Eurofighter. Yet, Leonardo has observed\textsuperscript{715} that Italy’s work on the Eurofighter project allowed it to develop technologies, such as composites used on the civilian Boeing 787 project.\textsuperscript{716} This would imply technology spillover from Eurofighter to Boeing via Leonardo, where Boeing is a competitor of Eurofighter in combat aircraft deals.

### 7.9 Summary

The Eurofighter is an illustrative case of cross-border project collaboration, connecting national markets with significant entry barriers. To facilitate and enhance the complex multilateral work, project management bodies were set up on both the supplier and client side to manage complex actor relations. The project has undergone several critical episodes where its survival was never evident, but actors are tied by commitment over time and through experience and path dependencies to previous collaborative projects, such as the Tornado, Alpha Jet and Jaguar. The projects and project management are induced, formalised, controlled, monitored and supported by political actors, namely the largest defence producing governments of the EU. The joint project bodies set up do not replace other actors, although formulating operational targets and policies, research, planning, inception, standards, development, workshare attribution and negotiation, logistics, production, maintenance, and, to some extent, marketing. The Eurofighter project confirms the image of international defence acquisition projects as generally difficult to manage, where much competence remains national. On the one hand, the aircraft project did not meet initial contractual objectives, time schedules, cost efficiency or profitability, technology content and operational readiness. There were design disputes, manufacturing problems, delays and re-prioritisations of other defence requirements, and exports fell short of goals. On the other hand, the participating actors adapted to significant shifts in actors’ commitments and policies at critical moments and, after all, supplied a high-performance combat aircraft, serving as the main aircraft in five EU air forces, also supporting the viability and competencies of the European aircraft industry. For path dependencies, the outcome and follow on is a radical split of the manufacturers into two competing future aircraft development teams.

Seen as an ancillary actor, also outside its formal project organisation and although criticised for inefficiency, the project provided continuity as commitment weakened during austerity, with actors considering postponing or downgrading system’s capacities. Actors then secured project survival by campaigning for the aircraft as the commitment weakened. They also aligned

\textsuperscript{715} Giuseppe Giordo, CEO of Alenia Aermacchi, a Finmeccanica company.

\textsuperscript{716} Kington, 2014-05-19.
interests and mobilised senior political levels to market the Eurofighter. For the Eurofighter, a complex sales organisation with many air forces, governments and companies sometimes confused clients. Benchmarking sales results to the SAAB Gripen and Dassault Rafale, single sales organisations and direct seller-buyer relations come out as stronger. However, the sales were complex as the French Government sat on two chairs, winning if both Airbus and Dassault win orders, with Airbus also holding 45% of Dassault. Meanwhile, Thales is also a winner, providing sub-systems to both Rafale and Eurofighter, where Dassault also has a significant holding in Thales. France, Airbus, Dassault and Thales are thus winners if either Rafale or Eurofighter wins orders. In this complexity of bonds, also sitting on two chairs, Leonardo and BAE both collaborate on the Eurofighter and the Lockheed JSF projects.

To the Eurofighter, associated projects are running in parallel, both sub-systems (engine, missiles, radar) and other projects. The fabric constructed by the various projects, clients and supplier bodies means cross-border interdependency and adaptation to other’s production systems, research and technological development. This ties actors with workshares, just-in-time deliveries, resource and production commitments and exchange relations.

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717 Airbus has started to sell off its shares with a view to cancel all holdings in Dassault by 2021. In 2021, some 9.9% of the shares were still held.
8. Analysis

This Chapter analyses the empirical results of the longitudinal study of the EU defence business setting in four arenas. The departure for the analysis is Figure 1.1 (on page 15), which observes that ancillary actors operate within a market and setting of political and business actors. It was observed that these actors somehow interact through or with ancillary actors.

Ancillary actors are identified and empirically studied in arenas 1–4 (Chapters 4–7) for the case of EU defence equipment production, as outlined in Table 8.1.

<table>
<thead>
<tr>
<th>Arena Activity</th>
<th>Arena 1 Political Setting</th>
<th>Arena 2 Market</th>
<th>Arena 3 Issue community</th>
<th>Arena 4 Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political activities</td>
<td>Coercion</td>
<td>Support</td>
<td>Support</td>
<td>Coercion</td>
</tr>
<tr>
<td>Business activities</td>
<td>Adaption</td>
<td>Influence</td>
<td>Influence</td>
<td>Adaption</td>
</tr>
<tr>
<td>Ancillary actors identified</td>
<td>EU bodies</td>
<td>Holding companies</td>
<td>Policy discourse fora</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Business associations</td>
<td>Project organisations</td>
<td>Joint ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State control and support functions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8.1: The actor relations studied, and the types of ancillary actors identified.

The four types of *a priori* anticipated activities were used to categorise four basic arenas on the studied, politically constrained market. The activity combinations were helpful to supported encoding of empirical data, although certain matters were not easy to encode. For instance, is a business strategy a mean to influence or adapt, and is a political industrial strategy a mean to control or support? EU defence primes and EU Member States interact directly,
but they also connect across borders via ancillary actors, as illustrated in Figure 8.2.

Figure 8.2: The empirically identified actors and four arenas (in the centre) identified in the case.

Figure 8.2 shows a simplified model of cross-border arenas and actors within the Europe. In addition, the case shows multiple activities that criss-cross Europe’s defence business. Also, numerous ties between companies and foreign governments are omitted in Figure 8.2. The simplified model above illustrates a balanced relational symmetry from 2000–2019, within the EU – with major EU powers having links to 1) a political setting of acquisition bodies, such as the EDA or OCCAR; 2) networked corporate relations with joint ventures (JV); 3) issue communities, such as the discourse for EADC and 4) Collaborative projects, such as the Eurofighter (EFA).

The following Chapters provide more detail regarding the activities emerging from empirical observations, still categorised according to the dichotomy of the model of four arenas set by relational combinations.

8.1 Arena 1: The political setting of EU defence bodies, political coercion, business adaption

Arena 1 of the case is identified through an examination of the political setting in terms of bodies (A) for defence production within the EU and their potential impact on the focal relation between business actors (B) and political actors (P), as illustrated by figure 8.3, ancillary actors may ultimately seek a coercive role based on legitimacy.
Figure 8.3: European political bodies as ancillary actors (A) to the focal relation, where the ancillary actor may draw from interdependent relations to business actors and political actors, in pursuit of coercive powers that may directly impact (red arrow) the focal relation (black arrow) between defence prime (B) and political actor (P).

Political coercion

As evidenced by the empirical observations in Chapters 4.3 and 5.3, the EU’s defence primes operate in a setting of national political support and coercion. At the same time, long-standing arms cooperation with like-minded political actors has occurred for decades within a number of international bodies that underpin political alliances, which are expected to also build further cohesion, as seen in Chapter 4.1. Due to varying degrees of actor commitment, several bodies of similar nature within the field of defence equipment operate at the European level. Actor similarity and multiplicity of memberships mean that demarcations between these bodies are sometimes unclear, even to their own participants. Membership, roles and specialisation of these bodies are sometimes floating into each other, with complex acronyms sometimes referred to as an “alphabet soup”. Yet, all actors have their unique rationales and niches vis-à-vis each other, but also bonds, manifest even in treaty links, and these treaty links appear to continuously evolve or integrate. Chapter 4.1 describes how the EU expanded its mandates, but the EU and NATO also developed ties and agreed to collaborate and profit from each other’s assets across the two bodies. Thus, increasingly, demarcations regarding the national, EU and international are impaired in defence. The 1988 statement by industrialist Peter Wallenberg that ‘NATO and EU have no ties, and there is no connection between economics and defence’, which was a main trigger for this thesis, can thus be refuted.

The EU defence business setting still lacks unity, for historical, political, economic, military and cultural differences. It is also, for merely practical reasons, difficult to obtain legitimacy, to accomplish commitment and commonality amongst an increasing number of actors. Nicollo Machiavelli, the renaissance philosopher, once proposed that a control span of more than 14 states is
impossible to manage; similarly, *Winston Churchill* proposed a span of $10^{718}$ to be manageable. According to internal control framework references, control is weakened by a span of more than 8 entities. Whereas exact numbers are hard to establish, it is fair to assume that the more actors are involved, the harder to exercise control and unity of direction.

There are also fundamental issues as to how to perceive defence equipment amongst EU actors founded in their history. Is it a public good or just any commercially available product? Within defence acquisition, monopoly is accepted by actors that normally advocate free trade and competition. Moreover, price sensitivity often stands back for product uniqueness and knowledge control, as was described in Chapter 4.3. This impacts on the content and structure of business actors, including entry conditions, ownership, prices, profits, efficiency, exports, contract content, viability and exit conditions. States still maintain direct holdings or strategic controls to underpin security, national economic and social objectives and to ensure control over research and technological capabilities. Defence procurement and defence equipment policy, therefore, remain subject to much national coercion with little transfer of sovereignty. As the EU gradually increased presence in the defence, building blocks for an EU competence in defence business include, gradually evolved, including several ancillary actors and actions such as;

- A European Security and Defence Policy (1999)
- Rapid Reaction forces (1999)
- The European Capability Plan ECAP (2001)
- Research funding (2002)
- Capability plan (2008)
- European Defence Fund (2016)
- *Galileo GPS system* (2016).
- The strategic compass (2020)

As observed in this thesis and also by Ojanen (2006) and Duke (2001), political convergence *does* emerge in international institutions, as evidenced by the generation of policies, projects and physical products. Chapter 4.2 shows that policy convergence also occurs within business associations, as these take political positions in support of collaboration. Within the generic EU integration, actor ties evolve also within EU defence equipment, gradually increasing support and commitment to form embedded transnational ancillary actors, who themselves, then, foster more integration. This occurs both in business and politics, underpinned by business rationale and political legitimacy. Several ideological traditions, e.g. Liberal, Christian-democrat or Socialist, support this development that is sometimes challenged, for instance, by nationalist or

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peace movements. Over the years, it seems an issue community (see, for instance, Chapter 6.1) in support of integrating the EU defence business setting through planning, procurement and production has been strong. The counter wheeling forces\textsuperscript{719} are here more implicit and seem underestimated by the EU issue community. The issue community seems caught in the social contexts of EU gatherings that generate isomorph behaviours, propelling commonality. To identify proxies for counter wheeling factors, one may, for instance, look at the lack of transfer of coercive power to ancillary actors for defence procurement and Brexit, but then friends of further EU integration in the field of defence equipment collaboration, have had to combine, on the one hand, the irreconcilable requirements of low profile, not to provoke, leading to EU bodies, instead being labelled as “talking shops”, “window dressing”, “paper tigers” or alike. On the other hand, avoiding transfer of mandates that may provoke a collapse of overall cohesion. Indeed, Brexit, although multiple variables lie behind, indicates that too much supranationalism may trigger exits, and possibly a collapse of cooperation. Thus, although EU defence equipment convergence may appear slow and iterative, it nevertheless seems relentless, underpinned by ancillary actors in the form of international bodies, issue communities, projects and primes. EU thus gradually and slowly advanced into the defence sector, expanding from economic policies, via security policy to defence and then defence equipment manufacturing (see Figure 4.2). At first viewed as taboo, the institutional debate around EU’s political bodies came back again and again. The statement by former Commission President, Jean-Claud Junckers, to repeatedly play the same elements until eventually accepted, seems much applicable to EU integration in defence equipment production. Thus, a discourse and ‘competence creep’ linked to this discourse gradually made actors get accustomed first to EU defence business cooperation and autonomous EU capabilities. Lundmark (2011) identifies a marked difference between official discourse and reality in the “Transatlantic” context. Whereas this transatlantic discourse has a homologue in the EU context, it seems the European reality calls for more substance. Thus, whereas there are many bold policy statements and ambitions, a slowly brewing integration process also seem to be in motion. The analogy of slowly cooking a frog springs to mind. However, discourse and project collaboration are developments not only generated within the EU. International developments and conflicts have also forced EU Member States, collectively and individually, to recognise their specific defence capability shortages, particularly regarding the costly capabilities of intervening far away, the need to respond to asymmetric threats and to balance budgetary commitments. Consequently, EU bodies, primes’ projects and issue communities have gradually earned legitimacy to deal with EU defence, to create a business setting that at least partly opens

\textsuperscript{719} International business rationales, conservative, nationalist or leftist issue communities and various practical difficulties organising multilateral production.
national defence markets, coordinates research and reduces project costs in support of cross-border business consolidation.

Whereas a fully integrated EU buyer (or seller) for defence products seems unlikely to appear in the short-term, technology and cost developments are likewise such that EU Member States cannot alone finance all the multiplicity of large and expensive systems (for instance, satellites), logistics (for instance, air transports) or sustain major long-term operations far away from Europe. There are therefore prospects to move ahead within the EU frame with common defence equipment acquisitions within peacekeeping and remote forces’ projection. EU defence collaboration also deepens in international crisis interventions and homeland security. Thus, EU has earned a legitimate niche in defence, besides national territorial defence (green) and collective (NATO) defence (blue) in Figure 8.4.

In Figure 8.4, the grey circle covers the common capabilities to deploy forces far away, with requirements for satellite navigation and expensive projection capabilities, such as expeditionary naval vessels, airlift and reconnaissance. The red circle covers resource requirements for surveillance and intelligence capabilities. The figure is mainly derived from actual capability requirements
that can be identified in EU member states and EU bodies through actual resource allocations since 2016, meaning that the setting for EU defence equipment businesses has expanded with potential access to more funds (i.e. market opportunities) for defence equipment companies. EDA now coordinates EU capacity needs for power projection. It gathers virtually all EU states (except Denmark but lacks coercive power and cannot (at least yet) be seen as a fully-fledged procurement agency for all the EU due to its limited resources. Furthermore, so far, no devolution of executive powers in defence equipment acquisition from Member States to joint bodies has occurred, in terms of managing large cooperative projects, obligatory tendering and contracting at the EU level. Article 346 regarding derogation has survived numerous revisions of the treaties, but still remains. The United Kingdom, although active in the EDA set-up, withdrew from the agency to signal distrust even before Brexit.

On the other hand, although EDA has not succeeded in mounting any major platform projects, it has financed a significant number of projects in subsectors, as it absorbed the EUCLID CEPAs. EDA also has a role in the management of the EDF, linking to EU Framework Programmes, the NATO forces registers, and has also been proposed to absorb LoI and OCCAR. Common defence acquisition within NATO has resulted in a certain level of commonality and standards, but no truly unified equipment acquisition within the alliance, and over time, equipment has instead become more differentiated. However, EDA may risk replicating NATO’s planning and integration problems, as the EU will draw from NATO planning with a similar lack of coercive mechanisms. The member countries of the EDA still have limited commonality of defence procurement, due to differences in military philosophies and political interests. On the other hand, NATO partners that are the least similar in values compared to EU, namely USA and Turkey, are not members of EDA.

OCCAR is likely to remain outside EU after Brexit, as it will have a raison d’etre in tying British defence equipment production to EU countries along with its coercive powers and contractual authority, significant projects and budgetary means. Thus, Britain is likely to drive OCCAR out of EU orbit rather than into a fusion with EDA. Still, however, OCCAR does not generate platform projects. These are identified outside OCCAR and retroactively receive OCCAR status.

In conclusion, EU defence equipment bodies are still limited in resources and powers compared to most national homologues, in terms of staffing, knowledge, coercive powers, budget and results. Despite increasing resource allocations since 2016, EU bodies do not replace national or NATO bodies, but exist in parallel with a mandate that is increasingly clear in its contours. Despite recent progress in the field of crisis capabilities and homeland security, a comprehensive and truly functioning EU design for defence equipment collaboration has yet to materialise. EU nations have been, and are likely to remain, reluctant to a full transfer of authority in defence to the EU, with na-
tional and alliance defence outside the remit. It, thus, seems that national security and industrial policy still have the upper hand compared to EU commitment to common defence equipment, despite decades of rhetoric. Although there has been criticism that EU capabilities have never been deployed in combat, such a deployment would almost with certainty result in criticism. A failed deployment of EU forces could jeopardise the entire EU, stalling EU integration. Yet, EU bodies do impact upon the business setting of defence companies through funding, research support and as they identify new arms technologies and capability gaps, issue standards, launch common planning and organise interaction and networks from businesses, think tanks, politics, military, research and administrations. The collective experience of European collaboration encompasses an ever-increasing number of people and connections in a complex web of actor relations, who better knows its partners and learns from them. Legitimacy based on trust is a fundamental asset in this setting, where exchange and ties have created a commonality to the extent that one of the original ideas behind the EU can be seen as fulfilled, namely that a military conflict amongst EU Member States presently seems unthinkable.

Yet again, in parallel with the discourse about teaming up, governments maintain or even reinforce coercive control, as seen with regard to the discourse on economic patriotism (cf. pp. 108 and 177). Defence equipment production seems to relate too much to state sovereignty to justify the surrender of control. The state control of defence businesses appears both as overt in public strategy documents and procurement law, but it is also surrounded by subtle and tacit controls to ensure, amongst others, that knowledge and technical content are not tapped or bleed through.

Chapters 4.3 and 5.7 account for concrete examples of retention of state controls by EU Member States over defence companies identified in this thesis. Such controls include veto rights, board member appointments, limits to foreign ownership, direct holdings (ranging from full ownership to symbolic golden shares), national industrial strategies and company strategies, research subsidies or more tacitly formulated subsidies, such as extension of contract horizons, reduced interest rates, undervaluation of assets for taxation and also in acquisitions and favourable long-term contracts. Moreover, “strategic” business units can be sheltered from the rest of the companies by state controls; for instance, if there is a particularly important technology sector within its business activities. There is also state sales support, ranging from official state sales objectives to outright bribery. State measures to ensure control over corporations also include professional or nationality requirements for board members, powers to seize control over company operations, to issue vetoes or demand reorganisations, including placement of headquarters. Technical requirements, production permits, export restrictions, licences, certification requirements and property rights, to ensure control over technologies and knowhow, also shape business activities. Legislation also places defence contracts under national intelligence services surveillance. As businesses engage
across borders, they will need government permissions for exchange of confidential information or exports, controlled – for instance – via specific project monitoring or management organisations. In addition, there is both legislative and financial scrutiny, as state budgets and major projects need to pass parliaments, with decisions sometimes codified into law and where government contracts are sensitive to disruption or deterioration of relations as governments may unilaterally cancel, suspend or amend contractors’ funds at short notice. Governments can also support or constrain mergers, as potential partners may hesitate to enter into business agreements where state holdings are too precedent. Effectively, all the largest EU Member States’ governments have managed to combine competitive tendering, direct awards and engineering of entire consortia. Thus, whereas official rhetoric hail market liberalism and EU integration, actors simultaneously counteract control by other actors. National control even seems on the rise again, not only as an effect of the aforementioned economic patriotism but also judging from enhanced oversight even in countries where the government traditionally sought to refrain from interfering, such as Germany and Sweden (see p. 100) and with new protectionism in the wake of Russian and Chinese power projection in Europe and less certain reliance on American support.

Nevertheless, after decades of muddling through, political EU ancillary actors have obtained financial impetus with significant budget appropriations in 2017 and also reinforced technical collaboration, after political changes, increased insecurity and Brexit.

This leads to Empirical observation i): Half a century of political integration in EU has established legitimate bodies as actors in defence business. This actor integration is reversible.

Business adaption

Arena 1 of the case shows that primes engage in layers of influential activities, directly, via national or product specific bodies and with bodies at the EU level, as described in Chapter 4.1. Furthermore, Chapter 4.2 shows that business associations earn legitimacy as speaking partners to political bodies by presenting unified positions, policies, studies, briefing papers or participate in various working groups, whether sectorial, national, EU or NATO. The policy orientations voiced by business associations (see Chapter 4.2) have materialised to a significant degree, implying that primes do not merely adapt or align with government strategies, but they also shape their own political setting and reinforce privileged positions as speaking partners of political actors. Access to political actors helps to develop strategies that support technology and knowledge development, alignment of supply chains and corporate objectives.

The supportive and coercive roles within the state apparatus may pitch ministries and departments against each other. These conflicts are, for instance, visible in the dichotomy between supporting and controlling exports. In the
Most significant defence equipment deals, political leaders actively support or replace business actors in direct marketing and negotiation. When exporting to less like-minded states, governments may instead try to hold back exports through coercion. The competitive stance in the north of Europe also tends to be more oriented towards competition, openness and free trade, whereas in the south, a more protective stance based on the military arsenal is upheld. This situation can be interpreted as in Figure 8.5.

![Figure 8.5: An interpretation of defence equipment export policies.](image)

Although much in demand, EU level export support does not seem possible in defence, since arms export is a politically contagious issue that would be difficult to organise in an egalitarian manner. Divergences in perceptions prevail also between countries in the EU’s north and south as to whether arms exports should be officially encouraged or not (see p. 100 ff). EU bodies can rather be expected to work more with subtle pressures, such as benchmarking, good examples, promoting research and facilitating interaction, although a common EU front sometimes appears, such as in the policy support to Airbus vis-à-vis Boeing or towards Australia in the cancellation of a large French submarine order in 2021.

Business actors organise into the Aerospace and Defence Industries Association of Europe (ASD) the very same year as political actors formed the European Defence Agency (EDA).\(^{720}\) This can be interpreted as an attempt to organise the supply and business sides of the EU defence equipment market setting. Both bodies, however, remain small and limited in terms of powers, funds and staff compared to primes and the national procurement offices. One could say that ASD and EDA, by putting forward policies of market access, deregulation, cross-border transfer of goods, defence spending, acquisition

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\(^{720}\) Both built on a legacy from predecessors (EDIG and IEPG, respectively).
schedules and research, work towards the centre of Figure 8.5. The rhetoric for collaboration is based on economic and political imperatives, to demonstrate European cohesion, non-the least vis-à-vis the USA, under similar argumentation from suppliers and clients. Thus, ancillary actors address (lack of) defence funding, the related capacity and job losses and the costs of disproportionate re-investments if long-term needs are placed aside.

Primes seemingly adhere to ruling market paradigms, but they also address the economic risks of collaboration, such as risks for knowledge tapping or bleeding through and qualitative setbacks. Moreover, primes have sufficient legitimacy to bypass business associations, and directly access political actors, whether government offices or EU bodies. This may undermine other actors, such as ASD, which at one stage seemingly lost legitimacy due to internal turmoil (see p. 98). Also, national defence business associations may ally across borders to use their leverage on other business associations and foreign governments. An example of this is reactions to the UAV projects in 2010. German and Italian business associations then put pressure on other actors as a reaction to Franco-British collaboration. This led to a broadening of collaboration to include enterprises from other countries (see p. 102 ff).

8.2 Arena 2: Market relations of EU primes, political support and influential businesses

Arena 2 of the case examines the business relations of the EU’s largest defence primes in pursuit of entities seeking business influence whilst trying to get political support. This part of the study, departing from corporate reporting, unveils a rich flora of corporate joint ventures and cross owned entities for defence manufacturing. These entities are here identified as entities outside a company’s focal relation.

Political support

Although in many EU states, the governments may officially signal its retreat from operational management of defence businesses, public actors continue to support business conditions via procurement, legislation, subsidies, funding, and research & development.

The primes’ profitability is largely determined by how sizeable markets the political actors are willing to support via budget appropriations, procurement decisions, and in profit margins. Although changing governments carry new politics, which from a corporate perspective may seem erratic and unpredictable, they also often push through or block major acquisitions just before elections (see p. 105 and p.190). The long-term resource dependencies and com-
plex requirements in defence contracts mean deliveries, funds, jobs, technology and exports need to be sustained over long periods of time. Defence primes are here supported through large contracts that last for decades, often directly awarded without competition at fixed prices.

Political actors have supported defence business consolidation, first nationally, then across borders. All EU countries have seen home market decline after the Cold War. At the same time, value cohesion amongst EU states has mostly increased. With cross-border market relations, procedural, technological and experiential knowledge about others accumulate over time. Yet, both suppliers and clients monitor control and diffusion of strategic knowledge and technical competencies for commercial and security reasons. Political actors also support building “war-chests” (i.e. acquisition portfolios) that enhance their primes’ market position (see p. 109 and p. 175). Such capital accumulation can be achieved through tacit means, such as devaluing public assets before sales to the primes, asset swaps, discounts, research subsidies and direct award of contracts. As governments invite primes in the formulation of industrial and political strategies, primes also have an opportunity to shape their own support. Defence orders in times of economic downturn can, then, support overall corporate profitability. For instance, the studied primes weathered well in the 2009 recession, as large defence orders supported other activities and overall corporate viability. The value of such continuous funding is reflected in high goodwill values. For investors, defence stocks can thus distribute risk exposure.

Primes also receive support from the highest ranked political executives in their international marketing and sales efforts, irrespective of government colour. Specifically, government support is required in exports, for instance, when approving clients of technological goods, providing demonstrations (e.g. to show equipment in use by national forces) and as a guarantee. Government support is also extensive in sales and marketing campaigns, where an exporting government may assume the role of an ancillary sales agent in defence sales, as illustrated in Figure 8.6.
This leads to **Empirical observation iv)** *In defence equipment marketing, political actors may take business roles and ancillary actor roles.*

The role of government is, however, dual, as a government may restrict exports and as a prime may lose a privileged market position with a new government. At any rate, actor connections may be interrupted or jeopardised as the government changes.

**Business influence**

The empirical study shows that the studied primes have considerable market power and legitimacy because of their importance for security, employment, innovation, technological knowledge and economy (see Chapters 5.1 and 5.2). This market position gives primes a possibility to influence their market context, nationally, within the EU and in foreign markets.

To access foreign markets, primes seek positions close to foreign governments by adapting to the local context. Some researchers (Mörth & Britz, 2004) believe that in the defence industry, business/government interaction is diffuse, hard to control, increasingly complex and difficult to predict. Although the emphasis may shift over time, and primes lament lack of support, governments tend to support primes, permitting a privileged position, as one of a selected suppliers that is allowed to take dominant market position. The EU defence market is marked by relatively stable power relations, with few or single clients and relationships with other primes and multi-national bodies. Moving into solutions marketing (see Cova, 2007) primes seek to stretch their offer to other business segments, and also up and down the value chain, expanding to service, maintenance and tailor-made solutions (see Chapter 5.1). The primes’ market context can, thus, be characterised by strong, stable and
lasting political ties, i.e. recurrent and dense relations to a small number of actors with shared interests, values and preferences. The market context is also characterised by high centralisation, cohesion, convergence and exclusivity, giving primes legitimacy vis-à-vis other major actors. Political actors seem to accept many of the primes’ demands for privileged positions and also a dominant position. The empirical material show that primes are explicitly aware of their politically networked position. Some primes make explicit use of the network metaphor to describe their relations, when forging local partnerships, building strategic alliances, relating to ancillary actors and seeking to influence political actors (see p. 158).

A number of ancillary actors connect primes and governments in the form of joint ventures and collaborative projects (see Chapter 5.6), as illustrated by Figure 8.7.

The relations displayed in the above image have been, broadly, static for more than 20 years. This leads to the Empirical observation ii) EU defence business actors’ ties were stable 1999–2021.

Figure 8.7: The studied primes (ovals) connect via major joint ventures and projects (rectangular), out of which some did not (red box) materialise and some links were cut (red barr).721

The image is simplified and omits several connections. The connections around the UAVs, Tempest and FCAS have expanded to cover all primes.

721
Ancillary actors in the form of multilateral project organisations and joint ventures can be interpreted as having lower transaction costs and business risks by managing transnational interdependencies. Although there is formally no unified market, EU defence primes connect in innovation, research and technology, none the least through common projects and joint ventures. Primes share significant resources, activities, customers, suppliers and operations in each other’s countries. Multilateral projects, JVs and acquisitions for defence equipment can draw a high degree of political legitimacy amongst partners and also acquire legitimacy in foreign markets. For instance, Leonardo and Thales are recognised actors in the British home market after acquiring British defence firms (see Chapter 5.1) and on speaking terms with the government in designing British defence industry strategy. Thus, cross-border business relations increase dependencies and open up for penetration of foreign markets, as proposed by Keohane and Nye (2012, 1974). Due to state involvement or control over primes in their domestic home markets, primes may project foreign government interests into another market. Whereas this can be seen as an exposure, meaning vulnerability, such dependencies have rather been acknowledged to increase mutual security. The primes are, however, not only taking a business perspective but involve in policy formulation, they also formulate political positions on how to organise national markets as well as the entire EU defence markets. This leads to Empirical observation iii) The primes influence actors across borders in other markets and may project their home governments’ influence.

This means implications for smaller actors in relation to larger ones, in that primes from Europe can buy into or takeover foreign supply chains if these are unprotected, backed by their market powers. For instance, government subsidised military production may give the primes financial clout to target civilian customers or companies in other markets. The studied primes have, for instance, used their market powers to buy into smaller and less protected markets, as Thales bought into the Netherlands, BAE into Sweden and Airbus into Finland (see p. 180). Interdependencies may here enhance common action and sourcing strategies, whereas dependencies mean aligning supply chains and adaption to primes’ business structures. In order to enhance legitimacy, primes may be involved in visibility and relational activities, such as conferences, meetings, issue communities, academia and research, alliances or clusters, governments and European bodies. In these contexts, they may be stating various ethical commitments (combating corruption, environmental concern, charities) and underpin legitimacy by appointing CEOs, staff and board members with backgrounds in local contexts, such as elite schools, media, military, politics and ministries, giving access to local or professional codes (see, for instance, p. 155).

Furthermore, primes are big enough to sometimes challenge governments for absent, opaque or inconsistent industrial strategy; yet, they are consulted in their formulation and have a possibility to influence their markets (see p. 132). The
Primes are sometimes warned by governments, when interfering too much in the political sphere or not obeying government decrees (see p. 133). Indeed, it would seem the many internal conflicts, irregularities and indemnity claims surrounding primes (see p. 129ff and p. 147ff) would undermine their legitimacy. However, governments refrain from exercising far-reaching coercion in many cases. It thus seems that political actors, at least to a degree, accept these types of activities and that governments silently support such activities.

Primes’ involvement in political activities extends to the policy formulation of foreign governments regarding their military equipment, as, for instance, Thales and Leonardo are invited to take part in the formulation of British industry strategies. The legacy of state ownership and retained state control can here be perceived as a potential means for projecting nationally based philosophies into another nation. Actors often signal an awareness of this, as state connections are frequently cited as deal-breakers to foreign market access in defence deals. On the other hand, this tie to the exporting government can also support a deal, as the backing of a military power in defence equipment deals may also be seen as a political signal to a military adversary.

8.3 Arena 3: The Issue community for EADC, political support and business adaption

The third arena of the case is covered through an examination of an issue community for the creation of a single European Aerospace and Defence Company (EADC) and the change process that this network initiated. Although without clear demarcation, this issue community became an actor arena in its own right, where actors addressed market power, control and power distribution amongst the EU’s bodies and primes for defence manufacturing.
The issue community (see Figure 8.8) discussed transformation of the EU’s defence business in an on-going discourse that peaked around 1997–1999. An issue community gathering several types of actors, including an elite, discussed across the EU in various meetings or through various statements, the EU defence primes’ business profitability, market power, management, staffing, decision-making, knowhow and share distribution.

Political support

By the end of the 1990s, political and business leaders explicitly called for closer collaboration with the aim of creating a single defence and aerospace company (see Chapter 6.1). This discourse was peculiar in that companies were, on the one hand, treated as commercial operators but at the same time encouraged to form what would effectively be an oligopoly or even a monopoly in a nationally sensitive field. One of the triggers of the discourse was the risk of involvement in domestic defence production, or even takeover, by non-EU actors. There was now massive support to enhance security and diminish costs through collaboration, including the formation of a united defence company. This consolidation was advocated in a discussion that appears quite one-sided, uncritical and polemic. The extreme consequence could be replacing a multi-polar EU defence market with a single focal relation between a central procurement body and a single company. “Bigness” as a main objective was seen as *per se* good. Yet, some critics also warned that the single company would mean a monopoly, with other companies having to fold into its supply chain. As actual mergers drew closer, governments supported consolidation, but refrained from using coercion to make companies comply with political objectives (see Chapter 6.2). As shown also in Lundmark (2011) there was a discrepancy between discourse and real instigation and potentially, the discourse could have been staged by concealed national motives, such as paving...
the way for an all-British domestic consolidation, as General Electric Company’s Marconi came to merge with BAE. This national reorganisation put an end to ambitions by French Thales to acquire Marconi, who sought to have a bigger presence on the British market. Instead, Thales acquired the British firms Racal, Shorts and Pilkington Optronics, still earning it the place as the second largest defence group in the United Kingdom (see Chapter 6.4). On the continent, however, primes in France, Germany and Spain aligned, as the foundation of Airbus was laid (see Chapters 6.6 and 6.7).

Business adaption

The issue community for EADC with criss-crossing of company and government officials between European capitals seems to have fostered a sense of value commonality and cross influence and a common willingness to draw closer, beyond the pursuit of scale advantages. As government actors announced their policy of welcoming closer ties, in particular within the more advanced producer nations of the six-state initiative (LoI, see p. 93ff), defence companies adapted by following the policy line of their main clients (and sometimes main owners). Only a couple of years earlier, such cross-border activities to tie up with competitors might have been seen as disloyal or outright forbidden. The entire consolidation process took place in a setting of few suppliers, few customers and over-capacity, where the remaining strategic options rapidly diminished, as in a game of musical chairs. As primes consolidated, fewer strategic options remained available for other primes. Other actors here had to react or face the risk of being on the outside and consumed by larger companies. The options were essentially to collaborate, fusion, diversify, specialise or exit the market. Thus, relational ties in terms of acquisitions, mergers and alliances, or the mere possibility of these, became a means of controlling the options available for other actors.

Whereas the EU defence business setting is widely considered fragmented, the EADC discourse represents an issue community connecting virtually all EU defence equipment primes. It is, therefore, proposed as Empirical observation v: A networked EU defence business setting has existed for decades.

It must be noted that this observation by no means implies that a fully functional or free market is in place, rather the opposite, given the interventionist measures implied by forging the EU defence equipment market into one. It should also be recalled that forming of the generic civilian EU Common Market is also considered a process and that the Common Market has not yet been fully realised, if ever. In defence, an additional complication is that business actors, activities and resources continue to be subject to political controls,

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which are likely to remain as long as there are still sovereign states within the EU.

The *EADC* issue community changed actor relations and activities of clients and ancillary actors with significant adaption by all actors. Some actors (*Aérospatiale*, *Matra*, and *CASA*) had to accept increased influence of private ownership and tendering under competition, whereas others (*DASA*) had to accept more influence by political actors and public ownership that favoured direct procurement (see p. 172). Although EADS initially worked under strict national distribution of powers, control changed to more of private business rationales. This move between competitive environment and ownership can be illustrated, as suggested in Figure 8.9.

![Figure 8.9: An interpretation of how Airbus moved to more private ownership and a more competitive market over time.](image)

Figure 8.9 illustrates the issue community that changed the market composition, including changes in the corporate attitudes towards balancing private and state holdings on the one hand, and between competitive tendering and direct award on the other. Yet, subsidies and direct awards can be expected to underpin defence equipment-producing primes’ economic viability also in the future, with large-scale defence contracts acquired without competition and with substantial research and development subsidies.
8.4 Arena 4: The Eurofighter project, political coercion and business influence

Part 4, in the case of the EU defence businesses, means an examination of the actor relations in a large transnational EU defence project, namely the Eurofighter project. The actors of the Eurofighter project operate across borders through common project bodies. These project bodies appear as ancillary actors to the focal relation of each participating state and company. Essentially, the cross-border bodies replicate the focal relation into one (1) customer body and one (1) supplier body for the main project, with similar sub-groupings for sub-systems, such as engines, radar and missiles.

As actors change positions over time, this model can be perceived as non-static in Figure 8.10. The figure shows a situation where governments seek to exercise coercion vis-à-vis the Eurofighter project, where the political actor(s) seek to control the project (red arrow). Meanwhile, the project organisations, with its supplier consortium half and its client half, would seek to support the main focal relation, namely that for a delivery of an aircraft from a company to the state (black unidirectional). In this context, companies would seek to influence the consortium’s ancillary actor and make this ancillary actor, in its turn, influence the political actors (green arrow).

Figure 8.10: An empirically based model of the Eurofighter project as an ancillary actor (A). The dotted line represents the two roles of collective supplier (Eurofighter GmbH) and the collective client (NETMA). Both the collective supplier and client organisations seek to support (blue arrows) the focal relation with primary supply of combat aircrafts (black arrow). Here, a Government (P) may exercise coercion (red arrow), where companies seek to influence (green arrows) governments via the project.

Political coercion

The studied defence equipment project, the Eurofighter, serves as an example of an acquisition where political actors designed and set up the entire project
organisation by identifying appropriate business which were contracted by direct award, meaning a coercion, rather than buying an industrial good available on a market (see Chapter 7.1). The political actors, effectively designed consortium, regulated workshares, cost, knowledge transfer, supervision, controls and project organisation. This occurred without public tendering and was formalised in interstate agreements. The project remains under political oversight, not only at the government level but also under parliamentary scrutiny, monitoring the project bodies of the customer and supplier side.

The Eurofighter project confirms the image of collaborative projects as notoriously hard to manage, with cost overruns and delays and sometimes fading commitment. These difficulties can be seen to reflect an expectancy gap in trust and control between senior business and political actors and the people responsible for technical project execution. Thus, at the highest levels of politics and business, political actors wished to manifest long-standing policy cohesion, with the Eurofighter as a symbol of EU policy commitments, shared objectives and values and also those of shared military and operational rationales.

On the one hand, the Eurofighter displays miscalculations and goal conflicts regarding timeliness, costs, quantities, capacity, knowledge and technology transfer, procurement planning, performance and sales. Although co-produced, at critical junctures, national control and considerations often overtook the official project structure, with resulting product deviations emerging over time, as displayed, for instance, by the parallel development of different types of armament and radars.

Whereas studies in industrial marketing often underline the tacit nature of relations, the partners’ long-term commitments within the Eurofighter project, as most equipment contracts, are underpinned by complex and specific contractual agreements. These commitments prevented full withdrawal, and the involved political actors instead sought to reduce project costs, quality and quantities (see Chapter 7.4).

Project research tend to look at projects as ties within companies, not as actors in their own rights. The Eurofighter shows, however, that a project is more than the sum of its participants, as manifested by its project organisation with an actor identity of its own. Also, the project has been more lasting than the involved governments and companies, as political and business actors changed more frequently than the project. The project carried commitment from one actor to the other, as in a relay-run, where actors stepped in as one actor crunched under the financial weight or excessive capability requirements of the project. This ensured long-term project viability. Over time, the project was more enduring and consistent than its participating governments or companies, which all changed composition and motivation, as did the overall business setting within the EU, when Europe transformed from Cold War to détente. The project also continued to reproduce common values and shared economic rationales as, for exports, all actors had to demonstrate a unified commitment to the project, as potential clients could otherwise question product
capacity and capability and as it became necessary to offset development costs, supplementary units and to reduce unit costs. The entire state and corporate machineries of the largest EU Member States and their primes at their highest executive levels were mobilised in the sales efforts (see Chapter 7.8). Yet, the Eurofighter is no great export sales success. A handful of countries have bought the aircraft as a complementary design. The only EU client outside the manufacturing nations (Austria) later started a lawsuit against the consortium. In comparison to the two competing European combat aircrafts, **Gripen** and **Rafale**, the Eurofighter does not sell better (see Table 7.6). The Eurofighter is, however, not merely a project. It is linked to the political objective of structurally rationalising the EU defence equipment businesses, and it was also seen as lead star for the EADC issue community, and as a template for future collaboration. Ultimately, the project has delivered some 600 technically advanced combat aircrafts, operational in five EU Member States as their main combat aircraft.

**Business influence**

The Eurofighter had a path dependency to existing relations and collaboration between EU defence actors, building on its predecessor **Tornado**. Within the Eurofighter project, primes moved from a situation of operating under a coercive agreement, to adapting to military and political requirements, then to one of influencing the project content, governments’ priorities, policies and budgets, forcing reluctant political actors against their will, by reference to contractual obligations. The business influence was visible already in the definition phase as primes thwarted the design away from known competing designs to a niche more suitable for future exports (see Chapter 7.1). As the governments’ commitment weakened in times of decreasing military threat and increased fiscal strains, primes and political actors teamed together, demanding that hesitant governments honoured their prior commitments, refusing to scale down the project. Consequently, business actors influenced state policies and budgets, ensuring continuity at critical junctures and sometimes by financing development and design out of their own pockets. As the actors changed position, the project thus provided continuity over time, bridging the coming and going of other actors.

Although a complete and common sales organisation never materialised, actors united in international sales efforts (see Chapter 7.8). Moreover, the project effectively hindered some competitors from entering the primes’ home markets. Whereas assembly lines remain national for the Eurofighter, manufacturing still had significant interdependencies through standardisation of components and product specific adaptation to other actors, with components divided as workshares that had to fit across assembly lines. Substantial investments were thus made in new integrated manufacturing technologies; single sourcing; just-in-time deliveries; work sharing and knowledge of the others’
production systems. These interdependencies were realised through standards, technical specifications, production quotas and division of labour.

Further cooperation with new path dependencies can be seen in collaboration for a future UAV and the next generation of combat aircrafts, although it seems that a political and industrial rift has emerged in EU creating two major blocks (see Chapter 7.7). Certainly, the Eurofighter helped EU primes to stay in business and develop new knowledge and capabilities, whilst achieving greater EU commonality.

Assessing the Eurofighter project is to a high degree a question of perception: a common advanced aircraft was produced and is in service in five EU nations, leading to commonality of equipment; however, it was belated, expensive and suffered some shortcomings in arms. Nevertheless, it is possible to defend the **Empirical observation vii**: Whereas EU defence equipment projects may appear costly and ineffective, they also promote values, standardisation and knowledge sharing.

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8.5 Summary of empirical analysis

**Arena 1** within the study shows that, for defence acquisition, there was for long limited power and resource transfer to transnational bodies regarding EU defence equipment acquisition until 2016. As the EU then started to expand activities into security and peace-keeping missions, substantial budgetary commitments helped to open an EU defence equipment market alongside national markets and NATO. Business associations have seconded this development. However, despite apparent integration, national controls have also been reinforced, where economic patriotism underpin new legislation. The division of roles between state and companies varies in different countries and over time, depending on cultural values, economy and policy. Defence products may be treated as public goods in one market and commercial in another, but in both cases, the state retains means of control.

**Arena 2** within the case demonstrates that all primes remain politically connected whilst seeking to move into a “normal” business setting, with equity purchases, acquisitions, publicly traded shareholdings and board management driven by business competencies, not politics. Primes need political support for exports and research. Primes and governments are involved in each other’s activities, such as strategy formulation, project development, research, international exports and control. The studied primes appear in virtually the same work groups’ and also have many joint ventures together, which effectively network them. Collaboration and joint ventures are regarded as a business risks, whereas sustained defence funding supports goodwill values.

**Arena 3** within the case showed how an issue community can function as an ancillary actor, resulting in new supplier-client relations and new business actors. As defence primes are sizeable and also manufacture civilian products,
their market organisation impacts the overall functioning of the Common Market. Around 1999, discussions resulted in two new major consortia: one built around BAE and GEC, and the other being Airbus, composed of four other companies. At critical junctions, actors, however, refrained from a full consolidation into one single actor. The EU defence business setting then stabilised for decades, linking activities of political bodies, joint ventures, issue communities and projects.

Arena 4 of the case, the Eurofighter project, shows the establishment of ancillary actor organisations: one on the supply side and one on the client’s side. Whereas such temporal multi-party organisation is often criticised for lack of outputs, slowness, inefficiency, poor quality or not-in-demand products, the studied project does supply cutting-edge products with functional integration and “just-in-time” manufacturing of single sourced components, where actors were tied by commitment and had to adapt to each other. The risk of knowledge leakage and power games for product shares seemed, however, to prevent project efficiency and innovativeness.

The four arenas studied within the case show seemingly isolated activities, which, in retrospection, appear as concerted moves to propel, deepen and expand EU integration in the field of defence equipment production. The case, thus, identifies the formation of actors and activities that induce more actor integration, also resulting in new focal suppliers, as shown in Figure 8.11. The long-term development of JVs such as Eurofighter and Airbus, received policy support from both political and business actors, but also from issue communities such as that for EADC. This can be contrasted with the “fragmented issue linkage” (Haas, 1976), which was viewed as unlikely to lead to permanent institutions in an international organisation. Consequently, it seems possible to defend the Empirical observation vii): Issue communities may lead to permanent bodies.

![Figure 8.11: Ancillary actors inducing more actor integration, based on the EADC example.](image)

The evolution of the EU defence business setting also seems to falsify the beliefs of Keohane and Nye (2012), namely that “high” politics of military and security policy can be too controversial to foster integration and that this is
driven by “low” politics (e.g. policies outside “high politics”). The case of EU defence equipment production, instead, seems to drive cohesion in various arenas, with actors committed to building more mutuality, commonality and trust, supported by various ancillary actors as in other collaborative fields. Consequently, it seems possible to defend the **Empirical observation viii): Integration may well be fostered also by defence collaboration.** There has, however, been an apparent gap between commitment to the ruling paradigm and the actual power transfer, as in the EU context, domination by any large state or prime may represent a threat to further integration and interdependencies. Thus, any actor that seeks a leading position could instead be perceived as undermining EU cohesion.

To summarise, the common characteristics of ancillary actors identified in this thesis are as set out in Table 8.12:

<table>
<thead>
<tr>
<th>Common perception</th>
<th>Empirical observation</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) EU market integration has been seen as irreversible</td>
<td>For decades, there has been a gradual forging of relational ties between EU defence companies, but this is paralleled by counter wheeling factors such as “economic patriotism”</td>
<td>New protectionism and disintegration risk being underestimated</td>
</tr>
<tr>
<td>ii) Relations are considered unpredictable</td>
<td>Defence business ties have not changed fundamentally in more than two decades</td>
<td>Business relations are stable amongst defence primes</td>
</tr>
<tr>
<td>iii) Business relations are not subject to strategy</td>
<td>EU defence primes are state controlled to at least some extent and undertake cross-border activities</td>
<td>Primes not only formulate strategies, these may also be used to project influence of states into foreign markets</td>
</tr>
<tr>
<td>iv) There is a dichotomy between politics and business</td>
<td>In defence sales governments move in, sometimes taking marketing roles. Primes can affect the formulation of both defence production strategy and politics</td>
<td>The dichotomy between political and business actors is not clear in defence, due to their interwoven character. This can be expected for all markets characterised as political</td>
</tr>
</tbody>
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723 In 2003, Anna Lindh (Foreign Minister of Sweden 1998–2003) warned that Franco-German defence collaboration could fracture EU (Sjögren, 2003b). Indeed, EU’s defence push, despite British resistance, may have contributed to Brexit in 2016.
<table>
<thead>
<tr>
<th></th>
<th>Market seen as fragmented</th>
<th>All defence primes are connected via ancillary actors</th>
<th>A networked EU defence business setting has existed for decades</th>
</tr>
</thead>
<tbody>
<tr>
<td>vi)</td>
<td>Project collaboration is ineffective</td>
<td>Whereas relatively costly and relatively ineffective, values, standardisation and knowledge sharing occurs</td>
<td>The positive advantages of project collaboration may be underestimated, but so are the risks of bleeding through and lack of innovativeness</td>
</tr>
<tr>
<td>vii)</td>
<td>Issue communities do not lead to permanent institutions</td>
<td>The growth of several new ancillary actors in defence equipment has developed out of long discourse, both at the corporate side as new business actors for instance EADC that eventually unfolded into BAE-GEC and Airbus and as new ancillary bodies such as EDA</td>
<td>Issue communities may lead to permanent bodies</td>
</tr>
<tr>
<td>viii)</td>
<td>Integration cannot be fostered in high politics</td>
<td>Mutual commitments and coordination have gradually evolved at EU level, underpinned by increased value cohesion and closer political and defence ties</td>
<td>Integration may well be fostered also in high politics</td>
</tr>
</tbody>
</table>

*Table 8.12: Empirically founded common characteristics for ancillary actors.*
9. Conclusions

Ancillary actors are not well defined in industrial marketing research and warrant both more theoretical clarifications and empirical scrutiny, as actors’ relations seem to become increasingly complex, taking new forms of organisation. Increasingly, actors and bodies appear outside the focal supplier and customer context, still influencing business and political relations. Empirically-based research on politically regulated markets, as that accounted for in Chapter 8, can support theory generation on ancillary actors and their activities in political settings. Based on the empirical observations, this Chapter draws analytical conclusions by formulating ten propositions about how actors behave and are construed.

Reverting to the original research questions, Chapter 1.6 asked:

- Who are ancillary actors?
- Where do they come from?
- What are the relations of ancillary actors?
- How do ancillary actors impact focal relations?

On the basis of the empirical case of the EU defence business setting, the following conclusions and propositions on the characteristics and functioning of ancillary actors are launched.

9.1 Who are ancillary actors?

Business studies recognise that companies outside focal relations can be ancillary actors. Chapter 1.1 observes that ancillary actors are not coherently identified, and that already the meaning of the word “ancillary” is ambiguous. This ambiguity is related to the perspective, as what is understood as ancillary depends on the perspective at a given moment in time. For instance, a national procurement body is not an ancillary actor in its national context, as it is then part of the state, either as a client or supplier. In foreign sales, however, it will be independent from the direct client-supplier relation between the state and company, albeit supporting or controlling sales, and can, thus, be regarded as an ancillary actor in that context. Hence, what is ancillary in one relationship can be focal in another.
An ancillary actor is an actor outside the focal business relation that still influences the focal relation of a buyer and seller. For the case of this thesis, the EU defence equipment business, four types of ancillary actors (A) are discerned in relation to business actors (B) and political actors (P): political bodies, joint ventures, issue communities and joint or multilateral projects. These can be illustrated as in Figure 9.1.

Based on the empirical case, four types of ancillary actors are identified, as illustrated in Figure 9.1, with both specific and common features. The specificities mainly seem to apply to ancillary actors’ organisation and authority.

Political bodies imply bureaucracies of civil servants. Political actors will seek to coerce and business actors may seek to influence their setting. The political body may thus derive legitimacy from a broader setting, which enables it to exercise support or coercion over the focal relation.

Joint ventures represent business relations that draw from clearly committed resources and activities to a new legal business entity. The arrows in the figure are green, implying influence, not red, as for coercion, as coercion of a subsidiary unit would mean it is not truly an independent ancillary unit.
Issue communities are mainly value-based. They rely on the legitimacy derived from mutually influential activities, symmetric or not, which can influence or support a focal relation. Because of their nature, the issue community as such will not be coercive, but they can then support actors with coercive powers.

Multilateral projects may be subject to actor coercion. The ancillary actor may, however, in turn, be vested with powers to act coercively within the project remit towards business actors. Business actors would here need to influence the ancillary actors who, in turn, may seek to influence political actors, such as governments.

Ancillary actors may change position in relation to Figure 9.1, depending on the situation. For instance, with full power transfer to, for instance, a common EU procurement body or merger authority (A), this ancillary actor may develop coercive powers (red arrows) vis-à-vis both political actors (P) and business actors (B), as shown in Figure 9.2.

Figure 9.2: Fully integrated ancillary actor (A) exercises coercion, replacing the focal relation between political actors (P) and business actors (B).

Whereas a full transfer of coercive power may be unlikely, business actors (B) may still seek to influence an ancillary actor (A) that may have stronger bargaining power to influence the focal relation. Whereas a political actor, or another business actor, exercises some type of common unidirectional influence, they may increase their collective influence on the focal relation (black arrow) as marked by the thicker green arrow (see Figure 9.3), where, for instance, a business lobby could serve as an example.
Figure 9.3: Business actors (B) may influence ancillary actors (A) to influence the focal relation with greater bargaining power.

As long as the legitimacy of an ancillary actor is limited, political actors (P) will not be ready to transfer coercive powers (red arrow). Instead, political actors may limit ancillary actors to support (blue arrow), as illustrated in Figure 9.4.

Figure 9.4: Political actors (P) support ancillary actors (A) in their support to the focal relation.

Ancillary actors may have their raison d’etre (rationale) in the capacity to interact simultaneously with business and political actors, sellers and buyers, bridging settings, as indicated in Figure 9.5. This is a finding of relevance for business studies, as it is considered a separate political setting work in parallel with the business setting (Hadjikhani & Thilenius, 2005a), or that there are separate and mixed actor networks (Wales & Wilkinson, 2004; 2002), inter business networks, government-business networks, and inter- and intra-government networks.
The political settings is, in the empirical case examined in this thesis, covered by both business and political actors, because in settings that includes political markets, the political actor may engage in business activities, such as industrial manufacturing, marketing and sales, whilst the business actor may engage in policy formulation and policy execution. This role flexibility, where political actors may take economic roles, and business actors may take political roles, is observed in the empirical case of this study. In addition, it is observed that the division of actor roles is fluent, as actors may expand into, or contract from, the public and private spheres, depending on the ruling market paradigm and policies. For instance, political actors may in- and out-source business activities, depending on the ruling market paradigm. This type of role flexibility is implied by Hadjikhani (1996), e.g. that in a situation with dominant political actors, ‘the political system will eventually be one with the business system’. As major companies may also possess financial means larger than small states, they may effectively become political actors for this reason.

Political setting is subject to departmentalism in most capitals. Thus, agencies and ministries may operate under conflicting rationales, such as that of the Treasury, Ministry of Defence, Ministry of Foreign Affairs, Ministry for Enterprises and so forth. This results in the simultaneous pursuit of opposing positions in different parts of the political apparatus, even if the dominant political actor seeks to implement its policies.

As political markets imply opacity in roles, industrial marketing or exports may be inseparable from political activity, in particular, if political actors (e.g. a government) move in and out of control. In sales of systems and solutions, relations range from personal relations to complex judicial frameworks. The offer can expand from products to the full range of through-life-supply, from inception, via research and development to production, service and maintenance. For very large systems and infrastructures, the product cycle may also
span decades. This requires a continuity, which may not be possible for political or business actors to cover alone; here, ancillary actors may bridge gaps created by governments and businesses coming and going over time.

With versatility, endurance over time and knowledge accumulation, ancillary actors can move into other roles and build actor legitimacy that permits them to move into coercive positions.

This leads to **proposition 1**: Ancillary actors have a role flexibility, where they can simultaneously act within a business and political setting, assuming supportive, coercive, adaptive and influential roles.

Thus, Ancillary actors cover multiple tasks, seemingly operating in all intersections of the activity grid in Figure 9.6.

![Figure 9.6: An ancillary actor may take on all types of activities in the intersections of political and business activity.](image)

**9.2 Where do ancillary actors come from?**

The political and business actors empirically studied in this project engage in the formation of norms based on common interests in specific areas. A common interest would then be derived from more widely shared values (for instance, culture, policy orientations or economy, efficiency and effectiveness). Based on common interests, actors seem to move to norm formation and from there to norm setting, and then participating in the formation of collective strategy and procedures. Actors may here imitate and mirror the standpoints of other actors, where activities seem to converge under normative isomorphism, leading to new additional norms and then rules. Thus, norm integration drags new issues into orbit, increasing adherence to norms, where norm setting follows suit. Collective strategy can then materialise in the formulation of objectives, for instance, in the field of production and exports. From there, regulations can take place, where agreements can establish mandates for ancillary actors, as indicated in Figure 9.7.
Figure 9.7: A rational model for the formation of ancillary actors, where inference between stages is likely to be simultaneous.
Thus, it seems ancillary actors emerge as actors move towards common values.

The ancillary actors identified in this study started off with seemingly ambiguous mandates or roles. Without authority, combined with consensus decisions, the ancillary actor poses no threat. Hadjikhani and Thilenius (2005a) consider that ancillary actors may be less efficient and more indirect in their activities, thus of generic nature and that their influence is not very high. Such ancillary actors’ opacity in roles and mandates may, however, permit long-term survivability, since a vague activity scope may reduce the risk of actor discord and conflict. Because of a non-threatening nature and role versatility, specialised knowledge can accumulate over time, gradually increasing legitimacy to expand the role and mandate. Ancillary actors may gradually carve out a clearer mandate and more legitimacy that could permit “mutation” into a focal actor, ultimately replacing it.

Ancillary actors will not be created out of nothing, as in a “big bang”; rather, they derive legitimacy from focal actors. Shared values grow with collaboration and integration amongst business and political actors. Both integration and collaboration lead to knowledge transfer and presumably capability enhancement. In collaboration, actors struggle for control, workshares and knowledge, which may be jeopardised by, for instance, knowledge tapping.

This leads to **proposition 2**: Ancillary Actors emerge from focal actors’ legitimacy and commitments.

It seems that ancillary actors, due to an independent actor identity, can mitigate between incoherent actors and actor positions. For instance, if a political actor, such as a state, wishes to champion “their” activities or companies, or advocate “their” market logic, this would lead to goal conflicts. Indeed, actors do seek to mitigate multiple conflicting objectives, such as reinforcing domestic companies and national capabilities, on the one hand, whilst on the other, outsource, privatise, procure of the shelf, deregulate, enter into public-private partnerships and internationalise.

This leads to **proposition 3**: Ancillary actors may support, organise or mitigate collaboration between business and political actors.

Ancillary actors here have resources that permit them to act as independent actors with regard to a specific activity outcome.

### 9.3 What are the relations of ancillary actors?

Hallén and Johanson (1989) propose that industrial relations are informal without unified control top-down, although some actors may exercise more influence than do others. The case examined in this thesis suggests that ancillary actors support or control cross-border industrial relations, where the setting is fragmented. In boundary-spanning actor relations, ancillary actors sup-
port or control *technical bonds*, composed of technology and specific equipment; *cultural bonds*, based on a value commonality; *social bonds* of mutual confidence and personal relations; *cognitive bonds*, in terms of knowledge of other companies’ resources, organisation, strategies and relations; *production and logistics bonds*, with ties to components and assembly lines, organised on the basis of just-in-time deliveries; *financial bonds*, based on financing and profits tied to the same products; and *legal bonds*, based on coercive powers, ownerships and contractual arrangements.

Thus, ancillary actors can be held to organise interdependencies in boundary spanning, multi-layered exchange relations affecting focal relations. Placing ancillary actors at the centre as the unit of analysis, a number of theoretically possible actor relational combinations emerge where ancillary actors can play a role: There are three direct relationships, namely Ancillary actor to Ancillary actor (A-A), Ancillary actor to Business Actor (A-B) and Ancillary to Political actor (A-G). Then there are three indirect relations to the focal relationship, namely to Business to business relations (B-B), Business actor to political actor (i.e. B-G), and Government to government relations (G-G). These relations can be illustrated as in Figure 9.8:

![Diagram of ancillary actor relations](image)

*Figure 9.8: Theoretical model of ancillary actor relations; see also Figure 8.2 for empirical foundation. The black arrows represent focal relations and the brown arrows ancillary actor relations.*

In regulated markets, business actors may intervene or advice political actors on priority techniques to acquire and safeguard capabilities, and which con-
trols to raise or diminish. Political actors may decide on controls over businesses or even nationalise activities entirely. The legitimacy of a political actor is reinforced when attributed legitimacy by other actors. Reciprocally, by providing legitimacy, actors may enhance their own legitimacy. This may further policy activities that enhance policy learning, political competence building, and further engagement in policymaking. Ancillary actors may here organise demand and supply on political markets, for instance, through policies, projects or activities across borders and with other ancillary actors that generate or support more interaction.

This leads to proposition 4: Ancillary actors create, facilitate and support cross-border political and business ties on political and protected markets that help to overcome market impediments.

Buy-ins through acquisitions, mergers, joint ventures or project collaboration enhance business actors’ legitimacy to appear as a trusted local contractor in foreign markets. Issue communities help to obtain such legitimacy by demonstrating social commitments. Engaging in ethics, such as sustainability, gender balance, foreign assistance, anti-corruption and other politically opportune codes or issues, generally helps to build corporate legitimacy. In tightly structured business networks, large political firms can be expected to have a competitive advantage over small business actors in this type of legitimacy building and consequently, to wage more influence over politics, although information technology can give small actors bargaining power, equal to the large. Actors weak in bargaining power, irrespective of size, may here lose market power.

A strand of business research questions strategic management and considers that headquarters lack control over subsidiary units, proposing that business activity is incremental or managed by sub-units (Andersson, 1997; Forsgren et al., 2005; Ciabuschi, Forsgren & Martin, 2012). Pappi and Henning (1998), on the other hand, believe that policies are outcomes of deliberate decision-making. Whereas some business activities may occur without strategy or control from headquarters, the market covered by this thesis demonstrates that business is subject to strategic considerations and that these considerations may be exercised even outside companies, at government level or by issue communities. Indeed, multiple strategies may be formulated, causing a lack of unified action, as actors formulate and document industrial strategies, strategies for growth, innovation strategies, sustainability strategies, security of supply strategies and other explicit or implicit strategies. Actors may use ancillary actors to implement such strategies. Although they may not be entirely successful, actors may seek to exercise control to ensure strategy execution in all markets that may be characterised as tightly structured networks of buyers and sellers, where interests of political actors and business actors are presumed to be aligned. Thus, ancillary actors may address policies, laws, procurement budgets, long range and short-term plans, technical priority lists, quality standards, supply chain criteria, acquisition plans, foreign market entry
criteria, contractual and collaborative agreements, internal control standards, best practice, and public oversight arrangements including audit, monitoring and evaluation, generating, in other words bureaucracy, to implement procedures amongst other actors.

This leads to proposition 5: Ancillary actors can be used to project actor strategies into other markets and settings.

In some markets, states are the market. The state can here intervene to inflate or deflate the market as it sees fit, based on its assessments of risks and available resources. Governments may also implement controls on corporate activity, ranging from board management to technology diffusion. Asymmetric implementation of such controls implies dominance, with dependency and exploitation of those in lesser control. Business actors, with the market powers derived from a large domestic political market, may here gain advantages over smaller actors. They can simply buy them, unless state controls block this. Not all governments show awareness of this, as they refer to liberal market paradigms, whilst their business actors possess inferior market power. In this context, ancillary actors can help to mitigate the risks of domination and exploitation, as they may distribute workshares and knowledge under controlled forms.

This leads to proposition 6: Ancillary actors may balance political actors’ control, transfer of knowledge and workshare distribution.

Instead of impacting negatively on business ties, as proposed by Blankenburg-Holm (1996), ancillary actors can enhance stability of relations. Ancillary actors may carry tasks with more endurance and continuity than many governments or enterprises. For instance, large aerospace systems may cover product life cycles of some 40 years. Industrial evolution is such that new technologies establish new leading companies every decade. Thus, companies are likely to reorganise, reshape, merge and change names, and governments will be replaced multiple times. Here, ancillary actors may outlast many companies and governments. Stable and lasting, ancillary actors may develop social bonds, identity-building, consensus, norms and procedures over time.

This leads to proposition 7: Ancillary actors are often more lasting than business actors and political actors.

Expanding a business offer from product sales to systems or solutions sales, long-term support can extend a through-life service offer. Paradoxically, then, ancillary actors, in the form of projects (projects being temporary), may provide support over an extended time horizon in system’s sales, including maintenance and upgrades. Ancillary actors may also be disrupted as a consequence of change or crises, leading to termination, reorganisation or evolution at some moment in time.
9.4 How do ancillary actors impact on focal relations?

Network research regard ancillary actors as problematic, changing and constraining. In the studied empirical case of this thesis, rather than being problematic and constraining, ancillary actors support cross-border focal relations, e.g. they exist to override national and/or organisational borders and/or market impediments. Ancillary actors can thus foster professional cross-border ties. With increased legitimacy, being represented by an ancillary actor means recognition, where isomorph behaviours can lead to common values and more legitimacy. Legitimacy, in turn, can lead to more activities, as resources and activities may evolve, meaning deepening policy expansion and power transfer over time. With growing legitimacy, actor knowledge and experience, ancillary actors may thus gradually move into codified habits, subject to transfer of authority, rules and coercion, as suggested by Braithwaite and Drahos (2000). Initially, adapting to other actors, ancillary actors will thus form their own actor identity. As time goes by, an ancillary actor will seek to influence, and ultimately, coercive powers. The ancillary actor may also seek to enter the focal relation.

This leads to proposition 8: Ancillary actors may seek to expand and move into the focal relation.

Ancillary actors in the studied case are underpinned by multi-party international agreements and operating rules, such as memoranda of understanding, contracts, treaty texts or even law, but also, looser agreements, plans or strategies and practices or even habits govern activities of ancillary actors. What they have in common is that they require transparency, even when involving commercial or national secrecy. This implies that ancillary actors cannot be expected to cover the most confidential levels of military or business secrecy. Also, ancillary actors’ execution can be expected to be comparatively bureaucratic and slow. Moreover, ancillary actors can maintain or develop capacities with information on other actors’ capacities. Ancillary actors may then be useful to spy on allies and obtain self-sufficiency in technologies where they previously depended on other actors, resulting in actor distrust. Realising this, political and business actors may bypass ancillary actors to protect cutting-edge technologies or market knowledge.

This leads to proposition 9: Ancillary actors need to be transparent, which risks hampering efficiency.

Related to the above is the risk of preventing bleeding through of cutting-edge technological or market knowledge. However, this issue may not even occur due to a paradox inherent in cutting-edge research, technology development and business innovation, namely that even identifying the deepest core issues and their solution is only possible for a handful of experts. Merely identifying a problem or an opportunity requires expertise so unique that an ancillary actor, due to its multi-actor nature, will not have this capacity available internally. There is thus a catch 22, a circular logic, where the ancillary actor
can only build resources once an issue or a problem is understood and, to do this, it will need to understand the very issue and problem. Once it has identified the issues, it will need to formulate a strategy to solve the problem, and then acquire necessary resources, which will take time. By the time the necessary resources are transferred, the problem or issue may already have been solved. This suggests that ancillary actors will work in the backwaters of other key actors. Realising this, political and business actors are likely to bypass ancillary actors to obtain cutting-edge technologies or market information. There is, therefore, an obvious risk that ancillary actors risk pooling resources of multiple actors’ old but reliable and/or resources demanding technologies and knowledge. This may, in turn, result in conserving ineffective manufacturing with overcapacity.

This leads to proposition 10: Ancillary actors risk hampering effective manufacturing.

To summarise, the common characteristics of ancillary actors identified in this thesis are, as proposed in table 9.9:

<table>
<thead>
<tr>
<th>Proposition of characteristic</th>
<th>Impact</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Flexible</td>
<td>Ancillary actors can take several actor roles</td>
<td>Ancillary actors may assume influential, coercive, supportive or adaptive roles in both political and business settings</td>
</tr>
<tr>
<td>2. Ambiguous</td>
<td>Shaped by focal actors, ancillary actors may initially have a weak mandate and legitimacy</td>
<td>Initial supportive roles, based on consensus without distinct authority, may with time obtain legitimacy</td>
</tr>
<tr>
<td>3. Independent</td>
<td>Building their own actor identity, they acquire an independence that helps to mitigate actors’ conflicting interests</td>
<td>As a neutral actor with its own actor identity and resources, it can organise, arbitrate or mitigate goal conflicts in collaboration and competition, between business and political actors</td>
</tr>
<tr>
<td>4. Cross-border</td>
<td>Ancillary actors help actors to overcome market impediments</td>
<td>Create and facilitate political and business ties in protected markets</td>
</tr>
<tr>
<td>5. Strategic</td>
<td>Ancillary actors help business and political actors to transfer strategies into other markets and settings</td>
<td>Used by actors to convey their strategies in other markets and settings</td>
</tr>
<tr>
<td>6. Balancing</td>
<td>Balance actor powers, control, stake holding, shares and knowledge transfer, reflecting weight and workshares of actors</td>
<td>Generate, diffuse and exploit a balanced knowledge transfer in actor relations</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>7. Lasting</td>
<td>Bridging time as ancillary actors are often more lasting than business actors and political actors</td>
<td>In operation for longer time than business actors and political actors, execution may be bureaucratic and slow</td>
</tr>
<tr>
<td>8. Expanding</td>
<td>In the long-term, a coercive role may be sought</td>
<td>As legitimacy grows, pursuit of an expanded mandate can be expected</td>
</tr>
<tr>
<td>9. Transparent</td>
<td>Ancillary actors, being multi-party and transparent, risk not being entrusted with complex knowledge</td>
<td>Due to the risk of bleeding through of technological knowledge, political and business actors may seek to bypass ancillary actors to obtain and protect cutting-edge technologies</td>
</tr>
<tr>
<td>10. Ineffective</td>
<td>Ancillary actors risk conserving inefficient or redundant manufacturing, obsolete technologies and overcapacity</td>
<td>Sharing knowledge may be counterproductive to innovation, efficient production and effective products, as ancillary actors presuppose a common understanding</td>
</tr>
</tbody>
</table>

Table 9.9: Theoretically founded propositions for characteristics of ancillary actors.
This research project has been very long and time-consuming; however, in no way is it exhaustive. Further research may shed more light on the role of ancillary actors as outlined in Figure 1.1 and could serve to test the propositions launched in Chapter 9. The importance of ancillary actors can be expected to increase as the need to simultaneously resolve business and political challenges seem to increase and neither business nor political actors can fully control the setting and seem to move into each other’s roles. Thus, in recent years, businesses increasingly undertake political and ethical activities in sensitive or strategic markets, whereas politics seems to increasingly engage in market interventions.

If in markets, particularly those characterised by concentration or overproduction, enterprises put ethics ahead of profit objectives, new market imperfections can be anticipated, it should be the task of business research to examine such behaviours.

Also, and in combination with this, it seems an accelerating capital concentration is occurring to very large financial conglomerates and investment bankers, such as Black Rock and Vanguard, this warrants academic scrutiny, particularly if companies with great market powers start to transform these into political activities and influence. Paralleled with this evolution, political actors tend to revert increasingly to protectionism, widening their control over sectors considered “strategic” to cover not only defence and security but also critical infrastructures, including energy, data storage, water supplies, banking, access to medicines or virtually any economically significant activity.724

It is proposed in this thesis that ancillary actors have a balancing role in this context. It therefore seems important, for objective academics, to continuously monitor and advance the understanding of actor rationales and ancillary actors within several settings, none the least in areas considered strategic. Here, it is warranted to study drivers, governance, efficiency (including ties to other organisations), effectiveness, and impacts on business structures and innovation. In particular, it seems warranted to take into account equity and balance in the distribution of public funds to ancillary actors and from ancillary actors to business actors and political actors and also the extent to which they give rise to innovation and value creation and for whom. Likewise, the distribution and

control of knowledge deserves much scrutiny, as do actor connections in politically sensitive markets, such as banking, space, power supply, information technology, and large infrastructure. Again, research has a task of identifying the actual influencers and beneficiaries of ancillary actors, as noted by Markusen (1999) when observing the impact of less visible consultant groups and investment bankers on political and business actors in the US.

One empirical avenue that may unearth complex interaction patterns could be to study and map movements of business leaders and elites in and between sensitive policy sectors and enterprises in a type of “tracing” project. Such a project could also seek to identify ties to influential actors that have an impact on diffusion and dilution of democratic control, power, financial resources and wealth.

EU’s internal workings, interaction and rationales are complex to interpret, even for those working within these structures on a daily basis. The EU encompasses complexities, where it more attention could be directed to the institutional structures also from a perspective of business science, where, in particular, concealed drivers, conflicting motives and analysis of the added value of its various policies, actions and projects deserve more attention, although examining the complexities of the EU system require a particular endurance on behalf of the researcher. Specifically, business research could direct attention to aspects of power and control, relating to public interventions, concentration, domination or exploitation of actors in strategic sectors. There are likely to be many settings involving goal conflicts between public/private, monopoly/competition, control/dependency, and collective/national security in need of examination. In particular, sectors defined as strategic deserve attention, where the following issues should be considered:

- If products defined as “strategic” are simultaneously seen as marketable products and public goods, how clear and consistent are actors’ policies and regulations?\(^{725}\) The internal workings and interplays of competition authorities, along with their assessment criteria and the follow-up of the impacts of their decisions, seem particularly important to examine when close to monopoly.
- Can political actors support and subsidise business actors seeking a monopoly position without jeopardising EU-cohesion?
- What tools do actors develop to keep strategic control over knowledge, production, employment and facilities? Can such tools conserve obsolete technologies, manufacturing and management?
- Who influences the setting the most in ethical and political terms?

\(^{725}\) In particular, management of research funds may warrant scrutiny, and as, increasingly, EU merger authorities seem to come under political pressures (see Político, 2018-03-23; Oliver et al., 2020-02-13).
• Do enterprises fully consider the negative impact of its political activities on customer preferences?

To understand actors’ relations with suppliers and partners, business research may also focus direct attention on interventions at a granular micro-level, looking not only at policy level but the influence of various professional normative frameworks, such as management standards (for instance control standards), down to the engineering and coding of management software and ICT tools. Indeed, attention could be directed to the considerations that lie behind standardisation of procedures and tools, which may, in turn, design or alter business processes through pre-designed formats of organising across borders, establishing common norms and standards without legitimate actor control.
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