

Guarguaglini, Finmeccanica: Italy competitive in high technology

CEO of Finmeccanica: Rome has and will retain a key role in the relaunch of Italian-made products

“Italy has a strong position in high technology”

Guarguaglini: at this point we need government backing, we are not anti-European and we are targeting the global market

“The government should return defence spending to levels of at least EUR 3 billion”

Three requests for Prodi: guaranteed resources, support abroad and more clout in Brussels

By ROBERTA AMORUSO
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For Pier Francesco Guarguaglini, chairman and CEO of Finmeccanica, high technology, European roots and a global mission are in the group's DNA. Guarguaglini began his career in the Tiburtina Valley, at Selenia, at a time when Italy was freeing itself from the shackles of US technology. Now, as the head of a group whose businesses cover aerospace, helicopters, defence, communications and transport, Guarguaglini aims to play an active role in the European defence electronics alliance to be built with Thales. Alternatively, Finmeccanica's EUR 2 billion cash pile could be invested in targeted acquisitions in the US and Europe. In the space industry, Guarguaglini set out four conditions before he gave the green light for the Thales-Alcatel agreement. The US is still Finmeccanica's biggest market, but soon there could be a new order from Malaysia to add to the backlog, representing a potential market of EUR 2 billion over 10 years. However, to foster growth on a global scale, the group needs “a helping hand” from the government, according to Guarguaglini, and in Italy, the defence budget should return to a level of at least EUR 3 billion: this message is directed at the Italian premier, Romano Prodi.

Was it the right decision to favour relationships with the US and consolidate in Europe? What will you do now?

US military spending is the highest in the world (EUR 150 billion), and the French are there as well as us. We cannot, therefore, be seen as anti-European just because we have won a contract in the US. Our roots remain in Europe, but we are operating in a global market. And in this respect our strategy has not changed: we aim to create structural alliances in Europe, we view the US as our main market and we look with interest at the global landscape – as our expansion in Turkey, Greece, Russia and Malaysia demonstrates. Now we are moving closer to the Japanese market, as well as China.

What effects can be seen today from the decision not to acquire a stake in Airbus?

The investment had to be made right from the start. Acquiring a shareholding later would have been very expensive and would not have brought many benefits. Basically I

see no reason to become a minority shareholder in a company that we serve as a supplier in areas where we have considerable expertise.

A proportion of the economic growth in Lazio is linked to Finmeccanica's presence in the Tiburtina Valley...

All our Rome offices are located there. The Tiburtina Valley is also where I started my career. It was on 1 March, 1962, I was in the armed forces in Rome and in the afternoons I went to work at Selenia. The best years were the late 1980s: initially, all of our production depended on Raytheon's US licences, but later on we began to make our own products independently. We went into space, and we developed radar, missile systems and monitoring systems for electromechanical telephone centres. Basically we helped to make Italy competitive. I have always believed in research, but we lack awareness in this country of how much we need to invest in it.

Is there a research tradition in Rome?

Regarding our own operations, Selenia was the initiator in the 1970s, not only in the Tiburtina Valley, but also in Pomezia. Finmeccanica cultivated the trend, and now a number of organisations are based in the Rome region: in space, an independent company has been established, and there are also MBDA, Selex, avionics in Pomezia and Telespazio, which will play a key role in the Galileo system.

Are you concerned about the reduction of the defence budget?

Certainly there must be no repeat of the 2006 budget. If this were going to be the scale of investment, we would need a complete overhaul of the air force, the army and the navy, reducing numbers and capacity. However, all of this concerns us as well, because a poor domestic market would put us at a disadvantage in other markets. How can we offer a product to a foreign client when we do not have an Italian client to use as a reference?

Finmeccanica operates in many businesses. Does the future still lie in all these areas?

Today our core business is high technology, with the main focus on aerospace, defence and security. It is also important to realise that these are markets with a small number of clients who you can meet face-to-face. We do not operate in a mass market such as the automotive sector, where there are millions of customers.

In talks with Thales about the two joint ventures in space, what are your conditions?

The agreement has to be based on four things. First, the current system of control with Alcatel has to be maintained, meaning that Finmeccanica retains the same level of influence. Secondly, we have to adjust the ownership structure of the joint ventures to take account of the fact that both Thales and Finmeccanica have to contribute activities. Thirdly, it must be stressed that Telespazio will be responsible for the complete range of services. Finally, we need to set out precise rules for Thales and Finmeccanica to take part in tenders, including the use of the joint ventures' capacity.

What point have you reached in your negotiations with the French?

We are in the final stages.

And then will you start to cement the European defence electronics alliance?

I have had several meetings in France, both with Thales and the French government. We are waiting for a response from them. We have demonstrated in detailed reports what the advantages of the alliance are: it would put us on a par with the big US players. The new entity would be the outright leader in Europe and one of the world's biggest operators in avionics, communications, naval applications and air traffic control, and more generally in major integrated defence and surveillance systems.

How will the alliance be structured?

Finmeccanica would bring its own activities to Thales, in exchange for a substantial stake. The French have to indicate which shareholder – Alcatel, Dassault or the government itself – will hold a stake equal to ours, which would allow for joint control of the company. It could also be EADS, which would have to contribute its own assets.

In which emerging economies are you currently holding negotiations?

Definitely in Malaysia. We are discussing the sale of the ATR to the airlines. There are good prospects for the Aermacchi training aircraft (M339) and for coast guard helicopters. Telespazio has begun negotiations in the area of satellite services. We have also presented our coastal control and defence system. I think that before long we will see results.

After the latest developments, what remains to be done to conclude the matter of Sukhoi?

An agreement is needed between our governments, and there is still a Russian law that puts a 25% limit on the shareholding that foreign investors can have in an aeronautics company. We are pursuing investment in Russia: in the Tetra system, which provides entirely secure and reliable voice and data transmission (and which will be used during the G8 summit in Russia), but also in new developments in postal automation and rail transport.

When will you be able to sell Tetra in Italy?

I have met with the interior minister Giuliano Amato and I am confident that we will soon be able to sign a contract. The market for Tetra in Italy could be worth EUR 1.5-2 billion. Outside Italy, it is worth a lot more: in Russia alone, the market potential is estimated at EUR 9 billion.

You have EUR 2 billion to invest in acquisitions in defence electronics, if you do not team up with Thales. Are you looking at any possibilities?

As I said, Europe and the US are still Finmeccanica's main markets. Therefore, as an alternative to the path we are taking with Thales, we could strengthen our position in Spain, northern Europe, the UK or the US.

What three key points must Prodi have on the agenda for Finmeccanica?

The first is investment. Defence spending was cut to EUR 1.5 billion this year, when it would normally be EUR 3 billion. I hope that Prodi starts the process to take spending back to levels more appropriate for a country like Italy. Secondly, we need more support from the government when we go abroad. We need this kind of backing on occasion, otherwise we risk losing tenders – despite being able to offer excellent products – to companies that do have this kind of governmental support.

And the third point?

Definitely Brussels. The European Union is a crucial business arena. To boost our influence there we have to increase our presence in the community structures and, when necessary, we have to learn when to bang our fists on the table.

The Forum at *Il Messaggero* with Pier Francesco Guarguaglini, chairman and CEO of Finmeccanica. Taking part in the meeting were the director, Roberto Napoletano and the journalists Roberta Amoruso, Umberto Mancini, Diodato Pirone and Roberto Stigliano. Topics covered ranged from Finmeccanica's key role in research and more generally in high technology produced in Italy, to the complex international alliances forged by the parent company, plans for certain key countries, calls for certainty about defence budgets and a stronger Italian presence in Brussels.