



House of Commons  
Trade and Industry Committee

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# **Recent developments with Airbus**

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**Ninth Report of Session 2006–07**

*Volume I*





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***Volume I***

*Report, together with formal minutes*

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## The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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### Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number. The written and oral evidence will be printed as a separate volume, HC 427-II.

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## Summary

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Airbus has developed into a major player in the global civil aircraft market since its creation in 1970. However, in recent times it has faced a number of challenges, including reduced competitiveness as a result of the weak US dollar; delays and cost overruns on its flagship A380 aircraft; and the need to finance its latest project, the long range A350 XWB (extra wide body). It is for this reason that it launched its Power8 restructuring programme in October 2006. The outcome of Power8 and the allocation of work packages for the A350 XWB has been a good one for the UK. Working together, Airbus UK and the Government have won a 20% work share, with overall leadership of wing development, manufacture and assembly for the A350 XWB. They both deserve congratulations on this outcome.

Elsewhere, the company is now in negotiations to agree a risk-sharing partner for its Filton site, near Bristol, which will enable the development of high technology composite materials there. Just over 1,500 jobs are to go across the UK's two Airbus sites, but this reflects a fair proportion of the 10,000 jobs which will be lost across the company. At the same time, though, UK companies may benefit from the company's intention to double the level of work which it outsources. Overall, the outcome of Power8 should ensure the future of Airbus UK for the foreseeable future. However, political challenges to the agreed distribution of work, especially from France, may emerge. Any such challenge could require further determined intervention by the UK Government.

There remain challenges which the Government and Airbus UK must work together to overcome. The UK's ability to influence the parent company, EADS, has been significantly diminished by the sale to EADS of BAE Systems' 20% stake in Airbus. In addition, ongoing investment in research and technology development is necessary to implement the UK's National Aerospace Technology Strategy, the delivery of which is to be achieved both through national and regional channels. The current WTO dispute between the US and the EU on government subsidies for Boeing and Airbus will also shape the way in which the UK supports the aerospace sector in the future. Looking ahead, in the context of growing competition from China and India, the key challenge will be to position the UK to win further work on the next major Airbus programme—the replacement of the single aisle A320, aimed at a market which will constitute around 70% of the expected demand for aircraft over the next 20 years.



# 1 Introduction

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1. In February 2007, the European aircraft manufacturer, Airbus, announced the details of a massive restructuring programme, alongside the allocation of work packages for its next generation of long-range planes—the A350 XWB (extra-wide body). A key aspect of the planned changes is to be the shedding of around 10,000 jobs, just over 1,500 of which will be from the company’s two UK-based plants at Broughton in North Wales, and Filton near Bristol. This short Report outlines the background to the restructuring programme (Chapter 1); its implications for Airbus UK (Chapter 2); and the future role of government in ensuring the ongoing presence of the firm in this country (Chapter 3). As part of our inquiry we took oral evidence from Airbus UK, the Society of British Aerospace Companies (SBAC) and the Department of Trade and Industry (DTI). We also received memoranda from various other individuals and organisations.<sup>1</sup> We would like to express our thanks to all those who contributed to our evidence-gathering.

## Company background

2. The origins of the firm known today as Airbus SAS (Société par Actions Simplifiée) lie in a decision by the French, German and UK governments, during the 1960s, to develop a co-ordinated response to the then dominance of the global civil aviation market by the American companies, Boeing and Lockheed. Airbus Industrie was formally established in 1970 as a European collaborative venture, with the Spanish joining a year later. Its initial products were the A300B—the world’s first wide-body, twin-aisle, twin-engine aircraft—and its smaller derivative, the A310.<sup>2</sup> Although the UK government chose not to invest in these aircraft, the design and manufacture of the wings were still undertaken in this country through the sub-contractor, Hawker Siddeley Aviation. In 1978, Britain rejoined the partnership when British Aerospace (the result of a merger of Hawker Siddeley Aviation and the British Aircraft Corporation) purchased a 20% shareholding in the venture.<sup>3</sup>

3. Airbus operated as a consortium until 2000, when the French, German and Spanish parent companies—DaimlerChrysler Aerospace, Aérospatiale-Matra and CASA—merged to create the European Aeronautic Defence and Space Company (EADS). As a result of this, EADS and what is now BAE Systems established Airbus SAS as a standalone firm with a unified management team. The management structure of EADS is based on an equal sharing of power between the French and Germans, which stems from the state ownership of large shareholdings in the company by both countries. Since October 2006, Airbus SAS has been wholly owned by EADS, following the decision by BAE Systems to sell its stake in the company.<sup>4</sup>

4. Over the years, Airbus has developed a full range of aircraft to compete with its main rival, Boeing. The A300/310 planes, which will shortly be discontinued, have achieved sales

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<sup>1</sup> The oral and written evidence are published as a separate volume, HC 427-II.

<sup>2</sup> Appendix 1 (Airbus UK)

<sup>3</sup> *Ibid.*

<sup>4</sup> Appendix 7 (DTI)

of more than 800 over the past three decades.<sup>5</sup> The A320 family was launched in the 1980s. Aimed at the smaller capacity, short haul market, it has been extremely successful, amassing over 5,000 orders from around 170 customers.<sup>6</sup> The larger capacity A330/340 family followed in the 1990s, and has achieved around 1,000 orders from over 60 customers.<sup>7</sup> Then, in 2002, Airbus moved into the very large airliner market, up to that point dominated by the Boeing 747 family, with the launch of the A380 programme, capable of carrying between 555 and 850 passengers. Airbus currently has orders for 160 of these aircraft, the first delivery of which, for Singapore Airlines, is expected in October 2007.<sup>8</sup> More recently Airbus launched the A350 XWB (extra-wide body) programme—a family of medium capacity, long range aircraft, which will compete directly with Boeing's new 787 Dreamliner. It is expected to come into service in 2013 and so far has over 100 orders.<sup>9</sup> Finally, Airbus is developing the A400M, a military transport aircraft, for which it has 192 orders, and is due for first delivery in 2009.

5. Airbus currently has a global workforce of 57,000 direct employees spread across 16 sites in the UK, France, Germany and Spain, plus around 30,000 workers employed as sub-contractors. The company has more than 1,500 suppliers and industrial partners in 30 countries, including major subsidiaries in the US, China and Japan.<sup>10</sup> It is managed by a 12 member Executive Committee, which includes two British members. Louis Gallois, also joint Chief Executive Officer of EADS, is the President and CEO.<sup>11</sup>

6. Over its lifetime, Airbus has developed into a major player in the large civil aircraft sector, overtaking Boeing, in terms of market share, in the late 1990s.<sup>12</sup> It had a record year in 2005 with 1,111 new aircraft orders.<sup>13</sup> In 2006 the company achieved its second best year, with 824 orders.<sup>14</sup> However, this was below the 1,050 achieved by Boeing in the same period, underpinned by massive demand for its new 787 Dreamliner. This was the first time in recent years that Airbus had fallen behind its rival, although it was still ahead in terms of delivered planes—434 against 398 for Boeing.<sup>15</sup>

## Airbus in the UK

7. Throughout the lifetime of the company, the UK has had overall responsibility for the wings for all Airbus planes. This covers a range of activities, including design and development. The manufacture of wing parts is also largely undertaken here, either by Airbus UK or through sub-contractors, although some wing parts are manufactured

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<sup>5</sup> *Ibid.*

<sup>6</sup> <http://www.airbus.com/en/aircraftfamilies/a320/>, May 2007; Appendix 1 (Airbus UK)

<sup>7</sup> Appendix 7 (DTI)

<sup>8</sup> <http://www.airbus.com/en/aircraftfamilies/a380/>, May 2007

<sup>9</sup> Appendix 7 (DTI)

<sup>10</sup> [www.airbus.com/en/corporate/people/company\\_structure/index.html](http://www.airbus.com/en/corporate/people/company_structure/index.html)

<sup>11</sup> *Ibid.*

<sup>12</sup> Q 1 (Airbus UK)

<sup>13</sup> Airbus, *Annual Review 2005*

<sup>14</sup> Airbus, *Annual Review 2006*

<sup>15</sup> 'Airbus behind rival as orders dip', *BBC News website*, 17 January 2007

abroad, such as in the US and Korea. The different parts of the Airbus wing are outlined in an annex to this Report on page 27. Final assembly takes place in the UK, as does all wing equipping for the A320, A380 and A400M parts of the Airbus family.<sup>16</sup> This refers to the final stages of preparation of the wing, including fuel system and landing gear integration.<sup>17</sup> Overall, the UK content of Airbus wing production is about 70%.<sup>18</sup> Notionally, the UK contributes around 20% of the value of Airbus planes, reflecting the shareholding it used to hold in the company.<sup>19</sup> To put this in perspective, the A380 programme alone has resulted in £7.5 billion of work being placed in the UK, which should double over the lifetime of the programme.<sup>20</sup>

8. Airbus UK has a workforce of over 13,000 people, up from 10,000 in 2001. Through its supply chain of some 400 companies, as well as induced employment in the wider economy, the company estimates that it supports around 135,000 jobs in the UK.<sup>21</sup> Staff are based at two sites—Filton near Bristol, and Broughton in north Wales. Filton is the home of Airbus UK’s engineering teams as well as its support functions such as procurement and human resources. High-value wing manufacture and assembly also takes place there, including the A330/340 outer box and the A380 fixed trailing edge.<sup>22</sup> Airbus UK told us Broughton is “widely acknowledged to be the world’s leading manufacturer of large civil aircraft wings”.<sup>23</sup> Its tasks include the production of large-scale components such as wing skins and spars, and the assembly and equipping of complete wings. In recent years the company has invested £350 million to expand the site. With more than 300,000 m<sup>2</sup> of space used for wing production, it is now the largest manufacturing workspace in the UK.<sup>24</sup> Overall, Airbus UK constitutes a vital part of what is the world’s largest aerospace industry outside the US.<sup>25</sup>

## Recent challenges

9. In the past year, Airbus has had to confront three overlapping challenges. First, the company is facing increasing competition from Boeing. One reason for this has been the recent weakness of the US dollar. Airbus’s costs are largely in sterling and euros, yet its aeroplanes are priced and sold in dollars. The company estimates it has seen a 20% loss of competitiveness over the past six years because of the weak dollar.<sup>26</sup> In addition, Boeing has also benefited from outsourcing large parts of its manufacturing processes. Whereas Airbus currently outsources around 25% of the work on its existing programmes, the

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<sup>16</sup> Q 11 (Airbus UK)

<sup>17</sup> Appendix 1 (Airbus UK)

<sup>18</sup> Appendix 7 (DTI)

<sup>19</sup> Q 9 (Airbus UK)

<sup>20</sup> Appendix 1 (Airbus UK)

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*

<sup>23</sup> *Ibid.*

<sup>24</sup> Appendix 10 (Flintshire County Council)

<sup>25</sup> Appendix 14 (SBAC)

<sup>26</sup> Airbus press notice: ‘Power8 prepares way for “New Airbus”’, February 2007

figure for Boeing is now 80%.<sup>27</sup> For example, with the 787 Dreamliner, the firm has developed major partnerships with Italy and Japan, in which the latter has taken on full responsibility for wing production.<sup>28</sup>

10. The second major challenge Airbus faces is the increasing financial burden of the A380 programme. In June and October 2006, the company announced further delays to the delivery schedules for the period 2007 to 2010.<sup>29</sup> The first delivery, in October 2007, will be around two years behind schedule. The main reason for the delay has been a problem relating to the electrical harnesses in the aircraft. Although production will ramp up significantly from 13 aircraft in 2008, to 25 in 2009, and 45 in 2010, the delays have led to many of the A380's customers seeking to review their contracts with the company. Virgin has delayed its order by four years, while the decision by FedEx and UPS to cancel their contracts has led Airbus to abandon the freight version of the A380.<sup>30</sup> Elsewhere, though, Qantas has increased its order from 12 to 20 aircraft, almost certainly as a result of securing a better deal from the company.<sup>31</sup> With the compensation bill and delays, Airbus believes it will not now make a profit on the A380 until it has sold 420 units.<sup>32</sup> Partly as a result of cost overruns and late delivery payments to its customers, Airbus reported a loss of £389 million for 2006.<sup>33</sup> Although the delays have also had knock-on effects for UK suppliers to Airbus, the Society of British Aerospace Companies told us that high overall demand in the sector has prevented the need for any job losses within the supply chain.<sup>34</sup>

11. The third main challenge faced by Airbus is the need to finance its new A350 XWB programme.<sup>35</sup> Announced in December 2006, the medium-sized long haul aircraft is a reworking of the original A350 design, which was launched in 2005, but met with criticism from airline customers.<sup>36</sup> Airbus claims the A350 XWB is a wider, stronger, lighter and more fuel-efficient version of the original design, being largely made from advanced carbon-fibre composite materials rather than metals.<sup>37</sup> It is expected to come into operation in 2013—around five years after its competitor, the 787 Dreamliner, which has already received 544 firm orders.<sup>38</sup> The cost of the programme is estimated at €10 billion.<sup>39</sup>

**12. Since its creation almost 40 years ago, Airbus has developed into a major player in the large civil aircraft market and, until recently, has been ahead of Boeing in terms of orders won. In the past twelve months, however, the company has faced a number of**

<sup>27</sup> Appendix 2 (Airbus UK)

<sup>28</sup> Appendix 5 (Confederation of Shipbuilding and Engineering Unions)

<sup>29</sup> Appendix 1 (Airbus UK)

<sup>30</sup> 'Last A380 freighter order scrapped', *Financial Times*, 3 March 2007; 'Virgin defers A380 by four years', *BBC News website*, 26 October 2006

<sup>31</sup> 'Qantas ups A380 superjumbo order', *BBC News website*, 29 October 2006

<sup>32</sup> 'Airbus hikes A380 break-even mark', *BBC News website*, 19 October 2006

<sup>33</sup> 'A380 delay leads to Airbus loss', *BBC News website*, 9 March 2007

<sup>34</sup> Q 63 and Appendix 14 (SBAC)

<sup>35</sup> Airbus press notice: 'Power8 prepares way for "New Airbus"', February 2007

<sup>36</sup> 'Airbus plays catch-up in A350 dream', *BBC News website*, December 2006

<sup>37</sup> *Ibid.*

<sup>38</sup> <http://www.boeing.com/commercial/787family/programfacts.html>

<sup>39</sup> 'Upbeat Airbus launches A350 project', *Financial Times*, December 2006

**challenges. These include a loss of competitiveness resulting from the weak US dollar; cost overruns and delays on the A380 aircraft; and the need to find finance for its new A350 XWB programme. Overcoming these difficulties will be crucial to the company putting itself on track to recovering its market position in the future, and meeting the challenge laid down by its rival, Boeing.**

## 2 Airbus's restructuring & the A350 XWB

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13. In order to meet the competitiveness challenge it faces, at the end of last year Airbus announced its intention to implement a fundamental restructuring programme aimed at reducing costs across all aspects of the company's operations.<sup>40</sup> Known as 'Power8', the initiative aims to generate cash savings of around €5 billion by 2010, and sustainable annual cost savings of at least €2 billion thereafter. Airbus will also re-engineer its development process to reduce the time taken to design and build new aircraft from seven and a half years to less than six.<sup>41</sup> In February 2007, Airbus announced further details of the Power8 programme, alongside information on the initial allocation between countries of work packages for the A350 XWB.<sup>42</sup> The details of the final outcome had attracted the involvement of politicians from all four parent countries, each seeking to protect their national interests. Indeed, last minute wrangles over the allocation of job losses led to a two-week delay of the final announcement.<sup>43</sup> This Chapter looks at the implications for the UK of both the proposed allocation of work for the A350 XWB, and the reforms to take place under Power8.

### A350 XWB work allocation

14. The potential distribution of work across countries for the A350 XWB was of particular concern to the UK for both political and technological reasons.<sup>44</sup> Traditionally, the allocation of work packages for Airbus planes has roughly reflected the shareholding of the original partners—that is, 35% each for France and Germany, 20% for the UK, and 10% for Spain. Following the sale of BAE Systems' 20% stake in the company to EADS, however, the UK was left with no share in the company, consequently reducing its negotiating position with EADS.

15. An additional concern was that Germany and Spain in particular were in a position to make a case for some of the work usually undertaken by the UK, because of their growing competence in composite materials, some of it relevant to wing manufacture.<sup>45</sup> The use of composite technologies in aerospace has steadily increased in recent years because of their stiffness and low weight in comparison to conventional metals. Although initially used for military applications, increases in fuel prices, as well as demands to reduce emissions and improve overall aircraft efficiency, are leading to the wider deployment of composite technology in civil aircraft.<sup>46</sup> As noted above, Airbus expects a large proportion of the A350 XWB to be made from these materials. The UK is investing in composite technology, for example through its National Composites Network. This is a jointly-funded initiative, involving industry and academia, based in four regional centres, including a 4,500m<sup>2</sup> facility at Filton—the Airbus Composite Structures Development Centre. Despite this, the

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<sup>40</sup> Appendix 1 (Airbus UK)

<sup>41</sup> *Ibid.*

<sup>42</sup> Airbus press notice: 'Power8 prepares way for "New Airbus"', February 2007

<sup>43</sup> See for example, 'Airbus stalled over Power8 restructuring', *Financial Times*, 20 February 2007

<sup>44</sup> Appendix 13 (Royal Aeronautical Society)

<sup>45</sup> Appendix 7 (DTI)

<sup>46</sup> *Ibid.*

UK is still seen as playing ‘catch-up’ with the other Airbus partners in the development of composites, and this was considered a significant risk factor when it came to the allocation of work for the A350 XWB.<sup>47</sup>

16. The UK Government maintained a continuous dialogue with Airbus and its parent, EADS, up to the final announcement in February 2007. The outcome for Airbus UK was a positive one: a 20% share of the workload for the A350 XWB, in line with that which it had achieved for previous aircraft. Overall wing assembly will take place at Broughton. Design and manufacture of the trailing edge will happen at Filton. Airbus will also look for risk-sharing partners for the design and manufacture of the composite-based front and rear spars in the UK.<sup>48</sup> These are large work packages which, the DTI tells us, should “result in the transition from metallic to composite design and manufacture, and thus present good opportunities for both Airbus UK and major suppliers based in the UK”.<sup>49</sup>

17. Prior to the announcement, there had been some speculation as to which individual work packages would go to Airbus UK.<sup>50</sup> For example, EADS had considered consolidating all ‘wing equipping’ at the Broughton plant. This work involves the insertion into the wings of cables and pipes for the electrical and hydraulic systems, as well as the installation of moving surfaces. Currently, for Airbus’s long-range A330/340 aircraft, some wing equipping is undertaken at the Bremen plant in Germany, with equipping for the other Airbus models taking place in the UK. As the A350 XWB is seen as a successor to the A330/340 in the long term, in the end the decision was made to give the work package to Bremen.<sup>51</sup> The DTI told us that: “in the context of the whole package we were content with that”.<sup>52</sup> Airbus UK’s submission also notes that the front and rear spar work, to be done in the UK, is of “stronger value in technology terms”.<sup>53</sup>

18. Overall, both Airbus UK and the Government said they were pleased with the work packages allocated to the UK. The company’s Managing Director, Iain Gray, told us that securing wing leadership for the A350 XWB was “a massive success”.<sup>54</sup> The DTI said this “represents a good outcome for the UK, and is the result of sustained action by the UK Government to achieve a position on the A350 XWB that provides the most positive platform for the future”.<sup>55</sup> It noted also that it should leave the UK well-placed to win future work on the anticipated replacement for the A320.<sup>56</sup> Only the Confederation of Shipbuilding and Engineering Unions stated disappointment with the work share outcome.<sup>57</sup> Indeed, it is worth noting that, while certain work packages have been promised to the UK within the overall 20% work share, many of the finer details of who will do what,

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<sup>47</sup> Appendices 12 (Prof MA Leschziner) and 13 (Royal Aeronautical Society)

<sup>48</sup> Q 15 (Airbus UK)

<sup>49</sup> Appendix 8 (DTI)

<sup>50</sup> Appendix 2 (Airbus UK)

<sup>51</sup> Q 11 (Airbus UK) and Appendix 8 (DTI)

<sup>52</sup> Q 133 (DTI)

<sup>53</sup> Appendix 2 (Airbus UK)

<sup>54</sup> Q 14 (Airbus UK)

<sup>55</sup> Appendix 8 (DTI)

<sup>56</sup> Q 123 (DTI)

<sup>57</sup> Appendix 5 (Confederation of Shipbuilding and Engineering Unions)

and how much will be outsourced, are yet to be finalised. We consider some of these issues in the following sections.

**19. Against a backdrop of BAE Systems’ sale of its stake in Airbus, and technological competition in composite materials from other countries, we commend Airbus UK and the Government for securing a 20% work share for the A350 XWB programme. Leadership on design and assembly, as well as manufacture of the wing trailing edge, and front and rear spars, should secure the future role of Airbus UK for the foreseeable future.**

## The future of the Filton plant

20. Part of Airbus’s Power8 programme involves the restructuring of the company’s industrial base. Some of its sites will become ‘core’ sites. These are where strategically significant activities such as aircraft design or assembly take place, of which Broughton is one example.<sup>58</sup> Three non-core sites are to be sold altogether. For some sites Airbus is seeking risk-sharing partners to take partial or full control, and to assist in their development from metallic to carbon fibre composite design and manufacturing. This is the case for that part of the Filton site where manufacturing takes place, in addition to Airbus’s sites at Nordenham in Germany, and Méaulte in France.<sup>59</sup> Airbus UK told us the rationale for this approach is that it could not afford on its own to develop the facilities to transform Filton into a composite manufacturing facility.<sup>60</sup> Instead, following “strong representation from government and from employee representatives” it committed to finding a risk-sharing partner as the best solution.<sup>61</sup> Airbus UK’s intention now is to strengthen the overall capability of the plant, in the hope this will help it to win work in the medium and longer term.<sup>62</sup> However, its Managing Director, Iain Gray, warned that the future of wing part manufacture at Filton is dependent on it finding an appropriate partner.<sup>63</sup>

21. Since the Power8 announcement, Airbus has established a project team to search for a risk-sharing partner for Filton. The evidence we received from both industry and the Government was optimistic that an appropriate partner would be found. The Society of British Aerospace Companies (SBAC) noted that the UK is a world leader in risk-sharing partnership agreements, and that Filton represented “a huge opportunity”.<sup>64</sup> Iain Gray of Airbus UK told us: “Filton offers very, very significant strategic advantages”, while the DTI Minister said: “I do not think we have to look very far to find the sort of people who are likely to be ... potential partners”.<sup>65</sup> Indeed, recent reports suggest a number of firms have

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<sup>58</sup> Appendix 2 (Airbus UK)

<sup>59</sup> *Ibid.*

<sup>60</sup> Q 16 (Airbus UK)

<sup>61</sup> *Ibid.*

<sup>62</sup> Appendix 2 (Airbus UK)

<sup>63</sup> Q 19 (Airbus UK)

<sup>64</sup> Q 73 (SBAC)

<sup>65</sup> Qq 20 (Airbus UK) and 148 (DTI)

made offers to Airbus for the plants it plans either to seek partners for or to sell.<sup>66</sup> In practice, the major players based in the UK which are likely to be interested in the Filton plant include, among others, GKN, Bombardier, Spirit and General Electric, which has recently acquired the aerospace division of Smiths Group. All of these companies have important UK capabilities in the design and manufacture of composites.<sup>67</sup>

**22. The future of wing part manufacturing at the Filton plant is dependent on Airbus finding a risk-sharing partner for the site. This will assist its transition from metallic to carbon fibre composite design and manufacturing technology. Airbus UK is still in negotiations with interested companies, although a conclusion is expected very soon. Both the industry and the Government are confident that a suitable partner will be found which will help ensure the future of wing part manufacturing at the site. We are encouraged by these developments and share the participants' optimism.**

### Job losses

23. That part of the Power8 restructuring that received most media attention earlier this year was the announcement that 10,000 jobs were to be shed across the company over the next three years. These will be shared across the four partner countries—roughly 3,700 in Germany, 4,800 in France (including 1,100 from the Headquarters in Toulouse), 400 in Spain, and 1,600 in the UK.<sup>68</sup> More recent information suggests the precise number of job losses for Airbus UK will be 1,509, of which 1,095 are to go at the Filton site, and 414 from Broughton.<sup>69</sup> Airbus expects to draw around 50% of the job cuts from its permanent workforce, with the other half coming from temporary staff and sub-contractors. Although the precise split for the UK is yet to be determined, Iain Gray told us he envisaged the same kind of ratios. He also emphasised that most job losses will be from support functions and overheads, rather than affecting blue-collar workers.<sup>70</sup> At this stage, there will be no compulsory redundancies, as Airbus hopes to achieve the cuts through negotiated severance over the next two years. The company intends to monitor this approach over the coming months, and will consider other measures if it does not believe itself to be on track to achieve the workforce reductions it desires.<sup>71</sup>

24. In its evidence to us, the DTI was fairly relaxed about the size of the job losses for the UK, noting that the gradual process should preclude the need for the same type of intervention it provided for Rover employees at Longbridge in 2005.<sup>72</sup> The industry was also cautiously optimistic. The SBAC pointed to a recent survey of the sector, which shows the number of jobs across the aerospace industry is increasing. So while there is a reduction in one area, it is within the context of a growing sector.<sup>73</sup> This situation contrasts sharply

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<sup>66</sup> 'Onze repreneurs pour les sites d'Airbus', *Le Figaro*, 6 June 2007; 'Airbus lowers flags in restructuring', *The Globe and Mail*, 7 June 2007

<sup>67</sup> Appendix 8 (DTI)

<sup>68</sup> Airbus press notice: 'Power8 prepares way for "New Airbus"', February 2007

<sup>69</sup> 'Primes et embauches ravivent les tensions chez Airbus France', *Les Echos*, 30 April 2007; 'Airbus to cut 1,100 jobs at its Bristol production plant', *The Daily Telegraph*, 30 April 2007

<sup>70</sup> Q 31 (Airbus UK)

<sup>71</sup> Airbus press notice: 'Power8 prepares way for "New Airbus"', February 2007

<sup>72</sup> Q 157 (DTI)

<sup>73</sup> Q 72 (SBAC)

with the reaction of governments and employees to the job losses announced in France and Germany. Since the Power8 announcement, there has been industrial action at many of Airbus's sites on the Continent. This issue featured prominently in the recent French presidential campaign, as the two main candidates spoke out against the cuts, and promised to intervene in the company's restructuring.<sup>74</sup> This is a worrying development for our country as there is a risk that any forced re-opening of negotiations on the plans for Power8 could result in a worse outcome for the UK.

**25. Whilst job losses are regrettable, we accept that the 1,509 that Airbus plans to shed in the UK represent a fair allocation of redundancies from the 10,000 jobs, which will be lost across the company. We hope Airbus UK will work with the unions to agree appropriate measures to implement these cuts gradually. We are concerned, however, that the recent change in the French Presidency risks leading to a re-opening of negotiations among the parent countries on the implementation of Power8. We encourage the UK Government to work towards avoiding this possibility, and, in the event of any suggestion of new arrangements that may be less advantageous to the UK, to show the same commendable dedication and determination it showed in arriving at the current agreement.**

## Outsourcing

26. Alongside Airbus's plan to cut jobs across the company is the intention to outsource a larger proportion of its work. It will continue carrying out high technology, high added value work, but a range of activities, which the company believes can be done more cheaply elsewhere, will be contracted out.<sup>75</sup> The decision to seek risk-sharing partners for several of its sites, as well as the sale of others, is a key part of this process. Airbus's intention is to outsource around 50% of the aerostructure work for the A350 XWB—up from its current rate of 25%. This is still less than the levels for Boeing and Embraer, which respectively outsource 80% and 70% of the work on their current programmes.<sup>76</sup>

27. At this stage, it is difficult to see what the impact of greater outsourcing for the A350 XWB will be on the UK. As large potential customers for the aircraft, and as sources of cheap and skilled labour, China and Russia will receive some of this work. On the other hand, UK companies have a good track record of winning contracted work from Airbus. Indeed, during the 1990s, greater outsourcing of work packages enabled UK companies to increase their share of particular programmes to a point which exceeded BAE Systems' formal shareholding.<sup>77</sup> Moreover, the UK arm of Airbus already outsources some 50-60% of its work to domestic companies, and to firms in China and the US. For example, in the UK there are some 400 suppliers involved in the A380 programme.<sup>78</sup> So the changes resulting from Power8 should not be as significant for Airbus UK as they are likely to be for other parts of the company. In addition, projects such as the SBAC-led 'Supply Chains

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<sup>74</sup> 'Presidential candidates let fly with solutions to Airbus woes', *Financial Times*, 6 March 2007; 'Industrial woes stack up for France's new president', *Financial Times*, 4 May 2007

<sup>75</sup> Appendix 1 (Airbus UK)

<sup>76</sup> Appendix 2 (Airbus UK)

<sup>77</sup> Appendix 13 (Royal Aeronautical Society)

<sup>78</sup> Q 10 (Airbus UK)

for the 21<sup>st</sup> Century’ are helping UK sub-contractors to raise skill levels and improve processes, which should increase their ability to win further work.<sup>79</sup> Overall, the DTI told us that **greater levels of outsourcing for the A350 XWB represent both an opportunity and a threat to the UK.**<sup>80</sup> **It is a challenge to which we believe supply chain firms here will be able to rise—a view shared by the Society of British Aerospace Companies.**<sup>81</sup>

## Centres of excellence

28. Finally, a key element of the Power8 restructuring will be the creation of four transnational ‘centres of excellence’, which will replace the current structure of eight nationally structured centres of excellence. The previous model had been seen as overly bureaucratic and as often duplicating resources and effort.<sup>82</sup> Each centre will be fully responsible for managing the production of major sections of the aircraft. The UK has been named ‘Airbus Centre of Excellence for Wing and Pylon’ (pylons are the mountings which affix the engine to the wing). Airbus UK told us that, in practice, this means that it will have “supervisory responsibility for any part of the wing built wherever in the world”.<sup>83</sup> For example, the work done in Saint Eloi in Toulouse in producing the pylons will come under the aegis of the UK centre of excellence. The same will be true of the wing equipping work in Bremen.

29. Airbus UK told us the transnational centres of excellence will lead to the creation of a more integrated business, and that the commitment to keep the wing centre of excellence in the UK was “really good news”.<sup>84</sup> The DTI Minister also described the result for the UK as “absolutely brilliant”.<sup>85</sup> **We congratulate Airbus UK and the Government on securing the role of Centre of Excellence for Wing and Pylon. Overall leadership of wing development, manufacture and assembly for future programmes will give the UK a major involvement in composite technology and help ensure the company’s presence in the UK in the longer term.**

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<sup>79</sup> Appendix 14 (SBAC)

<sup>80</sup> Appendix 8 (DTI)

<sup>81</sup> Appendix 15 (SBAC)

<sup>82</sup> Q 34 and Appendix 2 (Airbus UK)

<sup>83</sup> Appendix 2 (Airbus UK)

<sup>84</sup> Qq 12 and 34 (Airbus UK)

<sup>85</sup> Q 123 (DTI)

### 3 Government's future role

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30. The outcome of the Power8 restructuring and the allocation of work packages for the A350 XWB represented comparatively good news for Airbus UK and the Government, given the large challenges the parent company currently faces. This does not mean that Airbus's indefinite presence in the UK can be taken for granted. There are various ways in which the Government will have to support the company in the future if the current restructuring is to represent more than a medium-term 'stay of execution'. This Chapter considers the future role of government lobbying in this regard; research and technology (R&T) support for the sector; the contribution made by the Regional Development Agencies (RDAs); and the importance of the WTO dispute in determining the future shape of publicly funded financing for the company.

#### Government lobbying

31. As noted in Chapter 1, in October 2006 BAE Systems sold its 20% stake in Airbus to EADS, leaving no significant UK shareholder in the company. The response of industry to this development has generally been sanguine. Airbus UK told us the sale had "little effect on the UK's voice in any debate regarding industrial decisions".<sup>86</sup> SBAC noted it was "unlikely to make a difference to medium term prospects for employment and investment in Airbus UK".<sup>87</sup> In contrast, though, the Confederation of Shipbuilding and Engineering Unions told us the sale had "created the potential for other shareholders to manoeuvre themselves into more advantageous positions at our expense".<sup>88</sup>

32. The potential political ramifications of the sale of BAE Systems' stake were also of concern to the DTI. Hence, prior to the sale, the Government actively engaged at ministerial and official level with EADS and Airbus in order to agree certain concessions from the parent company. In June 2006, the DTI announced that EADS had agreed to transfer to the Government the undertakings given to BAE Systems by EADS in 2000. The details of the undertakings are confidential, but essentially are designed to ensure that any decisions on the location of work packages affecting the UK are made on commercial grounds, without political influence or pressure.<sup>89</sup> EADS also agreed to create a 'transparency mechanism' with regard to decisions about location of work; to establish a UK research and development centre; and to appoint a non-executive director to the EADS board agreed by the UK Government. EADS also said it would consider a secondary listing on the London Stock Exchange, although it has subsequently decided not to pursue this.<sup>90</sup>

33. Nevertheless, the DTI Minister admitted to us that the sale of BAE Systems' stake had "weakened our bargaining position".<sup>91</sup> As a consequence, for the Power8 restructuring and A350 XWB work package negotiations, the Government has had to make up for the lack of

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<sup>86</sup> Appendix 2 (Airbus UK)

<sup>87</sup> Appendix 14 (SBAC)

<sup>88</sup> Appendix 5 (Confederation of Shipbuilding and Engineering Unions)

<sup>89</sup> Appendix 7 (DTI)

<sup>90</sup> Q 115 (DTI)

<sup>91</sup> Q 113 (DTI)

leverage bestowed by share-ownership, and make the case for the UK by other means. Airbus UK told us it had “an exemplary record in delivering top quality products to the Airbus final assembly lines on time and in budget” and that this was the primary argument that could be made in negotiations for future investment.<sup>92</sup> However, in the run-up to the Power8 announcement, there were reports of both the UK and Germany threatening to cancel military contracts with EADS if they did not receive a satisfactory outcome.<sup>93</sup> It is not possible to say whether the UK Government explicitly made this threat, or indeed whether it would have been credible if it had. That said, the DTI Minister told us:

“I think both EADS and Airbus recognise the importance of the UK, both because of our experience and expertise, and because of our position as a customer in the civil and defence aviation sectors, and therefore we were able to negotiate that satisfactory outcome.”<sup>94</sup>

**34. Without a significant UK shareholding in Airbus, the Government’s bargaining position vis-à-vis the other parent countries has been weakened. Whether the emphasis of the UK Government’s negotiating strategy for Power8 and the allocation of A350 XWB work packages was on the ‘carrot’ or the ‘stick’, the approach worked in terms of achieving a successful outcome for the UK. This is encouraging, given that it is the only *modus operandi* now available to the Government. We hope, though, that through its negotiations, the Government has not undermined the undertakings agreed with EADS designed to ensure that work package decisions affecting the UK are taken on commercial grounds, free from political interference.**

## Support for research and technology development

35. The technology used in new aircraft is typically derived from research and development (R&D) activities undertaken at least a decade previously. For example, much of the new technology in Boeing’s popular 787 Dreamliner is the result of investments made by government-funded NASA programmes in the 1990s.<sup>95</sup> Not only is R&D a long-term activity, it is also one which generates wider economic benefits. For example, a study by Oxford Economic Forecasting estimates that a one-time £100 million investment in R&D raises UK GDP by £50 million per annum.<sup>96</sup> The UK aerospace industry has a good record of investing in research, spending £2.52 billion on R&D in 2005/06, accounting for 13% of the total R&D expenditure of the UK’s top 800 companies.<sup>97</sup> Airbus UK is one of the largest investors in R&D in the aerospace sector, spending £343 million in 2005/06—an average of £34,000 per employee.<sup>98</sup>

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<sup>92</sup> Appendix 2 (Airbus UK)

<sup>93</sup> See for example, ‘UK warns EADS not to scrap jet wing plans’, *Financial Times*, 26 January 2007; ‘Berlin threatens EADS on Airbus jobs’, *Financial Times*, 5 February 2007

<sup>94</sup> Q 113 (DTI)

<sup>95</sup> Appendix 11 (Lawrence Research Associates)

<sup>96</sup> Appendix 14 (SBAC)

<sup>97</sup> DTI, *The R&D Scoreboard 2006*; The top 800 companies are measured by expenditure on R&D.

<sup>98</sup> Appendix 4 (CBI)

36. Despite the high level of company-funded aerospace R&D expenditure in the UK, the long-term nature and wider economic benefits of such activities means there is an important role for government to play in leveraging further investment over and above that which the private sector would carry out on its own. As SBAC put it, the “support we are looking for from government is ... at the very early stage where there is no identifiable commercial application”; in other words, where the risks, but potentially also the benefits, are greatest.<sup>99</sup> To this end, the Aerospace Innovation and Growth Team (AeIGT) was launched by the Government in 2002 to help maintain the UK aerospace industry’s global position, and develop world-class technologies. Its final report recommended the creation of a National Aerospace Technology Strategy (NATS). Subsequently developed by the AeIGT, the Strategy is a collaborative effort between government, industry and academia. Its aim is to ensure that the technology generated by the UK’s science base flows through to industry for commercial exploitation.<sup>100</sup> To ensure the successful implementation of NATS, it was estimated that £300 million of annual expenditure was necessary across a range of research topics. In particular, it set out the need for government expenditure on civil aerospace research and technology (R&T) development to be raised from its 2004 level of around £20 million per annum, to £70 million per annum, matched by industry.<sup>101</sup>

37. The Government has made some progress in raising the level of funding for civil aerospace R&T, through the DTI’s Technology Programme. Since its launch in April 2004, the aerospace industry has been awarded £110 million—roughly a quarter of the total available funding under the Technology Programme. On top of this, the Regional Development Agencies have provided £43 million of support. In total, the Department estimates that annual funding for the sector has risen to £45 million a year—more than twice the level of government investment provided under its previous sector support scheme, the Civil Aircraft Research and Technology Demonstration (CARAD) programme.<sup>102</sup> Proportionately, Airbus UK has done even better. Whereas before it had typically received around £2 million per year, projects involving the company are currently receiving around £14 million a year.<sup>103</sup> One example is the National Composites Network, which is supporting the development of four regional centres for research into composite technologies. As noted earlier, one of these is being led by Airbus UK at its Filton plant, where it is working in collaboration with other companies and the University of Bristol.<sup>104</sup> Overall, the DTI believes it “has made good progress so far in launching projects that meet Airbus’s strategic needs, drawing on both national and regional resources”.<sup>105</sup>

38. Be that as it may, we received evidence from both Airbus UK and the wider aerospace industry stating concern at the current level of government R&T support for the sector.<sup>106</sup> It noted that, while expenditure has risen significantly in recent years, it still falls some way

<sup>99</sup> Q 93 (SBAC)

<sup>100</sup> *Ibid.*

<sup>101</sup> Appendix 1 (Airbus UK)

<sup>102</sup> Appendix 9 (DTI)

<sup>103</sup> *Ibid.*

<sup>104</sup> Q 154 (DTI) and Appendix 4 (CBI)

<sup>105</sup> Appendix 7 (DTI)

<sup>106</sup> Q 44 and Appendix 1 (Airbus UK); Q 83 and Appendix 14 (SBAC); Appendix 4 (CBI)

short of the required £70 million per annum set out in the NATS. What is more, the SBAC believes the current level of £45 million will mark a peak in government funding unless exceptional measures are taken.<sup>107</sup> The Confederation of British Industry argued that a doubling of the DTI Technology Programme’s budget to at least £625 million would be necessary to ensure a “critical mass of activity”.<sup>108</sup>

39. In evidence to us, the industry also criticised certain aspects of the Technology Programme’s management. A particular concern was the fact that the Programme is not sector-specific and, as such, the aerospace industry must compete with other sectors for its share of R&T support.<sup>109</sup> Our witnesses argued that this, combined with the *ad hoc* nature of funding for specific programmes, made it more difficult for firms to make long-term R&T investment decisions. As Airbus UK’s Managing Director, Iain Gray, put it: “the aerospace business is a long-term R&D intensive business, and we need ... forward visibility of what R&D investment is going to be in the years ahead”.<sup>110</sup>

40. In response to these criticisms, the DTI told us it was working to do better, but that it was still proud of the Government’s record of raising R&T investment in the sector.<sup>111</sup> The Department also told us it was reforming delivery of the Technology Programme by reconstituting the Technology Strategy Board (TSB) as an executive non-departmental public body, operating at ‘arms-length’ to government.<sup>112</sup> Whereas previously the TSB’s role had been mainly advisory, the Board will now have full responsibility for delivery of the Technology Programme. In so doing, it will have to take account of the long-term needs of nationally agreed strategies such as the NATS. It will also be for the Board to decide whether the current approach of six-monthly competitions for grants is the best way of meeting the needs of business.<sup>113</sup> This suggests that the Department is working to address some of the concerns raised by the aerospace industry. Indeed, the reforms were generally welcomed in the evidence we received.<sup>114</sup>

41. Finally, as noted in Chapter 2, there is competition in R&T between the Airbus partner countries, particularly regarding the development of composites. The more advanced composites expertise developed in Spain and Germany was seen as a risk factor in the allocation of work packages for the A350 XWB. We received conflicting evidence on the relative levels of R&T expenditure by the European partners. The SBAC told us government support for aerospace was much higher in France, Germany and Spain, and funded in a more direct way than in the UK.<sup>115</sup> By contrast, the DTI said that funding by the European governments was more complex, although it believed it to be roughly on a par with that provided here.<sup>116</sup> The Department did acknowledge that the UK is lagging

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<sup>107</sup> Appendix 14 (SBAC)

<sup>108</sup> Appendix 4 (CBI)

<sup>109</sup> Qq 44 (Airbus UK) and 83 (SBAC); Appendix 16 (West of England Aerospace Forum)

<sup>110</sup> Q 44 (Airbus UK)

<sup>111</sup> Q 164 (DTI)

<sup>112</sup> Appendices 7 and 9 (DTI)

<sup>113</sup> Appendix 9 (DTI)

<sup>114</sup> Q 44 (Airbus UK) and Appendix 4 (CBI)

<sup>115</sup> Q 85 (SBAC)

<sup>116</sup> Q 177 (DTI)

significantly behind the US on R&T investment.<sup>117</sup> This is a concern, given the important role that technological advances have played in making Boeing's newest aircraft, the 787 Dreamliner, so popular.

**42. Ongoing investment in research and technology (R&T) development is vitally important for Airbus to remain competitive with Boeing in the long term. European governments therefore have an important role to play in leveraging greater funding for R&T from the aerospace industry. In this context, the UK Government has begun to fulfil its part by doubling its expenditure on civil aerospace R&T to an annual figure of around £45 million. We welcome this increase, but note that it is still well below the £70 million per annum the industry says it needs to implement the National Aerospace Technology Strategy. Given the likely fiscal tightening under the 2007 Comprehensive Spending Review the main way in which the sector is likely to raise its funding further is through more successful applications to the Government's Technology Programme, vis-à-vis other industries. We welcome, too, reforms to the Technology Strategy Board, which should help address concerns regarding the long-term sustainability of R&T funding for aerospace.**

**43. Looking forward, following the implementation of Power8, we hope that European governments do not engage in potentially wasteful competition between partner countries on overlapping R&T support. Rather, governments should seek to develop a co-ordinated approach to R&T that ensures the long-term competitiveness of Airbus versus its American rival.**

## **The role of the Regional Development Agencies**

44. The UK's civil aerospace sector is spread widely across the country, although there are some examples of clustering. For instance, Airbus's Filton operation is estimated to support around 37,000 jobs in the south west, directly, indirectly, or through induced employment.<sup>118</sup> The West of England Aerospace Forum told us the plant's presence acts as a magnet in the region for attracting highly qualified and experienced workers.<sup>119</sup> In addition, the Filton site sources around 40% of its total supplies from the south west, and is responsible for a number of spin-off businesses in the local area.<sup>120</sup> Airbus's Broughton plant is also an example of a regional cluster, employing around 8,000 staff, and indirectly supporting the jobs of a further 12,000 through its supply chain.<sup>121</sup> Generally, though, the aerospace industry is dispersed fairly widely. A clear example of this is the fact that the supply chain for the A380 draws from around 400 UK companies, spread right across the country.<sup>122</sup>

45. Because of the importance of the aerospace sector to many parts of the UK, in recent years the Regional Development Agencies (RDAs) have started to play a role in providing

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<sup>117</sup> *Ibid.*

<sup>118</sup> Appendix 3 (Bristol City Council)

<sup>119</sup> Appendix 16 (West of England Aerospace Forum)

<sup>120</sup> Appendices 3 (Bristol City Council) and 17 (West of England Partnership)

<sup>121</sup> Appendix 10 (Flintshire County Council)

<sup>122</sup> Appendix 1 (Airbus UK)

financial support for local firms, in so doing helping to leverage funds from the DTI's Technology Programme. As noted earlier, the Agencies have provided £43 million of R&T support in the past three years. For example, about three quarters of the £18.75 million of public funding for the National Composites Network is being provided by the regions.<sup>123</sup> With £2.3 billion now allocated each year to the RDAs from central government, they are an important potential source of funding for R&T work.<sup>124</sup>

46. The involvement of the RDAs in the aerospace sector has been broadly welcomed by the industry, although our witnesses raised concerns in a few areas. One of the main issues was that of co-ordination. SBAC noted that, while the UK has a National Aerospace Technology Strategy, a large proportion of it is being delivered on a regional basis, involving all three devolved administrations, and seven of the RDAs.<sup>125</sup> Airbus UK thought there was a risk of regions competing with each other and duplicating work.<sup>126</sup> The number of players also creates difficulties from an administrative perspective. Where a consortium may be applying for funds from several RDAs, the industry has often found that Agencies have differing application processes, and use different criteria for assessing projects.<sup>127</sup> This problem is frequently compounded by the fact that major aerospace programmes usually involve a number of companies, reflecting the complexity of the sector's supply chains.

47. In defence of the RDAs, Airbus UK told us: "there are some excellent examples where the Regional Development Agencies have been working in close partnership with industry and making a difference".<sup>128</sup> The DTI was also keen to defend the use of regional support to help deliver a national strategy. The Department told us it had recently agreed with the RDAs to simplify the application process, contract documentation and monitoring procedures for R&T funds provided nationally and regionally. It also committed itself to keep the situation under review to see what further improvements may be achieved.<sup>129</sup>

**48. The UK's civil aerospace industry is spread widely across the UK, with a few examples of clusters, such as at Broughton in north Wales, and Filton in the south west. Because of the importance of the sector for many regions, the Regional Development Agencies (RDAs) are now playing an important role in providing R&T funding to the industry. Both Airbus UK and the Society of British Aerospace Companies expressed to us their concern at the level of co-ordination between the regions in the delivery of the National Aerospace Technology Strategy (NATS). We welcome the reforms the DTI has put in place to reduce the administrative burden for firms seeking support but we urge the Department to keep these arrangements under review. We hope, too, that it will engage fully with the RDAs to ensure they work together, and not in competition. Aerospace is an international business and, where UK public support is appropriate, it must not be fragmented.**

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<sup>123</sup> Appendix 7 (DTI)

<sup>124</sup> Q 166 (DTI)

<sup>125</sup> Qq 103 and 106 (SBAC)

<sup>126</sup> Q 45 (Airbus UK)

<sup>127</sup> Q 83 (SBAC)

<sup>128</sup> Q 45 (Airbus UK)

<sup>129</sup> Appendix 9 (DTI)

## The WTO dispute and the future of Launch Aid

49. There has been a long history of disputes between Boeing and Airbus over the level of government support from which both companies benefit. Partly, this reflects the different ways in which the US and EU provide this support—the former has traditionally focused primarily on early stage R&T, while the latter has emphasised funding for later stage project development. In 1992, the EU and the Americans signed an agreement placing a ceiling for direct government support of 33% of total development costs.<sup>130</sup> Then in 2004 the US Government unexpectedly withdrew from this agreement, requesting the establishment of a WTO panel. This was triggered in part by European governments' announcement of launch aid support for the A350 (the precursor to the A350 XWB). Launch aid is up-front project investment, paid back to governments in the form of a levy on the sale of each aircraft sold. Over the past 30 years, the UK Government has loaned over £1.2 billion of such investment to Airbus UK, against which it has received payments of around £1.3 billion, with the promise of more to come over the lifetime of Airbus's current aircraft.<sup>131</sup>

50. Since the US withdrawal from the 1992 agreement, the two sides have been locked in dispute. The WTO is adjudicating on two concurrent cases. The US contends that launch aid to Airbus contravenes WTO rules on permissible subsidies because loans are offered below commercial rates of interest, and are repayable on the basis of the volume of sales.<sup>132</sup> In response, the EU has brought a case against the US, which involves purported tax breaks and subsidised bond payments by certain US states. For example, for the 787 Dreamliner the State of Washington provided Boeing with a \$3.2 billion tax break, which will run until 2024, in order to prevent the company from moving final assembly work overseas.<sup>133</sup> The EU's case does not even take account of the additional backing for Boeing provided by other countries, such as the \$1.6 billion of grants given by the Japanese who are responsible for around 35% of the 787 project. Such support, nevertheless, is of benefit to Boeing. One estimate of the total subsidy for Boeing's 787 programme is as high as \$5 billion.<sup>134</sup>

51. The European Commission is leading negotiations on the EU side of the dispute. Because of the complexity of the case a resolution is not expected in the near future.<sup>135</sup> The DTI told us the UK remains in favour of a negotiated solution, although this would be dependent on the US coming up with a credible offer that would allow both sides to compete fairly.<sup>136</sup> Whatever the resolution, it seems likely that future support for Airbus may well take a different form to the type of launch aid provided in the past—either by giving loans on a more commercial basis, or by shifting the focus of support to greater R&T, which is the company's preferred option. Any such outcome would also require the joint agreement of the four parent countries—no mean feat in itself. In the meantime, we **support the EU in its WTO case against the US, noting the very high level of public**

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<sup>130</sup> Appendix 4 (CBI)

<sup>131</sup> Appendix 7 (DTI)

<sup>132</sup> Appendix 4 (CBI)

<sup>133</sup> Appendix 11 (Lawrence Research Associates)

<sup>134</sup> *Ibid.*

<sup>135</sup> Qq 197 and 199 (DTI)

<sup>136</sup> Appendix 7 (DTI)

subsidy Boeing receives, not just domestically, but also through other countries involved in the 787 Dreamliner programme. We urge all those responsible for negotiations on the dispute to recognise the scale of Boeing's support coming from other countries and particularly from Japan.

## Looking to the future

52. As noted already in this Chapter, despite the comparatively favourable outcome for the UK from the Power8 restructuring and the allocation of work for the A350 XWB, there are still challenges to be faced if the UK's civil aerospace industry is to remain a world leader. Companies are beginning to take advantage of the opportunities offered by countries such as China and India, which are seeking to develop their own aerospace sectors. For example, EADS will open a Technology Centre in India in 2007. Rolls Royce and GKN, amongst others, are also moving into Asia to take advantage of skilled labour and low overheads there.<sup>137</sup> Airbus, too, has opened a new assembly plant in Tianjin to build the A319/320 aircraft for the Chinese market.<sup>138</sup>

53. A key challenge for the UK relates to the research and technology required for future Airbus projects—in particular, the anticipated replacement of the single aisle A320. Around 70% of the estimated potential demand for aircraft over the next 20 years is expected to be single aisle.<sup>139</sup> The Managing Director of Airbus UK, Iain Gray, said to us the company is “at a crossroads”, but that “with the right levels of investment, the right commitments from the company, from government and the supply chain, Airbus has a rosy future and can secure its share of what is a 22,000 aircraft market over the next 20 years”.<sup>140</sup> In turn, the DTI told us: “the UK now has an opportunity ... to assure ourselves of a strong position in the world” and that this is dependent on proper investment in R&T and skills, and on maintaining a business environment that allows the UK's aerospace industry to continue to flourish. We agree.

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<sup>137</sup> Appendix 7 (DTI)

<sup>138</sup> Appendix 1 (Airbus UK)

<sup>139</sup> Q 65 (SBAC)

<sup>140</sup> Q 4 (Airbus UK)

# Conclusions and recommendations

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## Recent challenges faced by Airbus

1. Since its creation almost 40 years ago, Airbus has developed into a major player in the large civil aircraft market and, until recently, has been ahead of Boeing in terms of orders won. In the past twelve months, however, the company has faced a number of challenges. These include a loss of competitiveness resulting from the weak US dollar; cost overruns and delays on the A380 aircraft; and the need to find finance for its new A350 XWB programme. Overcoming these difficulties will be crucial to the company putting itself on track to recovering its market position in the future, and meeting the challenge laid down by its rival, Boeing. (Paragraph 12)

## A350 XWB work allocation

2. Against a backdrop of BAE Systems' sale of its stake in Airbus, and technological competition in composite materials from other countries, we commend Airbus UK and the Government for securing a 20% work share for the A350 XWB programme. Leadership on design and assembly, as well as manufacture of the wing trailing edge, and front and rear spars, should secure the future role of Airbus UK for the foreseeable future. (Paragraph 19)

## Airbus's restructuring

3. The future of wing part manufacturing at the Filton plant is dependent on Airbus finding a risk-sharing partner for the site. This will assist its transition from metallic to carbon fibre composite design and manufacturing technology. Airbus UK is still in negotiations with interested companies, although a conclusion is expected very soon. Both the industry and the Government are confident that a suitable partner will be found which will help ensure the future of wing part manufacturing at the site. We are encouraged by these developments and share the participants' optimism. (Paragraph 22)
4. Whilst job losses are regrettable, we accept that the 1,509 that Airbus plans to shed in the UK represent a fair allocation of redundancies from the 10,000 jobs, which will be lost across the company. We hope Airbus UK will work with the unions to agree appropriate measures to implement these cuts gradually. We are concerned, however, that the recent change in the French Presidency risks leading to a re-opening of negotiations among the parent countries on the implementation of Power8. We encourage the UK Government to work towards avoiding this possibility, and, in the event of any suggestion of new arrangements that may be less advantageous to the UK, to show the same commendable dedication and determination it showed in arriving at the current agreement. (Paragraph 25)
5. Greater levels of outsourcing for the A350 XWB represent both an opportunity and a threat to the UK. It is a challenge to which we believe supply chain firms here will be able to rise—a view shared by the Society of British Aerospace Companies. (Paragraph 27)

6. We congratulate Airbus UK and the Government on securing the role of Centre of Excellence for Wing and Pylon. Overall leadership of wing development, manufacture and assembly for future programmes will give the UK a major involvement in composite technology and help ensure the company's presence in the UK in the longer term. (Paragraph 29)

### Government's future role

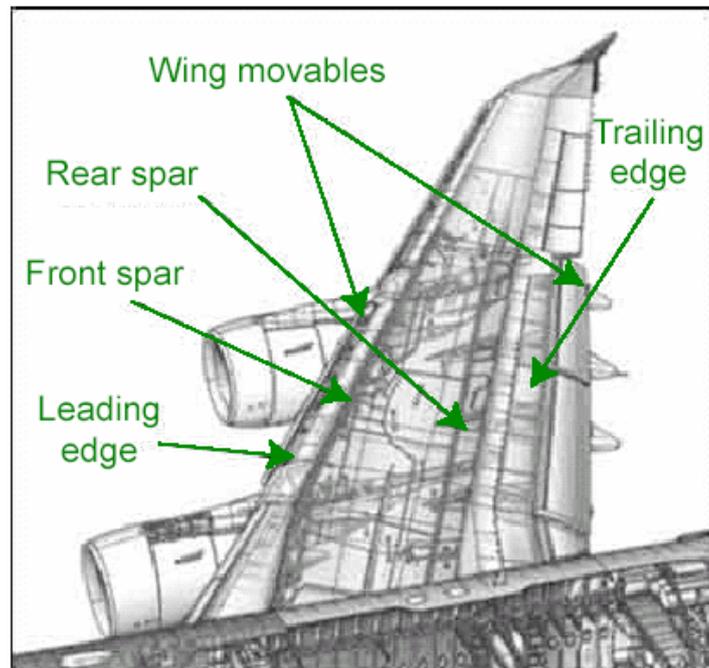
7. Without a significant UK shareholding in Airbus, the Government's bargaining position vis-à-vis the other parent countries has been weakened. Whether the emphasis of the UK Government's negotiating strategy for Power8 and the allocation of A350 XWB work packages was on the 'carrot' or the 'stick', the approach worked in terms of achieving a successful outcome for the UK. This is encouraging, given that it is the only modus operandi now available to the Government. We hope, though, that through its negotiations, the Government has not undermined the undertakings agreed with EADS designed to ensure that work package decisions affecting the UK are taken on commercial grounds, free from political interference. (Paragraph 34)
8. Ongoing investment in research and technology (R&T) development is vitally important for Airbus to remain competitive with Boeing in the long term. European governments therefore have an important role to play in leveraging greater funding for R&T from the aerospace industry. In this context, the UK Government has begun to fulfil its part by doubling its expenditure on civil aerospace R&T to an annual figure of around £45 million. We welcome this increase, but note that it is still well below the £70 million per annum the industry says it needs to implement the National Aerospace Technology Strategy. Given the likely fiscal tightening under the 2007 Comprehensive Spending Review the main way in which the sector is likely to raise its funding further is through more successful applications to the Government's Technology Programme, vis-à-vis other industries. We welcome, too, reforms to the Technology Strategy Board, which should help address concerns regarding the long-term sustainability of R&T funding for aerospace. (Paragraph 42)
9. Looking forward, following the implementation of Power8, we hope that European governments do not engage in potentially wasteful competition between partner countries on overlapping R&T support. Rather, governments should seek to develop a co-ordinated approach to R&T that ensures the long-term competitiveness of Airbus versus its American rival. (Paragraph 43)
10. The UK's civil aerospace industry is spread widely across the UK, with a few examples of clusters, such as at Broughton in north Wales, and Filton in the south west. Because of the importance of the sector for many regions, the Regional Development Agencies (RDAs) are now playing an important role in providing R&T funding to the industry. Both Airbus UK and the Society of British Aerospace Companies expressed to us their concern at the level of co-ordination between the regions in the delivery of the National Aerospace Technology Strategy (NATS). We welcome the reforms the DTI has put in place to reduce the administrative burden for firms seeking support but we urge the Department to keep these arrangements under review. We hope, too, that it will engage fully with the RDAs to ensure they

work together, and not in competition. Aerospace is an international business and, where UK public support is appropriate, it must not be fragmented. (Paragraph 48)

11. We support the EU in its WTO case against the US, noting the very high level of public subsidy Boeing receives, not just domestically, but also through other countries involved in the 787 Dreamliner programme. We urge all those responsible for negotiations on the dispute to recognise the scale of Boeing's support coming from other countries and particularly from Japan. (Paragraph 51)
12. A key challenge for the UK relates to the research and technology required for future Airbus projects—in particular, the anticipated replacement of the single aisle A320. Around 70% of the estimated potential demand for aircraft over the next 20 years is expected to be single aisle. The Managing Director of Airbus UK, Iain Gray, said to us the company is “at a crossroads”, but that “with the right levels of investment, the right commitments from the company, from government and the supply chain, Airbus has a rosy future and can secure its share of what is a 22,000 aircraft market over the next 20 years”. In turn, the DTI told us: “the UK now has an opportunity ... to assure ourselves of a strong position in the world” and that this is dependent on proper investment in R&T and skills, and on maintaining a business environment that allows the UK's aerospace industry to continue to flourish. We agree. (Paragraph 53)

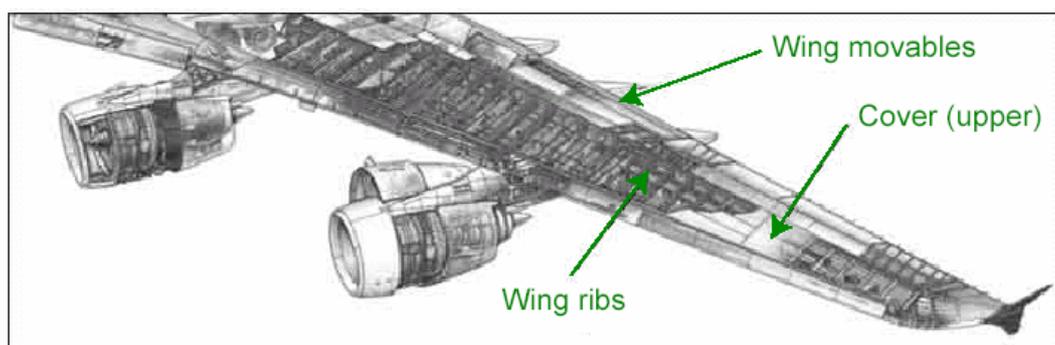
## Annex: The Airbus wing

The diagrams below show the breakdown of wing parts for a typical Airbus plane—in this case, the A380.<sup>141</sup>



The front and rear spars are large U-shaped girder-like structures running nearly the entire length of the wing that carry the load of the aircraft to the wings. In flight, the fuselage hangs from the spars while the wing provides the lift. The spars also provide the wing with its lateral stiffness and bear the undercarriage loads.

The leading edge and trailing edge are joined to the front and rear spars respectively. They are attachment points for the moveable surfaces on the wing (flaps, ailerons, spoilers, etc).



The wing ribs form the aerofoil shape of the wing and are positioned along the wing, forming bridges between the two spars and giving the wing shape and stiffness perpendicular to the spars. Combined with the spars, the ribs form the frame of the wingbox.

<sup>141</sup> Source: DTI

The covers enclose the wingbox structure. The upper cover is mostly uninterrupted while the lower cover is more complex with holes cut in it to accommodate access ports and connection points for landing gears, engine pylons and fuel access. Covers are also referred to as skins.

Moveable surfaces are front and rear moving parts that are designed to create lift and control in flight. They include the flaps, slats and ailerons.

The wingbox is the term used to describe the central wing, consisting of the two spars, ribs and covers, supporting the leading edge and trailing edge, and the fuel tanks.

# Formal minutes

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**Tuesday 19 June 2007**

Members present:

Mr Peter Luff, in the Chair

Roger Berry

Mr Brian Binley

Mrs Claire Curtis-Thomas

Miss Julie Kirkbride

Judy Mallaber

Rob Marris

Mr Mike Weir

Mr Anthony Wright

Draft Report (Recent developments with Airbus), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1–53 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Ninth Report of the Committee to the House.

[Adjourned till Thursday 21 June at 10.45am]

# Witnesses

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## Tuesday 27 March 2007

*Page*

Mr Iain Gray, **Airbus UK**

Ev 1

Mr Paul Everitt, Mr Andy Leather and Mr John Janke, **Society of British Aerospace Companies**

Ev 10

## Tuesday 24 April 2007

RT Hon Margaret Hodge MBE MP, Mr Malcolm Scott and Mr Mark Russell,  
**Department of Trade and Industry**

Ev 19

## List of written evidence

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- 1 Airbus UK
- 2 Airbus UK (Supplementary)
- 3 Bristol City Council
- 4 Confederation of British Industry
- 5 Confederation of Shipbuilding and Engineering Unions
- 6 Confederation of Shipbuilding and Engineering Unions (Supplementary)
- 7 Department of Trade and Industry
- 8 Department of Trade and Industry (Supplementary)
- 9 Department of Trade and Industry (Supplementary)
- 10 Flintshire County Council
- 11 Lawrence Research Associates
- 12 Prof MA Leschziner
- 13 Royal Aeronautical Society
- 14 Society of British Aerospace Companies
- 15 Society of British Aerospace Companies (Supplementary)
- 16 West of England Aerospace Forum
- 17 West of England Partnership

## List of unprinted evidence

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed. Copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives, Houses of Parliament, London SW1A 0PW. (Tel: 020 7219 3074; Fax: 020 7219 2570; Email: [archives@parliament.uk](mailto:archives@parliament.uk)). Hours of inspection are from 9.30am to 5.00pm on Mondays to Fridays.

South Gloucestershire Council

University of Bristol

University of Southampton

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2006–07

First Report	Local energy—turning consumers into producers	HC 257 (HC 494)
Second Report	Work of the Committee in 2005-06	HC 332
Third Report	Stamp of Approval? Restructuring the Post Office Network	HC 276 (HC 593)
Fourth Report	Success and failure in the UK car manufacturing industry	HC 399
Fifth Report	Better Skills for Manufacturing	HC 493-I
Sixth Report	Marketing UK plc—UKTI's five-year strategy	HC 557
Seventh Report	Trade with Brazil and Mercosur	HC 208-I
Eighth Report	Restructuring the Post Office Network	HC 593