

U.S. Industry Keeping Close Eye on Egypt

By DEFENSE NEWS STAFF

As street skirmishes raged and confusion reigned in Cairo's main square, defense industry observers strained to predict the effect on regional defense markets.

"Egypt has an air force, the fourth-largest operator of F-16s, a small navy and a large mechanized army, but it's a force tailored for the Sinai, and it's got a budget of about \$4 billion a year," said Byron Callan, a defense analyst with Capital Alpha Partners of Washington.

"You could argue that the military they have is unsuited for the kind of stuff they're doing now, which is in cities and urban areas. That could drive new priorities for them, like MRAPs, helicopters and C-130 transports, but even then we're not talking about a lot of money."

Callan noted that Egypt is buying two dozen F-16 fighters at a rate of six a year, for a total value of about \$3 billion.

"Now, if the Egyptian order were canceled, Lockheed might have a timing issue, but it's not something that would be a major problem, given the F-16 is still a pretty popular airplane," he said. "In the worst-case scenario, funding gets cut to Egypt, but that might mean more money for Israel or someone else in the region, like Jordan or Turkey."

Callan said even the rest of the nearby countries aren't all that significant for U.S. companies.

"Places like Morocco, Tunisia, Yemen, Lebanon, Syria and even Jordan aren't that relevant, although Libya and Algeria are more promising but historically

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French, Italian and Russian markets," he said.

Callan said the really big deal — "a game-over kind of event" — would be the fall of the government of Saudi Arabia.

"Saudi has a budget that's up there with Britain and France, so it's a big deal," he said. "If the gulf markets break, then you have a big, big problem, not just in terms of the capabilities that have been lost, but also the markets."

Another Washington analyst, who asked to remain unnamed, said that if Egypt's Hosni Mubarak is replaced by an extreme Islamist government, it might drive more U.S. arms exports to Israel and southern Europe, in the form of more missile defenses and ISR assets.

The analyst said the biggest risk is if the decades-old Israeli-Egypt peace framework falls apart. "No one wants to see a nervous Israel, because that's never good for anybody," he said.

The analyst said he believed it was unlikely that Gulf nations would turn their back on Washington in the wake of Obama's support for Mubarak's ouster.

"Their fear of Iran will overwhelm their anger over how Mubarak was treated by Washington," he said. "But it's also important to remember the Gulf just doesn't have the same problems as the rest of the region. The Gulf states have money and don't have the population problems you see in North Africa and Egypt, which has teeming masses of disenfranchised, uneducated poor people. In the Gulf, the locals are citizens and well-taken care of, while the foreigners who cause problems are expelled. It's a very different dynamic."

Another risk is if U.S.-made weapons bought for the Egyptian military start making their way to other countries, said Chris Preble, who directs foreign policy studies at the Cato Institute.

"Having weapons that used to be in the possession of an ally fall into the hands of an adversary really sucks. After the Iranian revolution, the U.S. Navy would track a handful of Harpoon missiles in the Persian Gulf region, because just one Harpoon is enough to ruin your whole day," Preble said, who directs foreign policy studies at the Cato Institute.

But he added that the Egyptian situation isn't precisely like Iran's.

"In many respects, what we're seeing in Egypt isn't a revolution. Iran was by shifting orientation from secular to Islamic dictatorship. We don't have that this time," Preble said.

The Pentagon said Feb. 3 that it had no plans to halt weapons deliveries to Egypt in coming months.

While the U.S. administration was examining its economic and military aid to Egypt in light of political upheaval there, military assistance had not been suspended, U.S. Marine Corps Col. Dave Lapan said.

Spare parts for F-16 warplanes, coastal patrol ships and fuzes for munitions are among items due to be delivered to Egypt in the early part of this year, Lapan said. □

Agence France-Press contributed to this report.