



## IAI wants to sell plowshares

Talking exclusively to "Globes", Israel Aerospace Industries chairman Yair Shamir sounds sanguine about new markets for the company's military products like Russia and Colombia, but he finds the civilian market a bigger attraction.

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Israel Aerospace Industries (IAI) chairman Yair Shamir is concerned at the rise of the Tea Party movement in the US. He believes the skies are the limit for IAI in the civilian market, and his explanation for the fact that IAI delivered four UAVs to Turkey after the deterioration of relations between Turkey and Israel is that "we do not have the luxury of making deals conditional on political requirements."

Talking exclusively to "Globes", Shamir also touched on breaking into the Russian market, Colombia's growing reliance on Israeli arms companies, the business model that he hopes IAI will adopt in the not too distant future huge projects with high barriers to entry of manpower and finance - and possible future privatization of IAI.

Shamir travelled to Washington DC for the AUSA 2010 Annual Meeting & Exposition, where IAI has a large exhibition booth. Other Israeli defense companies, such as Rafael, Israel Military Industries, and [Elbit Systems Ltd.](#) (Nasdaq: [ESLT](#); TASE: [ESLT](#)), are also exhibiting there.

*US Secretary of Defense Robert Gates constantly talks of vitally needed cuts in the US defense budget. Do such potential cuts worry you? Could they harm IAI sales?*

"We hardly sell any military products in the US. Altogether, our sales to the Americans amount to between \$800 million and \$1 billion annually. Only a third of that, at a rough estimate, is military sales, mainly components and sub-contracting work.

"Taking a broader view, cuts in the US defense budget could have interesting global consequences. If the Pentagon stops buying from the big US defense companies, those companies will start directing their marketing efforts outwards, to the international market. Competition in the arms market will rise considerably, but then the Americans will also have to reveal technologies to customers as a condition of making a sale, as is normal in the market, and I'm not sure that the regulators in Washington will rush to approve such disclosure.

"On the other hand, if the US reduces its global military involvement as a result of budget cuts, there will be more wars in the world, and then, of course, suppliers like us will be able to sell more arms to customers worldwide. For the time being, I don't see immediate cuts. The US arms industry has a very strong lobby, and in the current economic climate, with high

unemployment, I don't think that Congress will decide to cut the Pentagon's budget, which would bring in train massive layoffs."

*But the rise of the Tea Party movement must also be taken into account. It could be that many legislators sympathetic to the Tea Party will be elected to Congress, and this is a movement that advocates extreme isolationism, as well as deep cuts in government spending.*

"The strengthening of the isolationist tendency in the US will be a grave danger for the entire world, if this is in fact what happens as a result of the growth of the Tea Party. The US has led the campaign for improvement in human rights on a global scale, and if it decides to drop out, because of the Tea Party and suchlike phenomena, what has been achieved in this sphere will collapse, and we will be left with a very ugly world. And of course, from Israel's point of view, an isolationist America would be a difficult problem."

*Are you worried at the prospect that US military aid to Israel may be reduced or cancelled because of the rise of the Tea Party?*

"If we reach a situation in which we don't need to accept aid from the Americans, that will be so much the better for us. All aid is corrupting. Its disappearance will only help Israeli industry."

### **"Israel has lost Turkey'**

*What about Turkey? There are those in Israel who have not yet lost all hope there.*

"An interesting article in the latest edition of *The Economist* asks whether the West has lost Turkey. I don't know whether the West has lost Turkey, but Israel has. Turkey has decided that its place is in the Arab world, that the equation with Israel doesn't suit it."

*Still, considerable criticism was heard in Israel of IAI's decision to deliver four UAVs to Turkey at a time when Israel's relations with Turkey had deteriorated to a low from which, in fact, they have not recovered.*

"There was no justification for breaking the contract with the Turks. This is a question of business reputation. We constantly declare to the world that we do business regardless of politics if you buy missiles from us, we won't demand that you vote for us in the UN. So we do not have the luxury of coming to the Turks with political demands as a condition for honoring a contract. Nevertheless, had the state required of us not to transfer the UAVs to Turkey, we would have listened. The fact is that the State of Israel did not forbid us to do so."

*There are reports of growing arms procurement in Colombia.*

"When Colombia realizes that it has two enemies on its borders, Venezuela and Ecuador, it starts looking for solutions. The Colombians still buy more from the Americans, but they know that with us they will find cheaper products and better treatment. They want to buy everything, from UAVs to aerial defense systems, and they can certainly pay."

On the other side of your booth at the defense exposition is IRobot. Is that something that interests IAI?

"Robots as force multipliers is a subject that has interested me for years. The IDF has capabilities in this area, but it will take time until it integrates them. For example, a short time ago the Lebanese shot dead an Israeli officer leading a group that was clearing wild undergrowth on the border, and a new conflict almost broke out. That job can be carried out by a robotic 'Caterpillar' that the IDF has. Why should a human being have to sit on the vehicle? The relevant departments in the IDF are aware of the technologies, and they are available, but when a solution has to be found from one day to the next, they go for what is known and familiar."

*There has been criticism in Israel of the decision to buy F-35 aircraft, because of their astronomical price. Some have described them as expensive toys. On the other hand, Israeli defense companies are due to receive large reciprocal procurement orders. So is the plane good or bad for Israel?*

"If the commander of the Israel Air Force says he needs F-35s, who am I to say he's wrong? If there is confidence in the commander, he should be given what he wants. If there isn't, he should be removed. As far as reciprocal procurement is concerned, if you want routine maintenance, that requires a local industrial infrastructure that isn't always available in the US. I'm aware of the criticism of the scale of the reciprocal procurement work, but, as far as we know, it's reasonable."

*In the past year, IAI has signed an agreement to supply UAVs to Russia.*

"Russia is a virgin market. Up to now, we have never sold it anything. We had engineering connections with Russian companies, but no large deals. So I hope that the sale of IAI UAVs to Russia, a deal worth \$400 million, will be the first step in a long journey. From Israel's point of view, Russia is a special country, because it supplies arms, although defensive ones, to our enemies. However, the UAV deal creates an opportunity to engage in a dialogue with the Russians, which could become broader than arms deals."

*You're not concerned about technology leaks?*

"That could happen in India as well. We work within very clear limits, and we are subject to strict supervision by the regulators in Israel."

*Is Russia a potential market for civilian products too?*

"I hope that in Russia, as in other markets, IAI will get into new civilian areas, and then the sky is the limit. Then there will be no more political restrictions. I'm thinking of clean energy, large turbines, alternative energy in general, water desalination techniques. In my view, the main theme should be big projects with high entry barriers of manpower and finance. These and other areas are characterized by fewer political barriers, and that is what is attractive about them. Military projects are always wrapped in political considerations."

"I seek a new layer of activity for IAI, after the blow our civilian aircraft market sustained because of the latest financial crisis. At one time, we were not far from equilibrium between our military and civilian activities, but we have fallen back to a ratio of 70:30. I hope we will regain equilibrium, and we have decided to press ahead in green energy and large civilian projects."

*When will IAI be privatized and become IAI Ltd.?*

"We still at the talks stage. There are gaps between us and the workers that have to be closed. Beyond that, the rules of the game need to change. I should like us to operate on the model of the banks when they were owned by the state, by State of Israel Properties. The banks belonged to the state, but they operated like banks. We ask that they should let us operate like a defense company. But the state opposes that. Privatization in another five years? That's certainly possible."

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