

The news that EADS has shaken up its shareholdings poses the intriguing possibility of a re-play of the merger with BAE Systems. There were several obstacles in the path of the failed merger, most of them substantial, but altering the shareholding to reduce the influence of governments is a necessary first step if a re-run of the merger is to be attempted, speculates Nick Watts of Great North News Services.

This of itself does not make any such move inevitable, but it helps to clear the path. Where defence and security assets are involved both European and US governments will be wary of any dilution of their direct influence. The calculation which led Enders to attempt the merger remains. Industrial logic and access to the US market would suggest this is a good move. The US government and aerospace contractors may have other ideas.

The effect of the merger announcement earlier in the summer highlighted the plight of BAE Systems. Like other contractors it is exposed to declining defence budgets. It has no serious presence in the civil aerospace sector. The company has in effect put up the "for sale" sign and buyers have a good idea of the price. UK politicians expressed concerns about its acquisition by a European entity, but seemed happy if a US competitor bought it. So the principle has been conceded.

Both the French and German governments have a particular view about the governance of enterprises. The French view remains Colbertian and Dirigiste. This plays to a particular view of the French governing elite and its links with industry forged in the grandes ecoles. Germany is rather more pragmatic, but is not a fan of the Anglo Saxon capitalist model. None of these things should be a show stopper. The secret of success in business is negotiating a good deal. The British view would seem to remain that shareholder value is paramount.

Squaring this particular circle will require the interests of the respective government to be secured while allowing the enterprise to flourish. The result could resemble one of those dynastic marriages of convenience with which European history is littered, with each party seeking to exert influence via favourites and proxies. This would detract from the business of making money which EADS has already discovered. It could be, to extend the historical metaphor that BAE Systems stands aloof from all of these suitors rather like Elizabeth the First. But feeling forlorn the siren call of the New World could seem attractive after a while.

The view from the New World, however, to such a marriage would not be warm. In an era of declining defence budgets and global competition for airliner sales, it is likely that US interests would pursue every avenue to prevent this deal from happening. Which might have been the result had the earlier merger gone through. This would leave the management and shareholders of BAE Systems scratching their heads. Which way to jump?