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IT'S TIME FOR THE EUROPEAN AIRCRAFT INDUSTRY TO GET OFF THE GROUND

With more than 400 000 employed and an annual turnover of some 6 thousand million dollars, the European aircraft industry occupies a very important place in the Community's economy. Yet Europe, although it represents some 20% of the world's civil aircraft market, built only 7% of world production in 1974. This was not for lack of ambitious programmes: over the past ten years Europe has put in hand as many projects as the United States. But the greater part of them stopped short: on average, an American model is built and sold five times as often as a European one. The financial implications for the two industries are clear to see.

The Commission is, therefore, sounding a real alarm in its recent communication to the Council of the European Communities: if the Community countries continue to pursue national policies they will lead to the disappearance of an independent European aircraft industry.

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The Member States must go beyond the stage of inter-governmental cooperation, which has proved its ineffectiveness, and set up for the aircraft industry a true common policy and provide the European Community with the means to implement it, both at industrial and commercial level and in terms of air transport.

The proposals from the European Commission (based on a study of the situation in the aircraft sector, summarized in the annex) define what a future common European aircraft policy should look like and set out a development programme for it, taking account of market realities.

#### 1. The market for the European aircraft industry

Although evident, it is all too often forgotten that the European aircraft industry cannot base its future only on its ability to satisfy users' needs. Moreover, it cannot hope to penetrate export markets (which are essential to it) unless it occupies an important place on its own market. Finally, since this is an industry which serves both the military and civil markets, and since the military market takes over 60% of its production, an aircraft policy which confined itself to the civil market and excluded the military market would be quite pointless.

##### (a) The civil market

The adoption of a European aircraft policy presupposes the existence of a genuine European market and, therefore, the implementation of a common air transport policy. This does not exist; instead there are rigidly demarcated national markets in which access to air traffic is mainly allocated on the basis of the air transport companies' nationality. In the opinion of the European Commission, a common air transport policy should pursue the following general aims:

- the creation of a European airspace, to be managed on a Community basis and involving the establishment in respect of intra-Community traffic of a system of regulated competition, whose aim will be to provide the public with services better tailored to its needs, at the best prices possible, through the introduction of new services and the diversification of existing services and the rationalization of route networks, particularly in inter-regional traffic;
- joint negotiation of agreements with non-member countries, particularly as regards landing rights, with the twofold result of strengthening the European Community's negotiating power and optimizing international routes and services.

A common air transport policy of this kind would enable the air carriers to play their part, together, in defining European aircraft construction programmes. They would act as a necessary and valid talking partner for industry and could well propose programmes with a view to increased competitiveness on world markets.

(b) The military market

The wide variety of aircraft types and equipment used by the European air forces is a heavy burden on public finance. Though the short-term interests of American arms suppliers may benefit from the divisions of Europe, which have enabled them to win contracts like that for the F 16 which has been bought by four European countries, the Americans' long-term interests, like those of Europe, lie in the establishment of a coherent European weapons' procurement system which will enable European industry to make a more economic contribution to the joint defence effort.

The Commission is therefore requesting the Governments of the Community Member States to decide to create a joint military aircraft procurement agency responsible for joint development and procurement of weapons systems to meet the needs of the European armed forces. Initially it could be an ad hoc body working in liaison with the relevant national ministries and in close cooperation with the Commission. The agency would become an organ of European Union once this takes shape.

The agency should, in particular:

- coordinate the requirements of European air forces to ensure systematic and standardized use of existing European military aircraft for similar missions;
- identify common future requirements necessitating new joint development programmes.

A European policy for the procurement of airborne weapons systems would have to be accompanied by discussions with the United States to obtain a mutual opening-up of markets on both sides of the Atlantic and ensure that Europe's role is preserved in all major sectors of technology.

2. A European programme for civil transport aircraft

The analysis made by the Commission in collaboration with the European Aerospace Manufacturers Association (AECMA) led to the following three conclusions:

- (a) The need to maintain a European presence in the sector of short and medium haul aircraft of less than 100 seats. This requires further support for existing programmes and guarantees for their future development in order to maintain and even increase their already excellent penetration on the world market and to counter the competition which is likely to result from new American projects in this sector.

- (b) The need for joint study of the various solutions which will enable the European industry to occupy a major position in the market for other short and medium haul aircraft. The choice is difficult and in the sector of two-engined aircraft of 140-150 seats European industry has three projects for developing existing aircraft (Mercure, BAC 111 and Trident). There is also the problem of Italian cooperation with Boeing for a three-engined aircraft of 200 seats (the Boeing-Aeritalia 7x7) which may well compete with the B 10 reduced capacity version of the European Airbus.
- (c) Finally, care must be taken to widen the opportunities for a European initiative in the field of long haul aircraft. The only current European project is Concorde; however, its prospects are difficult to assess until it actually comes into service. The problem at present, which requires a joint European answer, is whether to launch a new programme for a 200-seat four-engined aircraft to replace the 707 and DC 8. Here again the Airbus seems capable of providing the most probable basis for study with its B 11 version.

If it is to succeed, such a European civil transport aircraft construction programme must comply with a number of jointly determined principles. It must form part of a coherent European aircraft programme. Such a policy is what the European Commission is asking the Council of the European Communities to adopt.

### 3. A common policy for the aircraft industry

If the Community's aircraft industry is to have any future, we must go beyond the stage of intergovernmental cooperation between differing, and still national, aerospace policies.

To this end, sponsorship of the aircraft industry should be exercised by the European Community.

The eventual framework for the management of the Community's policy for the aircraft industry should be that to which the Community is already accustomed: namely that, acting on a proposal from the European Commission, after consulting the European Parliament, the Council of the Community would make the major policy decisions on programmes, Community financing and international agreement in this sector. On the basis of these decisions, the Commission would assume the necessary management of the common aerospace policy, and would take the necessary steps to consult users, producers, trade unions and national authorities.

The Commission would organize the management of the aircraft policy in such a way as to use to the maximum existing national structures and to seek the greatest possible decentralization.

Community financing of the aircraft policy would not be superimposed on national financing but would replace it as the policy is implemented.

This policy would include, in particular:

- bringing all large civil transport aircraft construction activities of the Community countries into a coherent programme and optimizing the use of resources;
- close cooperation between industry, airlines and public authorities about the decisions required in executing the joint programme;
- a joint basic research programme;
- the establishment of a system of Community financing;
- conduct of relations with non-member countries: not only collaboration between Community industries and those of other countries, but also a commercial strategy for penetrating export markets;
- harmonization of laws or administrative provisions regarding certificates of airworthiness, noise and other nuisances and standardization generally.

Such a programme should also promote a permanent industrial structure, at least for large civil aircraft, particularly in sales and after-sales service, based on experience in cooperation so far; this would enable the European aircraft industry to increase productivity and reap the full benefit of rationalization.

The first decision which the Council is asked to take on the basis of the Commission's proposals concerns the adoption of the principle of a European programme backed by joint financing. This European programme should be prepared together with the manufacturers and the airlines of the Community.

THE SITUATION IN THE AIRCRAFT INDUSTRY

1. Reasons for the current problems in this sector

All the most recent civil developments (Concorde, Airbus, Fokker-VFW 614, F 28, Mercure) have involved European collaboration in one form or another. Yet in the area of intra-Community cooperation limitations have been felt. Programmes carried out in cooperation on a bilateral or a trilateral basis have not formed part of a single and coherent framework. Moreover, cooperation has mainly been in the development phase or in series manufacture rather than in marketing. As a result of this fragmentation of efforts, programmes have generally been oriented towards technological rather than marketing objectives. Because they have wanted to maintain commercial competitiveness and military independence, the manufacturers have often decided to retain their own research programmes, to develop the same expertise and to create, with the backing of the governmental authorities, the same research infrastructure.

During the 1960s two major opportunities were lost:

The first was in the civil aircraft field: the Airbus, the only major modern technology project in Europe in the market for medium haul aircraft, was launched without the participation of the British Government and with an American engine, even though Hawker Siddeley provided industrial participation; at the same time, the largest European engine manufacturer, Rolls Royce, supplied the RB 211 engine for the Lockheed Tristar. Thus a severe conflict of political and commercial interests divided the European industry, Airbus with its American CF 6 engine and Tristar with its European RB 211 engine competing throughout the world market, including that of British Airways itself.

The second was in the military field, in the parallel major divergence of interests created by the absence of France from the MRCA projects.

2. The importance of the aircraft industry

In 1973 the Community's turnover aerospace was 5 990 million units of account, that of the United States 16 368 million (1 u.a. = approx. US \$1.30).

From 1969 to 1973 the turnover of the European industry rose annually by an average of 6.6%; over the same period United States turnover fell by 27%. While in 1969 European turnover was 16% of that of the United States, the figure reached 29% in 1973. The importance of military sales is shown by the fact that they represent 62.6% of the total turnover of the

Community aerospace sector as against 70.2% in the United States. The improvement in European turnover figures is due to military sales, to government contracts for research and development and to the sales of spares and equipment for civil aircraft already in service for many years, as well as of engines. So far it has not been due to substantial sales of new civil aircraft.

The breakdown of aerospace turnover by main categories of customer gives 58.3% for the State, 11.4% for the internal civil market and 30.3% for export; the corresponding figures for the United States are 51.5%, 20.9% and 27.6%.

The State is therefore an important customer for the European aircraft industry. It should be noted, however, that in the Community, governments intervene in the civil and military sectors by purchases and R&D contracts, whereas in the USA the Federal Government intervenes primarily by means of military purchases and military R&D contracts.

In 1973, the aerospace sector in the Community employed 406 605 people, whereas in 1969 this figure was 435 553. This fall in the workforce of approximately 7% is primarily due to a reduction in numbers employed within the British industry and overall reflects an improvement in productivity. During this period, the number of jobs in aerospace activities dropped in the USA by 32.3% and in Canada by 31.9%, but rose in Japan by 12.6%.

Productivity expressed in terms of added value or turnover per head employed in the European industry averages half that of the American industry.

### 3. The aircraft industry's activities and programmes

The table below of numbers of jets built shows:

- on the one hand the length of the production runs of the American aircraft and their in-service life;
- on the other hand, the large number of programmes launched by the European industry, sometimes in competition with each other and always with production runs which even under the best assumptions only just enable amortization of costs to be achieved.

<u>American Jet Aircraft</u>		<u>European Jet Aircraft</u>	
Boeing 720 and 707	897	Caravelle	(278)
Boeing 727	1 195	BAC 111	219
Boeing 747	283	HS Trident	117
Boeing 737	407	VC 10	(47)
DC 8	(556)	Comet	(51)
DC 9	802	Mercure	(10)
DC 10	240	Concorde	9
Tristar	150	Airbus A 300	23
Convair	(83)	F 28	95
		VFW 614	10
	<hr/>		<hr/>
Total	4 613	Total	859

In brackets: aircraft out of production.

There is also American superiority in respect of other types of aircraft. In the field of general aviation, in 1973 approximately 14 000 aircraft were produced in the USA compared to 1 200 aircraft produced in Europe (of which 350 were produced by the French subsidiary of an American company). In the field of commercial turboprop aircraft, the European manufacturers have experienced considerable success, notably with the Fokker F 27 and the Hawker Siddeley 748.

The European industry has shown a remarkable degree of competitiveness and dynamism in the field of executive jets (about 730 aircraft have been produced to date in Europe against 1 300 in the USA). There is a similar situation in the field of helicopters.

European industry has produced competitive engines, although the increasing cost of development has led the principal European manufacturers to create cooperative links with the two major manufacturers in the USA for the new 10 ton engines.

The military field has seen the development of a series of collaborative European projects. Yet in the 1960s Europe did not adopt a joint policy and consequently in the key area of advanced combat aircraft, Europe is still engaged in ruinous competition. When the time came to consider the development of a joint European successor to the existing generation of jet combat aircraft, negotiations between the UK and France on a possible Anglo-French Variable-Geometry aircraft broke down. The UK, West Germany and Italy then combined to develop the MRCA, which, with production orders of some 800 aircraft, is Europe's major current joint military project. The absence of the French from the MRCA caused a fundamental

divergence of interests within Europe. The absence of a solidarity of interests has been reflected in other areas: the development of two separate trainer aircraft (the Dassault-Dornier Alphajet and the Hawker Siddeley Hawk) and the fact that the jointly developed Anglo-French Jaguar (BAC and Dassault-Bréguet) has found itself in competition with Dassault's own F 1.

When the time came in 1975 for Belgium, the Netherlands, Denmark and Norway to decide on a replacement for their F 104s, the choice of an American aircraft was, quite apart from all technical and operational considerations, a logical consequence of these divisions of interest. Through the absence of a systematic European procurement policy, a significant market opportunity for European aircraft now and in the future has been lost.

4. The market for civil transport aircraft

The general trend has been the increased size of the Community market at the expense of that of the USA. Between 1970 and 1973 the share of the European market increased from 14.7% to 18.2% of the Western market, while that of the USA fell from 63.9% to 53%. Between 1973 and 1975 the share of the market filled by the Rest of the World has continued to expand rapidly; that of the USA has shrunk to 45.8% while that of the Community has stabilized at 17.6%.

European production has benefited from this general trend which should in theory have been favourable to manufacturers outside the USA. In fact the percentages for the share of European products on the various markets fell substantially between 1970 and 1975 as shown in the table below:

	1970	1975	Change
Community	33.0%	21.9%	- 11.1
Other Western European countries	23.1%	5.8%	- 17.3
Europe	30.1%	16.9%	- 13.2
USA	2.1%	0.3%	- 1.8
Rest of the World	12.2%	12.0%	- 0.2
Western World	9.5%	7.9%	- 1.6

The net result of the growth in the European air transport market and the reduction in the share of all the markets held by the European manufacturing industry has been a negative trade balance over the period 1968-73, amounting to \$4 521 million in 1974 (\$2 695 for long haul aircraft and \$1 826 million for short and medium haul aircraft).

Estimates of the value of the Western civil transport aircraft market for 1975-85 show that the USA will account for about one third, the Rest of the World for 40% and Europe for one quarter.

The supply capacity of the European industry will obviously depend on political and commercial decisions taken in respect of aircraft programmes. Various hypotheses have been put forward: all indicate that the European balance of trade will be negative and, in the most pessimistic hypothesis, this negative balance may well exceed 5 thousand million dollars.

#### 5. The potential of the aeronautics sector

The current operation of the European aircraft sector shows that considerable potential exists which could be made use of. It is incontestable, firstly, that an overall judgment on the state of the Community aerospace sector cannot be a negative one. Activity in this sector is constantly expanding (even when calculated at constant prices and exchange rates), the level of technology is excellent and the level of knowhow and design capability is certainly not inferior to that of American industry. It can therefore be said that the technological infrastructure and the human and even financial resources (taking into account the funds devoted to this sector) are sufficient for the European industry to regain an important role on the world market, provided that an effort is made towards rationalization of which it is certainly capable.

Moreover, market forecasts exhibit a trend which can be of great importance for the future of the European industry: growth of the European market, growth of the market in the Rest of the World, and fall in the American market. If one considers the scale, in value terms of the world market as forecast for the next ten years, this trend opens sufficient market prospects for a satisfactory development for the industry to be mapped out.

Finally, the structure of the world industry favours a major effort to maintain activity by the manufacturing industry in Europe. Already in the market for civil transport aircraft the USA is left with only three large manufacturers, and of these a single company, Boeing, holds 72% of the world market for long haul aircraft and 49% of the market for short and medium haul aircraft. Moreover, the pressure towards even greater concentration remains strong within American industry. The best guarantee, ensuring that European users will be able to make their purchases in competitive conditions, would be the existence of a viable European industry capable of developing cooperative ventures with other industries such as those of Japan and the USA on a basis which is not one of dependence.