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Promoting a more transparent and accountable NATO

Eurofighters for NATO and for Export: An Example of 'Dumb Defence'?

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Abstract

UK Prime Minister David Cameron has been promoting the sale of British made defence equipment during his recent Asian tour while BAE Systems announced a new Eurofighter Typhoon contract with the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA).

On this second annual [Global Day of Action on Military Spending](#), the Stockholm International Peace Research Institute (SIPRI) revealed that [world military expenditure in 2011 totalled \\$1.74 trillion](#). This briefing paper reviews the part played by one military procurement programme. It also considers whether there are any lessons to be learned as NATO attempts to develop a new '[Smart Defence](#)' initiative.

The role of NETMA

[The five-year contract](#) with NETMA, worth £446 million to BAE Systems, is for engineering support services for the Eurofighter 2000 (also known as Typhoon), primarily working with the UK RAF on capability upgrades. The UK MoD spent nearly £4 billion on BAE Systems and subsidiary company products in 2009-10, with [NETMA being the biggest single beneficiary at over £1.77 billion](#).



(Eurofighter Typhoon – photo credit: [james_gordon_los_angeles/ flickr](#))

In an article published in the Autumn 2010 issue of [Defence Management Journal](#), Lieutenant General Altorio wrote:

The Eurofighter programme forms the largest collaborative defence industry programme in Europe, from which European industry has benefitted in the dramatic growth of high technology, gaining word leadership in aeronautical defence capability as well as independence from the domination of North American Industry. ... The next challenge is

There is very little information about the NATO EF2000 and NETMA on the [NATO website](#), and none of it current. NETMA, which acts as the prime customer for the project, is based in Uterlaching, near Munich and has been led by General Manager [Lieutenant General Antonino Altorio](#) of the Italian Air Force since February 2008. The agency is staffed by civilian and military personnel from the participating nations – Germany, Italy, UK and Spain (not part of the Tornado programme). France withdrew in 1985, a year after the European Fighter Aircraft (EFA) feasibility study was initiated.

to gain new exports over and above the successful Austrian and Saudi Arabia deals.

In their own press release on 28 March 2012, NATO stated that the overall 2.2 billion Euro Eurofighter support contract for the four nations will “*focus on performance and affordability and will ensure a range of support services to the Typhoon users. The contract will also help sustain European aerospace engineering, capability and jobs....This work will provide a strong basis for future support requirements including potential export opportunities.*”

According to the NATO website, 929 Tornado aircraft were delivered to participating nations between 1974 and 1993. Saudi Arabia has been the sole customer for Tornado outside the NATO partnership and has purchased 134 air defence and ground attack variants under the controversial Al Yamamah contract with BAE Systems.

The markets for Eurofighters

According to [Defense Industry Daily](#), the four participating nations agreed in 1998 to buy 620 Eurofighters in three contract ‘tranches’ with progressively improved capabilities:

By the end of Tranche 2, however, the 4-nation Eurofighter agreement still had 236 fighters left to go, even as welfare state programs and debt burdens were making that buy difficult to afford. A 2009 compromise was found in the EUR 9 billion “Tranche 3A” buy, and the program has renewed its efforts to secure serious export sales. Their success will affect the platform’s modernization plans.

The 2 March 2011 UK [National Audit Office Report](#) ‘Management of the Typhoon Project’ was incisive and critical. It stated that the Typhoon will form the core of the RAF’s combat aircraft capability until at least 2030. The first of its 160 aircraft (reduced from 232) was delivered in 2003 and the last expected to come into service in 2015. On current plans, the UK MoD is likely to spend £37 billion on the capability, and added:

The Department has not yet secured value for money from its investment in Typhoon..... There is the opportunity to secure increased value for money in future. The Department has successfully put some of the building blocks in place to enable this. Typhoon has been successfully exported to two countries, and industry, with the support of government, is seeking further opportunities.

Evidence given by the MoD on 9 March 2011 before the [House of Commons Public Accounts Committee](#) investigation into the Typhoon programme makes fascinating, if sometimes

confusing, reading. It was confirmed that development costs had doubled to £6.7 billion and that production costs stood at £13.5 billion. Development and production costs worked out at over £126 million per aircraft, a 75% increase over estimated cost.

Ursula Brennan, Permanent Under Secretary MOD agreed, “*Certainly our forecasting and estimating has been proven to be over-optimistic in the past.*” She was unable to provide the committee with any financial details of the contract with BAE in order to make an assessment of their profit margins. She accepted that insufficient efforts had been made earlier to encourage export trade of the Typhoon but this was now being addressed. Clearly, the four nation planning arrangements had been complex and inefficient and have led to delays and added expenses.

In August 2009, the [Daily Telegraph](#) reported that the Typhoon consortium partners were prepared to compete with the US in the lucrative fighter plane export market and targeted sales of 300 aircraft “to keep production going when domestic orders dry up”. India, Japan, Switzerland, Greece, Turkey, Bulgaria, Romania and Croatia were mentioned as potential export markets, in addition to the existing order from Saudi Arabia. Long-term ambitions were held for contracts with Brazil, Malaysia, Finland and South Korea. This is how those and other contract discussions evolved:

Saudi Arabia

In September 2007 Saudi Arabia signed a [£4.4bn deal with BAE Systems for 72 Eurofighter Typhoons](#). The Royal Saudi Air Force received a batch of 24 aircraft in August 2011. Information about the contract is available on the [Defense Daily website](#), including details of the UK-Saudi cooperation programme known as ‘Project Salaam’:

Project Salaam involves BAE Systems investment in local Saudi companies, development of an industrial technology plan, logistics support and suitable training for thousands of Saudi nationals who will provide through-life support for the fleet. Overall support will also include substantial logistical and training packages, including the opportunity for RAF and Royal Saudi Air Force aircrews and ground technicians to train alongside each other in the UK.

[Reuters reported](#) on 3 April 2012 that Saudi Defence Minister Prince Salman bin Abdulaziz was meeting Prime Minister David Cameron and Defence Secretary Philip Hammond in London. BAE were expecting changes to the terms of the deal, agreed by Saudi Royal Decree at the end of 2011, but warned in January that talks over

proposed adjustments to the final assembly of the last 48 of the 72 Typhoon aircraft would continue into 2012 and could hit 2011 profits.

(PM David Cameron (right) speaks with Saudi Arabia's Defence Minister Prince Salman bin Abdul Aziz during their meeting inside 10 Downing Street in London on 3 April 2012 – photo credit: PM's Office/ flickr)



There were parliamentary questions in Britain following the loss of the Indian contract and a reassurance that:

Typhoon exports are an important part of our defence export drive. They help to sustain highly skilled jobs and engineering capability

Austria

Eurofighter purchases were also the subject of controversy in Austria following a contract signed in 2003, but the 15th and final aircraft was delivered on 24 September 2009.

India

India had indicated an interest in buying 126 aircraft at a cost of over £6 billion but on a shared production basis which would also mean sharing sensitive defence technology. Japan had plans to buy 50 new fighter aircraft and BAE Systems led the consortium drive to persuade them to move away from their traditional suppliers in the US and sign a £1 billion plus contract for Typhoons.

On 28 April 2008, India was invited to become a partner of the Eurofighter programme. Bernhard Gerwert, CEO Military Air Systems, EADS Defence and Security, said, "India is our partner of choice and we are interested in long-lasting political, industrial and military relations which will be based on a win-win-partnership with India." The four participating European nations, their air forces and the aerospace and defence companies Alenia Finmeccanica, BAE Systems and EADS fully supported the campaign in India.

Prime Minister David Cameron, travelled to India for his first major overseas trade mission in July 2010. He was accompanied by six cabinet ministers and representatives of industry, including Richard Olver, chairman of BAE Systems. In February 2012, India announced that they would be buying the French Dassault Rafale jet rather than the Eurofighter Typhoon. It was reported that "aides said the prime minister would work hard to persuade the Indian government to change its mind."

(British Business Secretary Vince Cable (extreme R) and British PM David Cameron (L) at an agreement signed on 28 July 2010 in Bangalore, between BAE Systems, Rolls-Royce and HAL, to supply 57 Hawk trainer aircraft to India – photo credit: UK in India/ flickr)



in the air sector as well as enhancing our alliances in key regions of the world. We also recognise the benefit Typhoon sales could have on the Ministry of Defence's own acquisition programme. Ministers and officials from across Government are actively promoting Typhoon where appropriate, highlighting the excellent performance and reliability on operations and the outstanding value for money it offers, as my right hon. Friend the Secretary of State has just confirmed.

David Cameron reiterated his personal commitment in a parliamentary answer:

I have been heavily involved in efforts to secure additional export orders for Eurofighter Typhoon . Eurofighter Typhoon has been discussed in my recent contacts with counterparts in Oman, UAE, Malaysia, Saudi Arabia, India and Qatar.

Turkey

In December 2010, the Turkish Defence Industry Executive Committee reportedly cancelled the potential purchase of 60 Typhoon aircraft. Turkish Defense Minister Vecdi Gonul said, "This move by the committee effectively is a decision for making Turkey's first fighter aircraft. The Eurofighter is off Turkey's agenda".

Switzerland

In November 2011, the Swiss Government announced that it would purchase 22 Swedish-made Gripen fighter jets to replace its ageing F5 fighter fleet in an estimated 2.5 billion Euro deal. The planes were selected over the French Dassault Rafale and the EADS Eurofighter.

Japan

In December 2011, the [Japanese Government announced](#) that it had decided to buy 42 F-35 fighter aircraft from Lockheed Martin rather than the Eurofighter Typhoon. BAE Systems had led the consortium efforts in Japan. The company was also represented on [David Cameron's delegation to Japan](#) on 10 April. Deflecting criticism, he said, *"It is absolutely right that a British Prime Minister takes defence companies with him on a trade mission like this."*

Greece

Also in December 2011, the [Eurofighter consortium announced](#) that it would be withdrawing from Greece as, due to its financial crisis, Greece would not be in a position to procure replacement aircraft for its air force until 2018 or 2020.

Bulgaria

In January 2012, [Prime Minister of Bulgaria Boyko Borisov denied](#) that his government had no plans to purchase second-hand Eurofighters from the German Luftwaffe as reported in the media.

Oman, Qatar and UAE

In January 2012 [BAE Systems said that the Sultanate of Oman](#) had asked for more detailed proposals for the Eurofighter Typhoon. The goal is to [secure the sale of 12 Typhoons to Oman](#) (earlier believed to be 24) in September or October following January's formal release of the request for proposals. The contract is valued at more than £2 billion and could also trigger sales of additional Hawk trainers. BAE is also discussing a contract with [Qatar for 36 Eurofighters](#) and working to secure a contract with [the United Arab Emirates](#), supported by the [UK Government in Parliament](#).

Indonesia

In 2011, it was reported that [Britain was involved in negotiations with Indonesia](#) to sell 24 Eurofighter Typhoons in a £2bn deal. While denying there were specific discussions, ministers indicated that they were keen to explore defence projects with Indonesia. David Cameron led a UK delegation which included representatives of defence manufacturers, to Jakarta on 11 April, [He said in an interview](#) that, *"Britain makes some of the best defence equipment in the world and it is right that it is available to Indonesia, under the very same criteria that we apply to all our partners around the world"*.

Malaysia

In March 2012, [BAE Systems South East Asia managing director John Brosnan](#) said the company had submitted its proposal Eurofighter Typhoon proposal to the Malaysian Defence Ministry and discussed collaboration with local industrial partners. BAE Systems will be participating in the [13th Defence Service Asia exhibition in Kuala Lumpur](#), where BAE has its regional headquarters, from 16-19 April 2012.

UK and Germany

[Financial pressures are having an effect on the Royal Air Force's capability](#). Pilot training and flying hours in the RAF's 70 air-superiority and ground-attack Eurofighters has been reduced. Britain and Germany have cut back on the original number of aircraft they planned to buy. Germany has been trying to sell on their last batch (Tranche 3) of 37 aircraft, thereby competing with potential consortium export markets, while Britain is selling on 24 of its last batch (Tranche 3) to Saudi Arabia and cancelling an order for a further 16 aircraft. Originally, Britain contracted for 232 Eurofighters but will now settle for 160. These reductions, while seen as budget cuts for the MoD, will also attract financial penalties from the manufacturers.

Conclusions

It has been estimated that the development and production costs for each Eurofighter is £126 million. [While NETMA received £1.77 billion from the MoD](#) in financial year 2009-10, the entire budget for the Foreign and Commonwealth Office was £2.24 billion.

The fighter was delivered a decade later than first planned, at a total cost for the UK alone of over £19 billion (2005 prices), £12 billion more than initially projected. As mentioned earlier, over the lifetime of the project the total cost is expected to be £37 billion for an aircraft that remains primarily designed to fight a Soviet enemy that no longer exists.

Like several other controversial arms deals agreed in the past two decades, the deal with Saudi Arabia (and potential other developing country export markets) breaches a series of criteria outlined in the 1998 European Code of Conduct on Arms Exports, criteria that should be observed when deciding whether to grant export licences. The UK Government's lobbying of the Saudis and Asian markets in support of this Eurofighter Typhoon deal only further serves to underline the divergence between principle and practice in Western arms export policy, especially when it involves 'big ticket' contracts.

Had other European members of NATO opted into the Eurofighter Typhoon programme, or not gone into direct competition with it, the resulting bigger production runs would have reduced unit costs and encouraged greater organisational collaboration. This would have been Smart Defence in action. However, with escalating costs and falling demand at home, David Cameron's enthusiasm for export sales worldwide is understandable – if ultimately a contributory factor in regional arms racing and potentially increased security threats to NATO.



(Protests in South Korea, 17 April 2012 – Global Day of Action on Military Spending/ flickr)

Further reading:

[UK House of Commons Oral Evidence Public Accounts Committee Ministry of Defence: Typhoon, 9 March 2011](#)

[UK National Audit Office Management of the Typhoon Project, 2 March 2011](#)

This review of the export markets for one BAE Systems product may also lead critical observers to question whether political leaders within NATO might better spend their time focusing on the costs of military spending and the need for new priorities, as opposed to being cheerleaders for armament companies.