

## Talks on Chile jets drag on, interest seen dimmed

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SANTIAGO, Chile, Feb 5 (Reuters) - Talks between Chile and Lockheed Martin Corp. (nyse: LMT - news - people) on a \$660 million fighter jet purchase are drawing out as interest ebbs due to economic conditions in the South American nation and booming business for the U.S. defense firm, analysts said.

"The project is still on the books, but the sticking point is the offset (compensation package) and neither Chile nor Lockheed is in a hurry," military analyst Eduardo Santos told Reuters.

The government of President Ricardo Lagos, which announced the controversial purchase of 10 Lockheed F-16 jets in January 2002, has said it will not hand over the cash until it reaches a deal on the key benefit package from Lockheed.

That so-called offset package is a pact in which Lockheed promises to make investment in Chile -- creating jobs in the high-tech sector, for example -- worth the price of the sale.

But more than a year after Lockheed was awarded the lucrative contract, the government, which calls the offset plans "imperative," seems willing to wait. The first planes are due to arrive in 2005, according to defense ministry officials.

Santos said a brighter outlook for Lockheed was another factor in the sluggish pace of talks.

"Lockheed has done very well since September 11 ... and now the sale of 10 F-16s to Chile isn't that important," Santos said, adding that debt worries for Chile had suppressed its urgency for the purchase, designed to renew an aging air fleet.

"The Chilean government isn't interested in closing the deal (right now) because it doesn't want more debt," he said.

Chile's economy has slowed in the past four years and the government has built up a budget deficit of 1 percent of GDP as it issues debt to compensate for low copper prices.

Other analysts said the the sale could be called off. "The long-winded narrative of delays and blunders of the jets' selection and acquisition process makes me think that the (final payment and delivery) could be postponed or even canceled," said analyst Emilio Meneses.

Last month, Brazilian President Luiz Inacio Lula da Silva suspended a \$700 million purchase of fighter jets in order to devote the funds to fighting poverty.

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