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Brazil-U.S. dispute over jets for Afghanistan likely topic of presidential talks

By Vinod Sreeharsha

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SAO PAULO - When Brazilian President Dilma Rousseff meets with President Barack Obama on Monday at the White House, the two leaders are likely to publicly use phrases like "deepening friendship" and "partnership" and highlight collaborations in science and education.

They are less likely to call attention to a recent source of tension between the two countries — a dispute involving American military jet procurement.

The conflict began in December when Brazilian's top aviation company and one of the world's largest plane manufacturers, Embraer, partnered with Sierra Nevada Corp. of Sparks, Nev., to win a U.S. Air Force contract for \$355 million to make 20 fighter aircraft for Afghanistan's military.

The losing bidder, Hawker-Beechcraft Defense Corp., based in Wichita, Kan., complained of unfair treatment and sued. After the Department of Justice found documentation errors, the Air Force suspended the contract and is now conducting an internal investigation.

The about-face created consternation in Brazil. The country's foreign ministry expressed surprise and cautioned that "this development is not considered conducive to strengthening relations between the two countries on defense affairs."

Embraer is not a state company. But similar to U.S. officials lobbying foreign governments on behalf of American companies, Brazilian leaders promote their own country's interests.

Brazil's minister of trade and development, Fernando Pimentel, recently told reporters that he expects President Rousseff to raise the issue with Obama.

The case is important to Brazil. At a time when the country's economy remains highly dependent on the export of commodities such as soy beans and orange juice, and its manufacturing sector is losing out to Chinese imports and an overvalued currency, Embraer is a great source of pride here, a reminder of Brazil's industrial and technical capabilities.

The company, which has had a U.S. headquarters in Fort Lauderdale, Fla., since 1979, has tried previously to crack the U.S. defense sector. It has won two prior contracts and has leased planes to the U.S. Navy, though Congress later killed the program.

The then congressman from Wichita, Republican Todd Tiaht, played a role in killing that contract in 2010, arguing, as his office did in a news release, that "the Navy's planned Brazilian lease project ... would have cost taxpayers more than the purchase price of an American-made version." Tiaht left office last year after he ran unsuccessfully for the U.S. Senate.

Winning the bid to provide planes to the Afghan air force was seen finally as a success for Embraer overcoming American favoritism.

Brazilian officials say the reversal of the contract smacks of politics.

One question that has come up is whether the Air Force changed its bidding process to favor Hawker-Beechcraft's AT-6 over Embraer's A-29 SuperTucano.

According to an article in the magazine Inside the Air Force, the Air Force changed its requirements for the aircraft, calling for it to strafe an enemy target with its .50-caliber machine guns while carrying two 500-pound bombs. The previous requirement called for releasing one of the bombs before strafing.

"The change is critical because performing a strafing mission with two large bombs — which, including targeting equipment, weigh more than 1,200 pounds — puts a great amount of stress on a small airframe," the article noted. "Such a change would require an aircraft to have additional power to pull up while carrying both bombs during a strafing run."

Hawker-Beechcraft denies that it influenced the change.

The Wichita company has complaints of its own. For one, it argues that the entire review process lacked transparency and filed a complaint with the Government Accountability Office last year claiming it was not properly notified that it had lost the competition.

The GAO ruled against the company in December and said Hawker-Beechcraft had been excluded because "multiple deficiencies and significant weaknesses found in HBDC's proposal

make it technically unacceptable and results in unacceptable mission capability risk."

Another question has arisen of Hawker-Beechcraft's current financial woes. News reports last week said the company is close to filing for bankruptcy.

Embraer, while financially healthy, is under investigation by the Securities and Exchange Commission for possible violations of the U.S. Foreign Corrupt Practices Act. The act bars payments to foreign officials by U.S.-based firms in consideration for contracts. The SEC declined to comment on the investigation.

Local politics are also at issue. One of Hawker-Beechcraft's main arguments over the contract is that 1,400 American jobs in Wichita are at risk if it does not win the contract. Embraer responds that it has partnered with a Nevada-based company and that the jets would be made in Florida.

The decision on the Afghan jet contract could also affect other American businesses' prospects. Boeing, for example, is bidding to provide fighter aircraft to Brazil's air force.