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Attempts at Regional Cooperation

History of the Arab Organization for Industrialization

by

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(Background Paper)

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ATTEMPTS AT REGIONAL COOPERATION. HISTORY OF THE ARAB ORGANIZATION FOR INDUSTRIALIZATION

It was to be expected that the growing trend towards "domestic" manufacture of armaments would lead, in an area like the Middle East, to attempts by certain countries to "cooperate together" over their military industrialization programmes. The reasons for this development were twofold. On the one hand, at least up until the Sadat peace initiatives, there was a common hostility towards Israel which created certain military needs, and these were exacerbated by each successive confrontation. On the other hand, in the light of Egypt's negative experiences with the Soviet Union, there was a desire to ensure that the efficiency of the armed forces should no longer depend so completely on foreign arms supplies. Moreover, the particular situation in the area lent itself to such an initiative: on the one hand, Egypt, lacking in financial resources but with a fairly well-developed industrial apparatus and previous experience of arms manufacture; on the other hand, the oil-producing countries with their huge budget surpluses but lacking adequate infrastructures, plant and technical know-how.

The most noteworthy example of such cooperation is the Arab Organization for Industrialization, or AOI. Its history illustrates the difficulties entailed in undertakings of this kind, especially when they involve more than one country; the

5671



complexity of the ties of economic interdependence; the impact of internal political developments and international events; and the subtle but ruthless workings of industrial competition. In short, its history is symbolic of the realities of the Middle East situation, with all its glaring contradictions.

The proposal to set up a wholly Arab organization capable of producing military armaments and equipment - initially with the help of Western technology, but later based on an autonomous technological and managerial capacity - was first put forward in 1972 at a meeting of the Chiefs of Staff of the 18 Arab League nations. The plan, which was somewhat ambitious, stipulated that each Arab country should contribute 2% of its gross national product to the scheme.

Not until 1974 was the idea taken up again by the Arab Defense Council, which proposed a collective contribution of over \$1 billion dollars. After the bitter experience of the 1973 Arab-Israeli war, the time was ripe for a decision to move on from theory to practice.

On 29 April 1975, Egypt, Saudi Arabia, the United Arab Emirates and Qatar signed an agreement to set up an Arab organization, with an initial capital of 1,040 million dollars, whose aim would be to finance the creation of a number of arms industries, which in the long term would enable the countries to become self-sufficient in the production of modern weapons systems.

The members of the Organization contributed equally to the initial capital; but whereas Saudi Arabia, Qatar and the United Arab Emirates each gave 260 million dollars, Egypt's contribution consisted of handing over its four military hardware factories to AOI administration: the two military aircraft and engine factories at Helwan and the factories at Sakr and Kader. (1)

The main elements of the AOI were a "high committee", comprising the defense ministers of the member countries, and an administrative council of twelve directors (three for each country). The former was given responsibility for defining policy and approving the organization's five-year operational plans. The directors, whose term of office was four years, were put in charge of the practical running of the organization on the basis of the high committee's policy. - A director general appointed by the administrative council was in charge of day-to-day business.

The principal features of the AOI were: its ambition to create an arms industry of a high technological standard, capable of producing even very sophisticated weapons systems; the organization's immunity from the financial and administrative regulations and the tariff and fiscal systems of the individual member countries (2); the option for other Arab states to take part in the initiative, subject to the unanimous approval of the four founder countries. (3)

For Egypt, the AOI was a logical extension of its ambition to play a preeminent role in the Middle East and the Arab world. A role which would only be possible if it possessed credible armed forces, the efficiency of which no longer hinged on the willingness of foreign suppliers to keep up the flow of arms, equipment and, above all, spare parts. In 1975, two years after the end of the Yom Kippur war, the breakdown of friendly relations with the Soviet Union, which for years had equipped and trained the Egyptian armed forces; seemed more or less complete. The halting of Soviet supplies, following Sadat's decision in 1972 to expel the more than 15,000 Soviet military advisers and instructors present in Egypt, had greatly reduced the operational readiness of the Egyptian army, and even more so its air force. The country's attempts to diversify its sources of supply by turning to the West (France and Britain) had proved complex and costly, did not resolve the question of dependence (although they did not entail the same political burden as military supplies by the two super-powers) and also posed difficult logistic and training problems.

Moreover, Egypt was in rather a peculiar position. It had a sound industrial basis in terms of plant and machinery, experience of producing equipment of a fairly high technological standard, and a skilled workforce; but it lacked the necessary financial resources to consolidate and extend its production capacity. Already in the past the shortage of funds

had halted the development of projects, some of them ambitious, such as the construction of a supersonic fighter plane and the jet engine of about 5,000 Kg. thrust with which to equip it, or the building of surface-to-surface missiles of 100 and 400 Km range.

The AOI therefore represented a means by which Egypt could break the deadlock: it offered the opportunity to acquire European technological know-how, which would significantly improve the quality of its own arms industry; to integrate its programmes for developing existing plants into the wider context of its general industrialization plan, which would obviously help to raise employment levels; and, in the long term, to free itself from foreign dependence and become, in its turn, the arms producer and supplier of the Arab world, which would have made it easier to assume a leadership role.

Although it did not feel such a keen need for self-sufficiency in political and economic terms, Saudi Arabia had an interest in supporting Egypt's breakaway from the Soviet Union; and in financing a venture which could have satisfied its military needs, at least in part, and helped to reduce its dependence on the United States for arms supplies, in line with its policy of paying greater attention to its position in the Gulf and the Arab World.

For Qatar and the United Arab Emirates it was a question of supporting an initiative by the "moderate" Arab states, from which they might benefit in any case, and investing part of

their huge profits from oil sales.

The AOI high committee met for the first time in Cairo, the elected headquarters of the organization, in August 1975; the administrative council was chosen, under the chairmanship of Egypt's Ashraf Marwan, and the production programme was decided upon. The plan was to build, in order of priority: fighter planes, electronic equipment, guided anti-aircraft and anti-tank missiles, tanks and armoured vehicles.

It would obviously have been impossible to carry out such a programme without the backing and cooperation of other countries with a technologically advanced armaments industry. The choice of which European countries to call upon was therefore fundamental. In view of this, the visits of Egyptian foreign minister Ismail Fahmy and President Sadat to Britain, in June and November of that year respectively, were of particular significance.

During Fahmy's visit talks took place on the purchase of 200 "Hawk" training and tactical support planes and 250 "Lynx" helicopters, valued at about £450 million, which would be paid for entirely by the AOI.

The Egyptian president's visit was concerned with the same subject. Sadat explained his viewpoint in a frank interview with Independent Television News, in which he said that he was seeking arms from Britain in order to prevent any great power from using military supplies as a weapon to impose conditions on Egypt.

The results of the visit were not divulged. It was known that Sadat had met with representatives of the major British defense industries and, according to the British press, there had been talks on the supply of fighter planes (200 "Jaguar" fighter-bombers, valued at about 1,300 million dollars), "Rapier" surface-to-air missiles and naval vessels. The possibility of Rolls Royce building an aero-engine works in Egypt, as part of the AOI programme, was also discussed. The "Jaguar" contract seemed the most probable at the time, in view of the fact that, according to Arab sources, Egyptian pilots were already training with the aircraft in France and Britain. (4)

President Giscard d'Estaing's official visit to Egypt in December provided an opportunity to seek French backing as well. Giscard, fully aware of the prospects which this would offer his country's military industries, confirmed that France was willing to help Sadat, justifying his decision with the need to prevent the great powers from monopolizing the arms trade and the right of every State to produce all it needed for its own defense. (5)

The talks on French participation in the AOI programmes were resumed in Paris in March 1976, when war minister Gen. Abdul Ghani Gamazi met with French defense chiefs and industrial leaders.

Whatever the results were (6), France too seemed keen to clinch the deal with the AOI and to extend its role, like Britain, from merely supplying military equipment to actively

helping to create an armaments industry abroad.

There were no significant new developments in 1976 and 1977. The AOI appeared to have entered a complex settling down phase, as it continued negotiations with Britain and France and gradually set about resolving its many internal problems - managerial, technical and economic: the strengthening of plants and infrastructures in Egypt; examining the possibility of building further factories within the member states territory; recruitment and training of the workforce, mostly foreign; the creation of a sound administrative framework; the sharing of expenses, and so forth. However, during these two years the production of military hardware continued in the AOI's Egyptian installations, and the organization made a profit, mainly as a result of sales of equipment totalling about 41 million dollars.

1978 began with a meeting of the AOI high committee, held in February in Abu Dhabi. The programme of activity and the development plans examined and approved at this meeting looked particularly promising.

In that same month the two projects originally discussed by Fahmy and Sadat during their visits to London in 1975 were finalized.

The first led to the setting up of a company, the Arab-British Helicopter Co., with an initial capital of 30 million dollars (70% AOI and 30% Westland). It was planned to build 250 "Lynx" helicopters over seven years. Out of the first

batch of 50 helicopters (contract value about 110 million dollars), 20 were to be manufactured in Britain and 30 assembled, from parts made in Britain, at a new plant in Helwan.

(7) The later batches were to be built in Egypt, with the aim of eventually being able to manufacture the entire helicopter locally.

The second project led to the creation of a company jointly financed by Rolls-Royce and the AOI, the Arab-British Engine Co. (ABECO), for the production of 750 GEM engines to be installed in the "Lynx" helicopters. These too were to be built in the new Egyptian works at Helwan, though the initial contract stipulated that the first batch of 150 engines (estimated value about 205 million dollars) should be manufactured, like the helicopters, in Britain.

In both cases, the British companies pledged to supply machinery, instruction and technical assistance, both in Britain and in Egypt, and to collaborate actively in the preliminary stages while production was getting underway. (8) The total value of the contracts is estimated to have been over 700 million dollars.

The first fruits of the AOI venture seemed to benefit British companies. In fact, as well as Westland and Rolls-Royce, the British Aerospace Corporation had signed an agreement with the Arab organization to set up "Arab-British Dynamics", for the purpose of producing in Egypt the "Swing-fire" anti-tank missile. But in reality the "French connection"

was equally healthy. In March the French government and the AOI signed a framework agreement in Paris which formally laid down the industrial and political principles and criteria which were to govern all contracts for the joint production of French military equipment in the AOI countries. It also contained a government guarantee that the French companies involved would respect the terms of the contracts and that the equipment supplied would have the same specifications as that delivered to the French armed forces. (9)

This was followed by the visit to France of Prince Ben Abdel Aziz, the Saudi defense minister who had replaced Gen. Gamassi as chairman of the AOI, and on 22 July an agreement was signed between the organization and Thomson-CSF to set up the Arab Electronics Co., with a capital of 25 million dollars, 70% provided by the Arabs and 30% by the French.

The agreement involved a plan to build an electronic equipment plant at El Kharj, south of Riad, for the manufacture, as the main priority, of a radar navigation system (under licence from the British company Decca) intended for the "Lynx" helicopters built in Egypt; together with the production of aircraft radio equipment and instruments and the overhaul of military and civilian electronic systems. (10)

The agreement was significant in three ways: it linked up with the other AOI projects to form a coherent development programme; it indicated the Saudis' desire to participate

more directly in the AOI industrialization plans, not just as a financial backer; and, unlike the other agreements reached until then, it established the possibility of producing not only the equipment developed by Thomson-CSF but also any European, Japanese or American systems for which the AOI managed to obtain the licence.

In September a protocol agreement was signed in Cairo between the AOI and Dassault-Breguet, concerning the building in Egypt of the "Alpha Jet" training and tactical support plane, jointly developed by France and the Federal Republic of Germany. (11)

Finally, on 16 November, following the setting up by the AOI and SNECMA, the leading French manufacturer of aero-engines, of the Arab-French Engine Co. (AFECO), a preliminary agreement was reached in Paris on the production in Egypt of the "Larzac" engine, installed in the "Alpha Jet", as the first stage towards the projected manufacture of the "Mirage 2000" M-53 engine. (12)

It was anticipated that the first phase of production of over 400 engines would begin around the middle of 1979 in the old Helwan plants, which would be adapted and modernized for the purpose.

It is interesting to note that the contribution of the European companies involved in these deals was to consist primarily of managerial and technical assistance rather than financial participation. Especially in the case of the British Westland and Rolls-Royce projects, it was a classic example

of the transfer of technological know-how, which is particularly useful to the Arab countries.

It is also interesting that the agreements should have stipulated the right to sell equipment manufactured under licence to other countries. The AOI claimed that its prices would be competitive with those of the same equipment produced in Europe.

However, France and Britain were certainly aware that, owing to its technological handicap, the AOI could never have become a really dangerous competitor even in the Middle East or the Arab world; an area which was both the logical and natural market for the AOI's military production and the most profitable market for European armaments industries.

American companies had been practically excluded from the AOI programmes. The only jointly-financed venture set up was the Arab-American Vehicle Co., in collaboration with American Motors, for the production in Egypt of military jeeps capable of transporting the "Swingfire" anti-tank missiles. It was a project of low technological content and of limited importance, viewed in the context of the attempt to create an Arab armaments industry. The political motives for this decision were obvious; by giving preference to European countries, the Arabs confirmed their determination to get out of the vicious circle of dependence on the two superpowers.

By the end of 1978 the AOI's activities seemed to be well underway (for the programmes see the table on p. 23):

- in December the new plant east of Cairo for the production of the Arab-American Vehicle jeep was inaugurated. The first vehicles were expected to come off the production line in early 1979; (13)
- work was being completed on buildings and plant for Arab-British Dynamic, to be used for the manufacture of the "Swingfire" missile, which was expected to begin by September 1979;
- in Helwan building of the installations for assembling the "Lynx" helicopters was going ahead. It was anticipated that the maximum output of four helicopters per month would be achieved by 1981;
- at the same time, work was continuing on the installations needed for manufacturing the "Gem" engines;
- plans were being finalized to build factories in Saudi Arabia for the production of electronic equipment;
- in the vicinity of the Egyptian capital, residential centres were being built to house the Western technicians who were to help put the plans into effect;
- the Egyptian weapons factories were in the process of being restructured and modernized. (15)

Nevertheless, the picture was not entirely rosy. The underlying ambiguities and doubts were thrown into focus by the decision of the Arab countries at the Baghdad summit to reject Egypt's peace policy towards Israel.

On the one hand, the competition between Britain and France to increase their share of the AOI programmes cast doubts on all the agreements which had not yet been signed. In fact British Aerospace had been demonstrating its training and ground attack jet plane "Hawk" in the Middle East, arousing keen interest among the air forces of the AOI member countries, and putting it forward as an alternative to the French "Alpha Jet".

On the other hand, the announcement that Ashraf Marwan was to resign as chairman of the AOI administrative council before the end of the year seemed to be symptomatic of a crisis whose origins extended beyond the organization itself. (16)

It was clear that this resignation, in which Sadat himself appears to have had a hand, would slow down the AOI's activities and lead to a review of all the existing programmes, especially since Marwan was known to be strongly in favour of contracts with European companies, particularly the French. It therefore had a political significance, in that it indicated a hardening of Egypt's attitude towards Saudi Arabia (which was particularly concerned about the future of the AOI and keen to maintain the industrial-military ties with France) (17), because of its criticism of the Sadat peace initiative and its reluctance to shoulder all the financial burden for the 50 F-5E planes which the United States was willing to supply to Egypt. (18)

Egypt seemed to have decided on a policy of halting or subtly boycotting AOI activities in an effort to persuade Saudi Arabia to change its attitude, while at the same time letting it be understood that it was prepared to back the nomination of a Saudi chairman of the administrative council who would give fresh impetus to the organization.

The United States may well have had something to do with the new Egyptian position. Between 1977 and 1978 American arms sales to Egypt had risen from under 50 to around 937 million dollars, with the prospect of further increases. American companies were keen to replace their European rivals as the favoured partners, both within the AOI and outside it. And the United States could use its influence at a time when the situation in the Middle East was particularly delicate.

Finally, the future of the AOI was jeopardized by the new trend in Egyptian foreign policy and the increasingly strong and united reactions it aroused in the Arab world; reactions from which Saudi Arabia, for obvious reasons, could not disassociate itself completely.

At the beginning of 1979 Ashraf Marwan was replaced by a member of the emir of Sharjah's family, Sheikh Faical ben Sultan al Qasimi. But the attempt to patch up the AOI collapsed after the signing of the peace treaty between Egypt and Israel in March of that year. On 14 May it was announced that Saudi Arabia, Qatar and the United Arab Emirates were withdrawing from the AOI and all the scheduled programmes were to be shelved.

With this the dissolution of the Arab Organization for Industrialization was complete. The reason was simple: Sadat's peace policy was incompatible with the purposes for which the AOI had been founded.

The decision ended the short-lived attempt by Egypt to achieve self-sufficiency and create an Arab armaments industry, at least in terms of cooperation between Middle East countries.

As a result the agreements with French companies to produce the "Alpha Jet" and the "Larzac" engine fell through, while it was expected that the contracts with British companies (for the "Lynx" helicopter and the "Gem" engine) would also be called into question, even though they had so far proceeded according to schedule and in line with planned expenditure. (19)

Less uncertainty hung over the future of the "Swingfire" anti-tank missile programme, which had by then reached a very advanced stage of development with the first missiles nearing completion. However there were grave doubts about the feasibility of achieving planned production levels.

The prospects for the Arab-American Vehicle Co. seemed brighter. Production of the jeeps had gone ahead as planned, but in this case too it was expected to be very difficult to achieve the annual quota originally stipulated.

Both politically and economically all this was a harsh blow for Egypt, which saw the majority of its ambitions going up in smoke.

Sadat retaliated by freezing the assets of the other

three AOI members deposited in Egypt and by deciding to go ahead with the programmes of the AOI, whose name was changed to the EOI (Egyptian Organization for Industrialization), even without Saudi financial backing. (20) But the impulsive nature of the initiative could not disguise the gravity of the problems. Egypt did not have the resources to finance the ex-AOI projects unaided, and this jeopardized the related defense industry with its 15-17,000 employees. The social and economic situation in the country could not withstand a huge increase in unemployment, while at the same time the military's requests for modern, advanced technology equipment for the armed forces could not be ignored.

The European companies were just as hard hit. The cancellation of the contracts, the liquidation of the companies already set up and the suspension of all further investments in the sector posed both financial and political problems. For Britain and even more for France it represented a very sizeable loss, involving hundreds of millions of dollars, added to the losses sustained by some companies owing to the cancellation of contracts by Iran. (In November 1978 Dassault-Breguet estimated that the dissolution of the AOI would cost the French armaments industry about 5 billion dollars). The British companies could have gone ahead with the existing programmes with Egypt alone: but it was feared that this would lead to even greater losses, especially since the Egyptian domestic market could not absorb the entire output; in fact the AOI plans had

anticipated that Egypt would export weapons systems to the other member countries (50% of total production in the case of the "Lynx" helicopter).

Moreover, for a number of political reasons it seemed wise to proceed cautiously and, if necessary, withdraw from the agreements. In fact, continued industrial cooperation with Egypt, at a time when its policy was rejected by practically the whole of the Arab world, might have adversely affected the chances of selling arms to other Middle East and Gulf countries, starting with Saudi Arabia itself. Besides, these other countries represented a much more attractive market than Egypt, both on account of their greater wealth and the prospect of agreements involving arms supplies in exchange for oil.

The drying up of Arab funds, the dependence on United States mediation, which was increasingly necessary if progress was to be made towards peace, the need for a military structure appropriate to the new political approach, and the country's precarious socio-economic situation, compelled Egypt to abandon its original goal of self-sufficiency and face up to the reality of its position. As a result it decided on a two-line approach: to salvage all it could from its cooperation programmes with European companies by going ahead with those projects which were at an advanced stage of development or nearing completion. (21), and to make the United States its main partner in future military industrialization plans.

The United States had plenty of reasons to welcome

Sadat's plea for help, although it preferred direct arms sales which gave it greater political leverage.

On the one hand there were political motives: the need to support Egypt at such a difficult time; to prevent any further weakening of its armed forces, in view of the fact that the support of the military was vital to the stability of the regime and the progress of the peace initiative;; and to ensure that Egypt was not driven in desperation to seek help from the Soviet Union again. (22)

On the other hand there were industrial considerations, namely the Americans' fairly clear ambition to replace European companies in any future joint ventures with the new EOI.

In August, a group of American experts led by David E. McGiffert, under-secretary of State for international security, went to Egypt to assess its real industrial potential and to see what could possibly be done to improve the production of military equipment, within the limits of the 1.5 billion dollars already authorized by Congress for the financial years 1979-81.

The American-Egyptian plan was drawn up towards the end of 1979. It had been decided to concentrate on projects which were fairly unsophisticated technologically-speaking and could provide tangible results in a short time: the manufacture of artillery; modernization of the Soviet tanks in the Egyptian armoured units by providing them with new engines, new guns and devices for night vision; increasing the country's capacity to produce essential spare parts for its Soviet-built planes,

and making general overhauls on them in order to stem the continual increase in the number of non-operational aircraft among the 300 or more Mig-21's, Mig-23's and Su-7's in the Egyptian air force.

The military cooperation agreement between Egypt and the United States, signed in Cairo on 21 October, also stipulated American assistance with the production of naval vessels and armored vehicles (manufacture under licence of the M-113A2 troop carrier), the building of a factory for the production of electronic and optical instruments and expansion and modernization of Egypt's missile production.

It was certainly a very different and much less ambitious programme than the original target of being able to build planes as advanced as the "Mirage 2000" in Egypt. However the EOI, of which Sadat himself was chairman, seemed to be aiming, in the medium term, to produce a sufficient range of equipment and raise output levels so as to be able to satisfy at least 50% of the country's military requirements. But in the meantime American "Phantom" jets, piloted by Egyptians, were flying over Cairo, and the huge contracts for further equipment under negotiation were evidence of a dependence which was destined to last for many years more. Once more the country was tied to a superpower.

The American armaments industries were obviously delighted by the opportunity to keep their production lines open for longer. The Carter Administration seemed prepared to sell

Egypt even very advanced weapons systems such as the F-15 and F-16 planes, already sold to Israel and Saudi Arabia; while the Pentagon could not fail to welcome the prospect of sales which would help to reduce the unit costs of systems acquired for the U.S. armed forces - as well as military ties such as training, technical assistance, etc., for which it would be possible to ask favours in return (permission to fly over Egyptian air space, the use of Egyptian port and airport facilities by American ships and planes, and so forth).

Sadat could claim that development of Egypt's military industry would continue despite the Arab boycott. The cooperation agreement with the United States could be considered a diplomatic success. The renewed British interest in redefining and resuming industrial cooperation, especially in the case of contracts like the "Lynx" helicopter which had been suspended but not yet cancelled, could be interpreted as a sign of confidence in the potential of the EOI. (24) But in reality the dream of creating an armaments industry, which not only would lead to a very rapid acquisition of advanced technology and hence substantial self-sufficiency, but could also become the source of supply for Arab countries, was well and truly over, crushed under the weight of political differences.

Egypt, strong in the knowledge that it had a fairly secure industrial base, technical experts and a skilled workforce (25), continued to work towards eventual autonomy, although this was henceforth conditioned by the need for foreign

investment and its "technological" aspirations had to be scaled down. But, as we have said, this was a very long term prospect. In the meantime Egypt would continue to depend on American and European arms supplies. (26)

The other Gulf countries which had been members of OAI decided to create a new organization, with a capital of 8 billion dollars, to resume production of armaments on licence from western industries (27). Egypt's place would probably have been filled by Kuwait. Iraq, which did not have an arms industry of its own but whose armed forces were among the strongest and best-equipped in the area, was also very keen on participating.

Thus the attempt to create an Arab armaments industry was resumed again, but with more modest and limited objectives and perhaps not such high hopes.

In fact, the organizational, technical and managerial difficulties, highlighted by the absence of existing solid industrial infrastructures in those countries, undermined much of the plan's credibility and relegated it to the long term.

The Arab countries would be obliged to continue buying on the foreign market for some time to come, particularly from the two superpowers and the most militarily advanced Western countries.

Inter-Arab cooperation, autonomy and self-sufficiency were once more consigned to the distant future.

TABLE 1

PROGRAMMES OF THE ARAB ORGANIZATION FOR INDUSTRIALIZATION

| <u>JOINT VENTURE</u> | <u>CAPITAL</u> | <u>PRODUCTION</u> |
|--------------------------------|--|---|
| Arab-British Helicopter Co. | 70% AOI 30% Westland | 250 WG-13 "Lynx" helicopters |
| Arab-British Engine Co. | 70% AOI 30% Rolls-Royce | 750 GEM engines for "Lynx" |
| Arab-British Dynamics | 70% AOI 30% BAC | "Swingfire" anti- tank missile |
| Arab-French Aircraft Co. | AOI Dassault-Breguet and Dornier | 160 "Alpha Jets" |
| Arab-French Engine Co. | 70% AOI 30% Snecma | 400-500 "Larzac" engines for "Alpha Jet" |
| Arab- Electronics | 70% AOI 30% CSF-Thomson | navigation radar for "Lynx" and other electronic equipment |
| Arab-American Vehicle Co. | AOI American Motors | military jeeps |

Even though financial control of these ventures was in Arab hands, it is clear that this was more than compensated for by the fact that the projects were dependent on the technological, technical and managerial contribution of the European partners.

NOTES

- (1) On the Egyptian factories, see Robert R. Ropelewski, Improvisation key to Egyptian growth, Aviation Week and Space Technology, 13 November 1978, pp. 38-47.
- (2) This enabled the AOI to offer higher salaries than the average for the category and to dismiss staff without being bound by the individual member countries' employment regulations. It is significant that AOI staff were not allowed to belong to trade unions.
- (3) During his visit to Kuwait on 12 May 1975 Sadat discussed the possibility of this country participating in the newly-founded AOI.
See Keesing's Contemporary Archives, London, vol. XXI, 1975, p. 27235
In 1977 Sudan asked to join the organization. In February 1979, the chairman of the administrative council, Sheikh al Qasimi, stressed that companies in Qatar and the United Arab Emirates might be included in the AOI and alluded to the possibility of building a huge aircraft maintenance centre for all the Arab countries.
See International Herald Tribune, June 1979, p. 16S.
But a few months later the AOI broke up as a result of the rapprochement between Egypt and Israel.
- (4) The Beirut daily "As-Safir" of 10 November 1975 reported the news, quoting official British sources.
- (5) Press conference of 14 December. See Keesing's Contemporary Archives, vol. XXIII, 1976, p. 27809.
- (6) It looked as if the negotiations were still at the discussion stage. However, at the end of Giscard's visit, it was confirmed that Egypt had agreed in principle to buy 22 "Mirage" F-1 planes, with an option on a further 22.

- (7) It was expected that construction of the two new plants, which would extend over an area of more than 30,000 square meters, would be completed by the end of the first half of 1980. See also Note (13).
- (8) On the contracts with British companies, see Défense et Diplomatie, vol. III, n. 10, 9 March 1978, and Aviation Week and Space Technology, 6 March 1978, p. 17.
- (9) See Aviation Week and Space Technology, 20 March 1978, p.20.
- (10) On the agreement, signed on 22 July, see Interavia, 9, 1978 and Défense et Diplomatie, vol. III, n. 28, 13 July 1978 and Aviation Week and Space Technology, 3 July 1978, p. 24.
For a fuller understanding of the significance of the agreement, it is interesting to note the news that Gerald Cauvin, deputy chairman of Thomson, planned to leave the company within the year to become special adviser to Ashraf Marwan, chairman of the AOI administrative council.
- (11) The plans involved 160 planes, 14 of them built in France and 146 assembled in Egypt. The agreement also reportedly included preliminary details of the much more ambitious plan to build the "Mirage" 2000 in Egypt.
- (12) It was agreed that the first phase of production involving over 400 engines would begin towards the middle of 1979 in the Helwan factories.
See Interavia, 1, 1979, p. 9. Financial Times, 20 November 1978. Aviation Week and Space Technology, 27 November 1978, p. 17.
- (13) It was planned to assemble 4000 vehicles that year and within a short time raise production to the target of 10,000-12,000 vehicles a year, 80% of them locally built.
- (14) A 26 million dollar contract to build the Helwan installations for the "Lynx" had been won by the British firm

John Laing International.

See Défense et Diplomatie, vol. III, n. 42, 16 November 1978.

- (15) It was estimated that the total value of the construction work in progress was 150-200 million dollars.
See Robert E. Ropelewski, Arabs push arms industry despite peace, Aviation Week and Space Technology, 6 November 1978, pp. 16-18.
- (16) This was generally thought to be a forced resignation in fact. Saudi Arabia had apparently been kept in the dark about it until the last moment.
- (17) During a visit to France, the Saudi defense minister Ben Abdel Aziz had assured his listeners that Franco-Saudi military cooperation would continue, including the AOI projects.
- (18) The total cost of the American military "package" amounted to 590 million dollars, which was later increased to about 700 million. Saudi Arabia seemed prepared to commit itself to a figure ranging from 400 to 525 million dollars.
See Défense et Diplomatie, vol. III, n. 41, 9 November 1978 and Vol. IV, n. 6, 8 February 1979.
See also Financial Times, 10 May 1979.
- (19) It seemed that money was forthcoming for the 20 helicopters built in Britain and the 30 to be assembled in Egypt.
See Financial Times, 15 May 1979.
- (20) A new high committee was appointed, consisting of Sadat himself, vice-president Husni Mubarak, prime minister Mustafa Khalil, defense minister Kamal Hassan 'Ali, the ministers of finance and the economy, the new chairman of the AOI administrative council Ahmad Zendou and General Ahmad Badawi.
See Strategic Mid-East and Africa, 5 September 1979, p. 1.

- (21) The first jeeps were displayed in the military parade of 6 October, with the "Swingfire" anti-tank missile mounted on them, both of them manufactured in Egypt.
- (22) The news reported in Cairo on 21 September that the Soviet Union had resumed military aid to Egypt with the sale of 50 Mig-21 engines seemed to indicate that the Egyptians were determined not to let themselves become too dependent on a single supplier and that they were prepared, if necessary, to play the Soviet card as a means of putting pressure on the United States.
For the report, see Alan Mackie and Robin Allen, Egypt replenishes its Soviet arsenal, Middle East Economic Digest, 28 September 1979, p. 18.
- (23) See Défense et Diplomatie, vol. IV, n. 31, 30 August 1979, and n. 40, 5 November 1979.
- (24) On this subject and on the talks in Cairo between Douglas Hurd and the Egyptian defense minister Kamal Hassan Ali, see Défense et Diplomatie, vol. V, n. 2, 14 January 1980. In fact, by October 1980 the problem of the compensation, to be paid to Westland for the failure of the "Lynx" deal had still not been resolved.
See Middle East Economic Digest, 24 October 1980, p. 26.
- (25) A large number of engineers and technicians from the Egyptian companies had followed training courses in Britain, France and the United States.
- (26) At the beginning of 1980 agreements were reached with the United States on the sale of 40 F-16 planes (value 961 million dollars), 244 M-60A3 tanks, later increased to 311 (value 558 million dollars) and 550 armored troop carriers (value 142 million dollars). In addition, in September of the same year, Egypt ordered 15 CH-47C "Chinook" helicopters from Italy (value about 140 million dollars). In November, during the visit to Cairo of the general secretary for defense Gen. Piovano, the

possibility of producing Agusta helicopters in Egypt was discussed. Finally, in 1981, plans were finalized to buy from France 30 "Alpha Jet" training aircraft and 15 tactical support "Mirage-5's", to be delivered at the beginning of 1983.

On sales of American and European arms to Egypt, see Aviation Week and Space Technology, 28 January 1980, p. 22. Jerusalem Post, 24 February-1 March 1980. Daily Wireless Files, 62, 26 February 1980. Wall Street Journal, 14 March 1980. Washington Post, 14 March 1980. Daily Wireless Files, 92, 27 March 1980. International Herald Tribune, 24 April 1980. Le Monde, 25-26 May 1980. Aviation Week and Space Technology, 2 June 1980, p. 22. International Herald Tribune, 28 July 1980. Middle East Economic Digest, 5 December 1980. Le Monde, 11-12 January 1981. Le Monde, 11 June 1981.

- (27) The Arab press claimed that initially two French weapons systems would be produced: the "Mirage" III aircraft and the "Crotale" surface-to-air missile. See Financial Times, 29 January 1980 and Défense et Diplomatie, vol. V, n. 5, 4 February 1980.

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