

# Thales, Safran Consolidation Hits Snag: Avionics

By PIERRE TRAN

**PARIS** — The civil avionics operations of Thales have emerged as a sticking point in an industrial consolidation the French government is promoting between the systems company and equipment maker Safran, company executives and officials said.

Defense Minister Hervé Morin has called on the two companies to decide in May the fate of the onboard electronic systems held in the aerospace business of Thales, a government official said.

"Avionics is where a solution has to be found," the official said.

Morin called the chief executives of Safran and Thales, respectively Jean-Paul Herteman and Luc Vigneron, to a meeting April 13 and set the May target for a deal on consolidation of their optronics, inertial navigation and avionics businesses.

An agreement has so far proved elusive because of disagreement over control of the avionics operations, seen as a vital interest of both companies.

Thales does not want to give up control of its onboard data processing activities, arguing that they have dual civil and military applications. For Safran, onboard processing and programming are essential for future development of commercial aviation, as electronic systems increasingly replace electro-mechanical controls. Mastery of engine control soft-

ware is seen as one area of systems expertise.

The government does not want "an arbitrary political solution," and looks to the companies to find a solution that makes industrial sense, the government official said.

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Loïc Tribot La Spière  
Centre d'Etude et de Prospective Stratégique

The consolidation would make better use of spending on research and technology, which is split between the two companies in these key areas.

In government circles, some question to what extent the onboard processing activities really are dual use, and whether the dual-application argument is deployed as a way of maintaining the status quo.

Safran sees the prospective consolidation as a way to strengthen its civil aviation equipment side, while Thales would boost its defense systems activities, an executive familiar with the talks said.

In that scenario, Safran would hand over its military optronics and inertial navigation to Thales in exchange for the civil avionics operations.

Honeywell, which delivers equipment and

cockpit systems, is seen as a good business model by some Safran executives.

But privately, Thales executives are concerned about losing key skills in its avionics, which feed both the defense and commercial sides, an executive close to Thales said.

"The restructuring shouldn't destroy competences," the executive said. Behind the equipment lies a "continuity of know-how."

Given the perceived importance of onboard electronics, Thales might agree to put the business into a joint venture with Safran, the executive said.

Loïc Tribot La Spière, head of think tank Centre d'Etude et de Prospective Stratégique, said, "Given the current context, there is a question over how big the government wants Thales to be."

The government has already vested warship builder DCNS to Thales, making it the backbone of naval activities. The question was whether the systems company would become the key player for aerospace, he said.

"Do we want to destabilize Safran?" La Spière asked. Safran has built up civil, military and security activities that are coherent, he said. "It's not clear."

Safran's optronics business generates about 500 million euros in annual sales and its navigation business produces a similar amount, a company spokeswoman said.

Safran supplies inertial navigation systems for submarines, optronics for the Felin in-

fantry kit and avionics such as full authority digital engine control systems. For the Felin equipment, Safran's Sagem division buys optronics gear from Thales.

Safran and Thales jointly own Sofradir, a specialist maker of infrared sensors for optronic kits.

Herteman declined to comment April 20 on negotiations on the proposed restructuring and said Safran was listening to its client and shareholder — the government — but it was also looking to create value for all its shareholders.

The government owns large minority stakes in Safran and Thales, and is a customer on the military side.

Vigneron has also been extremely discreet on the asset talks, saying that the negotiations reflected the different strategies of the two companies.

As an example of dual application, Thales points to the integrated modular avionics developed for the Airbus A380 superjumbo, which was adapted for the A400M military airlifter.

In military applications, Thales builds the onboard modular data processor for the Rafale, which fuses data from the RBE 2 electronic active scanned array radar, Spectra electronic warfare, optronics and identity friend or foe suites. ■

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