

KRAUSS-MAFFEI WEGMANN - NEXTER : A Rapid Integration as the Key for a Real Marriage

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Comment

The merger between Nexter and Krauss-Maffei-Wegmann, announced in 2014 and finalized in 2015, is of particular importance, which the French and the German, and generally all European countries, must be aware of. The consolidation process of the European defence industry - initiated in the 1990s with a joint letter from the President of France, the Prime Minister of the United Kingdom, and the Chancellor of Germany, calling for the creation of a common aeronautical and defence company¹, with the OCCAR agreement signed in 1996 and the Letter of Intent (LoI) agreement in 2000 - was motivated by two reasons. The first one was the reduction of defence budgets after the Cold War that did not allow maintaining the European defence industrial structure as it was, for it was affected with overcapacities. The companies needed to regroup, as was the case in the United States from 1993. In 1996, Bae Dynamics and Matra merged into Matra Bae Dynamics. Later, in 1999, Alenia missiles joined Matra Bae Dynamics. The new name of the company was MBDA. In 1999, Aérospatiale-Matra, DASA and Casa merged to form EADS (European Aeronautic Defence and Space company). In the UK and in Italy, mergers took place, around Finmeccanica, now named Leonardo, and BAE Systems, in order to constitute two major defence companies ranked in the top ten of the global defence industry. In Germany the consolidation around DASA took place even sooner, by the end of the 1980s, and in the land armament industry there was an attempt to merge KMW and Rheinmetall.

The second reason was a political one. European industrial reconstruction in the field of defence, initiated with the Maastricht Treaty in 1992 and consolidated in 1999 with the setting up of the European (later: Common) Security and Defence Policy institutions, seemed to give companies the necessary political signal to begin the process of consolidation.. Indeed, defence companies only have one type of client, the States, and European companies from this sector have an interest in regrouping only if they feel that States want to jointly define their needs in military equipment. If cooperation programmes ever see the light of day, and if structures such as the European Defence Agency or the European Commission help define those needs, the appropriate strategy for companies will then be to consolidate their positions in a European framework. Due to a lack of such cooperation programmes and of a strong political impetus in European Union countries to pool their military capacities, European defence companies choose alternative strategies, either by favouring exports, or by trying to enter the American market, all this while competing with each other.

The Krauss-Maffei Wegmann/Nexter merger follows ten years of drought in the consolidation process of the European defence industry, which is a sign that States have not created the necessary conditions in order to incite companies to regroup. Yet, for the past 15 years, a succession of studies, articles and reports all criticised the excessive number of European land or sea programmes - the two sectors where the continental

¹ This letter was signed on December 9, 1997 by Helmut Kohl, Tony Blair, Jacques Chirac and Lionel Jospin.

industrial landscape is too scattered when taking into account the market volume for that equipment. It is also the case in the combat aircraft sector with Rafale, Eurofighter and Gripen. These programmes were all launched in the 1980s. One can reasonably doubt whether today there is enough place for more than one aircraft considering the demand. As Krauss-Maffei Wegmann and Nexter have decided to merge in the field of land armament, it is because this destructive European competition from emerging countries is exposing these two companies to long-term risks. This initiative, aiming to foster rapprochement, came primarily from the two companies, even though the French and German governments have encouraged the rapprochement to varying degrees. Is the Nexter – Krauss-Maffei Wegmann merger the end of the story? It certainly is not. One could even assert that today is only the beginning of the story of this rapprochement. The challenges are not behind us but ahead of us.

First of all, the integration process of these two companies is only partial for the time being. Only a number of functions will be pooled: cooperation in the supply chain, research and development, strategy definition, international marketing and sales, and communication. However, both trademarks still remain. As former Nexter CEO Philippe Burtin stated when he introduced the project in France before the *Assemblée Nationale*, we must speak of a rapprochement, and not yet of a merger².

The first challenge faced by the newly formed company is indeed that of the reality of the rapprochement. If both firms do not feel that they have a common destiny, it is to be feared that the experiment may not last long. The Krauss-Maffei Wegmann – Nexter rapprochement is more comparable to a civil union contract, or even an engagement, rather than a true marriage.

For that marriage to be consummated, a primary challenge must be faced: exports. The product spectrums of the two companies are only partly complementary. There are significant areas of competition, as is the case with the Boxer, made by Krauss-Maffei Wegmann and the Armoured Vehicle for Infantry Combat (*Véhicule blindé de combat d'infanterie*, VBCI), made by Nexter. At this level, it is essential that the holding company KNDS above KMW and Nexter decide on a case-by-case basis what product from one or the other company will be introduced on export markets; and that sales teams from Krauss-Maffei Wegmann and Nexter work together to promote said product. Given how much importance this non-compete agreement on exports will have for the success of the rapprochement, French and German governments should commit to support the proposed export product together, whether it comes from the Krauss-Maffei Wegmann or the Nexter product range, in order to strengthen the image of the newly formed company.

² « Il faut parler de rapprochement et non de fusion », Philippe Burtin.

Another driving force of the merger will be the capacity of both States to develop programmes cooperatively. At the present time there are talks of a future French-German Main Battle Tank, but the nature of what that system could be is not yet defined, and the perspective of such an equipment coming into service remains remote. It is thus necessary for France and Germany to share clear perspectives straightaway on their desire to develop cooperation programmes in the field of land equipment, if we want teams from both companies to work conjointly. Otherwise the risk is that there will be the juxtaposition of a French company and a German company, admittedly united through their financial accounts, but without any synergy on the industrial level. The sustainability of such a company would certainly be questionable.

For Krauss-Maffei Wegmann – Nexter to become a success, the industrial and political stakeholders must have a strong will to succeed in this integration. As regards the managing teams of the two companies, there should be no hesitation in speeding up the process leading to their convergence. The issue of a common chairmanship must be addressed promptly – don't wait for eight years, as was the case for Airbus after the creation of the EADS.

The States also need to support this project. Thus, in addition to the joint support of exports and the launch of cooperation programmes, France and Germany must clearly incorporate the Krauss-Maffei Wegmann – Nexter merger within the framework of a bilateral initiative to revive European Defence. A political driving force must be ensured for this merger in land armament to be a success. The leaders from Paris and Berlin must become involved in order to convince administrations and parliaments from France and Germany, as well as the personnel from both companies, that the merger aims at developing a globally competitive business for the benefit of all, and that neither country will have to sell out its technological and industrial assets to the other country – as has been repeated frequently on both sides of the Rhine.

Lastly, one can hope that the rapprochement between Krauss-Maffei Wegmann – Nexter encourages a deeper consolidation movement within the European armaments industry. There are several actors in the European land armament industry landscape located in other European countries. The future system that will replace the existing Main Battle Tank should at least be common for all European countries in order to facilitate this restructuration movement and to reap important benefits in the operational and logistical field. Other protected or armoured vehicles may well become part of such an endeavour. ■

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ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

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