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Headline: The West Needs to Forge a Weapons Alliance

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If Ford can buy Volvo and British Petroleum can absorb Amoco, what about companies in the defense industry on both sides of the Atlantic--Lockheed Martin, Boeing, Raytheon, Northrop Grumman, as well as British Aerospace, France's Thomson-CSF, and Germany's DaimlerChrysler Aerospace? Can they be far behind in the trend toward big multinational linkups? To judge by three high-level task forces due to report to Defense Secretary William S. Cohen this summer, building an integrated defense industrial base spanning NATO countries is a top priority for Washington. Deputy Defense Secretary John J. Hamre is even saying that without some transatlantic deals, U.S. readiness will suffer and Europe will be crippled.

Unfortunately, there's far more talk than action here. "The proof of the pudding is in its taste," says Daniel P. Burnham, CEO and president of Raytheon Co., "but so far, there's no pudding." A quantum increase in cooperation between U.S. and European defense companies through mergers, multinational consortiums, and major joint ventures is indeed critical. Rationalizing production in the NATO arena, particularly in Europe, could reduce soaring procurement costs and spread the burdens of defense more fairly. So far, America has accounted for virtually all the defense industrial downsizing, having gone from dozens to just a few prime contractors. And Washington has absorbed all the recent increase in NATO budgets for weapons procurement, which is now slated to grow from \$44 billion in 1998 to \$60 billion next year, thanks partly to Kosovo.

HIGH-ENERGY LASERS. Transatlantic consolidation would also open up highly restricted U.S. and European markets to one another. From a strategic military perspective, industrial integration within NATO is more vital than ever. The gulf war, Bosnia, and now Kosovo all point to more multinational military operations requiring a level of compatible technology and equipment within NATO that doesn't now exist. For example, French pilots have had trouble communicating with U.S. planes over secure channels, and different national computer systems have made logistical operations a nightmare. Even more important, if separate industrial fortresses emerge on both sides of the Atlantic, the rapidly growing U.S. technological lead, in

areas such as high-energy lasers and unmanned aircraft, would put London, Paris, and Berlin in an even more subordinate position. This could lead to Europe's opting out of future conflicts altogether, leaving Uncle Sam to fight alone.

Nevertheless, the roadblocks to deeper transatlantic defense industrial cooperation are awesome and getting worse. There is growing hesitation in the Pentagon bureaucracy and in Congress, heightened by security lapses with China, about transferring technology even to close allies. Europe is concerned about its high unemployment problem, while tightfisted governments reduce the appeal of its markets. "It's hard to see how a U.S. company can benefit if Europeans don't want to spend money on big projects," says Kent Kresa, chairman, CEO, and president of Northrop Grumman Corp.

FANTASYLAND. In addition, Europeans are increasingly obsessed with creating their own defense capabilities in order to be on an equal footing with their American counterparts. This has led to talk of a European Defense Company modeled along the lines of the Airbus Industrie consortium, and it has sparked a drive for a first-ever common European defense policy, discussed at a June 3-5 European summit in Cologne. "America has a fantasy that it can produce everything it needs in Texas and sell lots of it to Paris and Berlin, and Europe has a fantasy that it can go it alone," says John M. Deutch, former Clinton Deputy Defense Secretary and CIA Director.

Can these problems be overcome? It's up to NATO's governments, which are, after all, the defense industry's sole customers. For starters, they would have to fundamentally change the protectionist mind-set that weapons should be manufactured only by national champions. Washington would have to acknowledge that in most instances the risk for not sharing key technologies with close allies is greater than the political and economic impact of shutting them out. Europe would need to vastly expand defense spending and give up the illusion of self-sufficiency. NATO would have to centrally decide on its equipment needs and specify a preference for multinational corporate bidders. These are the right things to do, especially as Kosovo creates new strains within NATO. But they constitute fundamental U-turns in current policy, and no one should hold his breath waiting for them to happen.

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