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## European Aerospace

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# Cost-Cutting for Globalization Fails

by Rainer Apel

The emergency crisis session of the board of the Airbus corporation in Toulouse, France on Oct. 3 made the crisis of the company official: Not unrelated to its inability to build the new super-airliner A-380 on schedule, Airbus will not be able to prevent losses in expected profits in the range of 4.8 billion euros, over the 2006-10 period. The over-ambitious plan for the A-380, an integral aspect of the company's drive to become the winner of globalization in the airline sector, bypassing the U.S. Boeing corporation, failed miserably, because Airbus will be able to deliver only one new super-airliner by no earlier than October 2007, instead of the envisaged 25 planes.

The first A-380 should have been delivered to Singapore Airlines in March of this year; it was postponed until December, and now it's off for another year. In August 2008, the Emirates Airline may be lucky to receive its first airliner, and by the end of 2010, it may be more than lucky if it receives 13, instead of the 45 planes it ordered.

One of the problems faced with the A-380 project, is the drastic shortage of engineering capacity, due to brutal cost-cutting by the management, which included cutting development cycles from eight to six years, and increasing "productivity" by 20%, by exploitation of the existing workforce. Even massive advertisements did not help ease the engineering bottleneck, which led to an overhaul in the management; the new team only presented plans for even more drastic cost-cutting.

After the Oct. 3 emergency session, management wants to go for job cuts in the range of 3,000, and likely also, the outsourcing of production to Asia.

Airbus is the cornerstone of the joint Franco-German airline-manufacturing industry; the crisis there overlaps with the decision of Daimler-Chrysler, the biggest shareholder in the firm, to quit aerospace and focus on auto-making only. Daimler-Chrysler already sold 7.5% of its 30% stake in EADS, the Franco-German mother firm of Airbus, and its intent to sell the rest soon, has sounded alarm bells in Berlin, where the government plans to buy into EADS to prevent crucial aerospace know-how from getting into foreign hands. Since Germany almost lost its biggest shipyard, Howaldtswerft, to U.S. equity funds in 2002—prevented by a last-minute intervention on grounds of national interest—there is fear in

Berlin that the same could happen with Airbus, if Daimler-Chrysler sells the rest of its shares to Anglo-American equity funds.

Berlin is thinking of using the state-run Kreditanstalt für Wiederaufbau bank to buy shares from Daimler-Chrysler, following the example of the French government, which bought shares from the Lagardère group to increase its own EADS stake to 15%. And, there is another government that is playing a role: The Russians bought 4.8% of EADS in 2005, using their Foreign Trade Bank. The prospect of these three governments controlling a majority stake at EADS, is making the hard-core globalizers nervous, because the Franco-German-Russian combination offers the perspective of a Eurasian alternative to globalization and bankruptcy.

### The Russian Dimension

So far, the Eurasian aspect has been more a by-product of aerospace firms' engagements, than government action. EADS bought a stake of 10% in Irkut, a Russian aircraft manufacturer, through which it will be prominently represented in the new national aircraft group which Moscow wants to form out of about 20 Russian manufacturers. Moscow has, on the other hand, hinted that it might want to increase its own stake in EADS to 10% or even more, to have more say on the development and production strategy of the firm. French President Jacques Chirac and German Chancellor Angela Merkel were not too pleased about the idea, when they met with Russian President Vladimir Putin near Paris on Sept. 23; but the acute crisis at EADS, a leading manufacturer of space technology, leaves them with little choice. Russian partnership in Franco-German industrial cooperation offers a solution; it just has to be under the control of the three governments, to offer protection from speculative trends on the globalized private aerospace markets.

EADS is well positioned for a role in real Eurasian aerospace development. Its more than 20 aircraft projects in Russia include one for Russian manufacturing of components for the planned Airbus-400, a large military transport aircraft. EADS is also a partner, together with Russia's Kunichev space-technology group, in the joint development of the new Rokot space-carrier system. And, EADS is an attractive future partner for the Russians, in the development and production of satellite and space-station systems. EADS produces the Galileo system, the European response to the American Global Positioning System, in which Russia has a share as well. Future generations of positioning systems will be based on joint Euro-Russian research and development.

Under an agreement signed in 2003, Germany launches five military spy satellites from the Russian site at Plesetsk, which is operated by the Russian Space Forces. After 2008, the Germans will use these satellites to operate their new SAR-Lupe camera, a radiometric surveillance system with much higher precision than the U.S. devices that are now in use.