

Israel, Italy in helicopters for missiles talks

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In recent weeks, the Ministry of Defense has stepped up its negotiations with the Italian Ministry of Defense for the purchase of new helicopters from Italian company Leonardo. The helicopters are designated for use by Israel air force pilots course cadets. US company Bell and European company Airbus, which are also competing for the helicopters contract, have offered the Ministry of Defense their own advanced training helicopters.

The Ministry of Defense's decision to go ahead with negotiations with Italy was taken because of a "window of opportunity" recently opened for a possible government-to-government deal between the countries, in which the Italian government will agree to reciprocal defense procurement from Israel. Leonardo wants to promote its offer to sell its new training helicopters to Israel. Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT) is Leonardo's subcontractor in the project, in which it will supply the Ministry of Defense with maintenance services for the helicopters for a 20-year period.

The deal is expected to amount to \$350 million, and the plan is to carry it out in two rounds, in each of which the air force will receive eight training helicopters and simulator systems. The new helicopters are to replace the existing Bell 206 training helicopters, which the air force calls Sayfan, and which it has used since the 1970s.

The Ministry of Defense began considering the procurement of the new training helicopters two years ago, and published a request for information (RFI) for companies in the sector. A check by "Globes" showed that no tender was published in this process.

The bids by the three companies involved included samples of the helicopters for training cadets in pilots courses, prices, supply times, maintenance costs, etc. Professional air force sources tested the three helicopters offered, and found that they were all suitable for the air force's needs; the choice was consequently left to the Ministry of Defense Procurement and Production Directorate (PPD).

The helicopters that Leonardo is trying to sell to Israel are the AW-119 KX model. Bell is offering its GXP-407 model, and Airbus is offering its H-125 model.

The Italian advantage

A defense source aware of the particulars said that in recent weeks, Ministry of Defense director general Major General (reserves) Udi Adam had ordered teams involved in the process to seriously consider the Italian option "thereby exploiting the momentum created," as he put it, and to push ahead with the negotiations on the matter, because "What is emerging is a deal that is good for everyone."

A business party involved in the process taking place in the Ministry of Defense, however, criticized to "Globes" the decision to go ahead with the negotiations to buy the helicopters from Italy. He asserted that the helicopters offered to the Ministry of Defense by Bell and Airbus were already being used in training missions by many air forces around the world, and therefore had a significant advantage over the Italian helicopters.

This source added that the Bell and Airbus offers, including the calculations of maintenance costs over the coming years, were 40% lower than in the Italian offer. Bell already has maintenance infrastructure in Israel, having sold helicopters in the past to the air force and civilian groups in Israel, which is likely to substantially reduce the maintenance costs of training helicopters purchased from the company. The Ministry of Defense rejected this argument, saying that it was irrelevant: "The infrastructure, insofar as it exists in Israel, is civilian infrastructure. In any case, regardless of which helicopter is selected, the air force will have to plan and build new infrastructure from scratch."

Elbit Systems confirmed to "Globes" that it was involved in Leonardo's offer, and that if the offer is accepted, it would supply maintenance services for the helicopters for 20 years. The company declined to provide additional details in the matter.

Under a similar format, Elbit Systems is supplying the air force with maintenance services for training planes purchased in recent years from Leonardo and used in pilots courses. The maintenance services are provided by TOR, a company jointly owned by Elbit Systems and Israel Aerospace Industries Ltd. (IAI) (TASE: ARSP.B1). If the Ministry of Defense selects the Italian company's helicopters, Elbit Systems will maintain them by itself.

In a training aircraft deal five years ago, the Ministry of Defense bought 30 M-346 planes, which it calls the Lavi, from Italy, thereby showing preference for the Italian offer over the bid by Korea Aerospace Industries (KAI). In exchange for this procurement deal, the Italian

Ministry of Defense agreed to make procurement in Israel, including IAI warning aircraft and spy satellites.

"Negotiations reaching a peak"

The reciprocal procurement that Italy will conduct in Israel if the training helicopters deal goes through will be on a fairly small scale, because the helicopters deal itself will be smaller than the airplanes deal. In addition to Elbit Systems, which will profit from Leonardo's winning the contract because of the maintenance services for the helicopters that it will provide to the air force and the simulators it will sell to Italy, Rafael Advanced Defense Systems Ltd. is also likely to profit. The company previously sold Spike anti-tank missiles to the Italian land forces. The extent of the additional reciprocal procurement in Israel to which the Italian Ministry of Defense is willing to commit itself in this deal is still unclear.

A year ago, Italy expressed interest in another missile deal with Rafael for \$70-80 million – probably an attempt to increase its inventory of anti-tank missiles. Defense sources told "Globes" that the contacts, which continued until recently, had not resulted in an agreement. The defense sources believe that it is possible that the reciprocal procurement to which the Italian government committed itself will expedite the missile deal with Rafael.

The Ministry of Defense said in response, "After the air force approved all the helicopters tested as suitable for its operational requirements, the Ministry of Defense has decided to consider the possibility of buying the helicopters in the context of deal between the countries (Israel and Italy), in which in exchange for buying the helicopters and training package for the air force, the Italian government will conduct substantial reciprocal procurement from the Israeli defense industries that will benefit Israeli defense exports and the IDF. This is similar to the tradeoff deal for buying training planes from Italy in 2012, which brought the Israeli economy \$1 billion and greatly strengthened bilateral defense relations between the two countries."

The Ministry of Defense added, "The negotiations with the Italian Ministry of Defense and with Leonardo are reaching a peak, and the Ministry of Defense is making it clear that no deal will be signed until all its elements, including the reciprocal procurement from Israeli defense industries, are signed. The deal will be brought to the Ministry of Defense director general for approval only after the detailed negotiations for all the deals are completed."

Responding to the argument that the Italian offer was 40% more expensive than Bell and Airbus offers, the Ministry of Defense said, "It is unclear to us on what this allegation is based. The question of the price is being negotiated, and the Ministry of Defense's demands are based on an estimate by the PPD and the air force, versus the costs of other helicopter systems operated by the air force and known costs around the world, and versus the prices of the helicopters and the cost per flight hour."

The Ministry of Defense also said, "By the way, similar claims by business concerns with an interest in the matter were made in before the deal to procure the training planes, which have been a great success - the deal was one of the most successful achieved by the Ministry of Defense."