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Aviation, Defence and Security industries Want a Strong Europe

ABSTRACT :

Aviation, defence and security technologies have immense influence on the world stage and on industrial jobs in Europe. Member States benefit from skills in these technologies and their control by the European Union and its companies. The legitimacy of European integration can only grow from succeeding with the challenge of Europe's re-industrialisation. Budgetary resources and legal instruments exist; they should be used with an eye for the long term and for European solidarity. European aviation, defence and security companies are ready and willing to do their part of the job.

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Aviation, defence and security industries share technologies that ensure control of the skies and manage the earth-sky interface in optimal conditions of safety and competitiveness: engines, inertial navigation, optronics, materials, electronics, computerised simulation as well as biometrics and tomography, used to detect unlawful substances. Often referred to as dual-use, these technologies are integrated into subsystems (engine and electronic equipment, for example), fitted on both civilian and military vehicles. All the world powers associate them with their sovereignty and strategic impact. Today, Europe's attractiveness and influence in the world relies among other assets on aviation, defence and security industries whose economic bases are healthy: an efficient production tool in terms of development and production costs, as well as in terms of product life; worker productivity up by 60% in twenty years, i.e. 3% a year, and a turnover figure (€157 billion in 2010) constantly on the rise.

AVIATION, DEFENCE AND SECURITY INDUSTRIES SHARE THEIR AMBITION WITH THE EUROPEAN UNION [1]

This shared ambition is to rely on national roots and to consolidate Europe. Born during the wars that tormented the Europe of nations in previous centuries, these industries remain rooted in the cultures of, and linked to, States' military institutions. They are spread very unevenly between European Union States. Six States concentrate

87% of the turnover achieved in these industries in Europe (2010): France, United Kingdom, Germany, Italy, Spain and Sweden. The first three of these represent two thirds of jobs in this sector: France (193,000), United Kingdom (151,000) and Germany (133,000). The building up of the European Union through trade deregulation and the europeanisation of industry initially excluded this sector. Then, in civil aviation, the creation of Airbus enabled Europe, within just a few years, to stand as an equal to the United States in the airliners market. Very quickly, under the incentive of States' budgetary constraints and of progress made with European Defence, other European programmes were started. Recently, the "defence package", voted under the French presidency of the European Union, has opened the way to considerable simplification of the transfers of military materials within the European Union and has given a European framework to public tenders in the defence sector, through two directives which are currently being transposed. These reforms can but strengthen the attractiveness of Europe for investors in the aviation, defence and security sector; Europe is still the world's leading market in terms of consumers and the second largest aviation pole, after the United States.

These industries can also help to give European citizens a horizon within globalisation. The industrial crisis experienced in Europe over the past thirty years and, more recently, the crisis hitting the euro zone, call certainly for greater economic integration but they also require the

1. This text is published in the Schuman report on Europe, State of the Union in 2012, Springer-Verlag, March 2012
<http://www.robert-schuman.eu/ouvrage.php?num=141>

redrawing of a political horizon for Europe, based on an industrial ambition. Europe has grown on a vision of peace, thanks to the market, but must also consolidate itself around a project of prosperity, through industry and technology. Aviation, defence and security industries are among the rare ones to have created jobs in Europe over recent years, increasing from 590,000 workers in 2003 to 700,000 in 2010. They have been strengthened by their openness to the outside. Job losses observed in other industrial sectors will not be solved by closing our borders. On the contrary, it is the growth in external markets that today enables our firms, through their exports and their industrial partnerships, to maintain their jobs in Europe. The European aviation industry achieves over half of its turnover through exports. Safran group achieves three quarters of its sales abroad and employs three quarters of its 56,000 workers in Europe. European students and workers have a future in these industries, and these industries need them. In France alone, aviation industries plan to employ 9,000 new workers in 2012.

With their respective performance levels, these industries reinforce Europe's strategic weight in the world. We are often told that they are too fragmented but that does not prevent them from ensuring that Europe retains its leading position in these specific fields. Two companies, Eurocopter and Agusta Westland, although competitors, offer to Europe a top position on the world helicopters market. Competitors too, Safran and Rolls Royce, put together, set Europe as number one in the world market of jet turbines. Another technology in which European genius makes its mark is biometrics, used to guarantee identity rights, ownership rights and access to public and private services. Created in the seventies to meet the demands of crime police, it really took off after the fall of the Berlin Wall, to identify voters and organise the democratic transition of former Soviet block countries. Today, the most highly populated States in the world have decided to support the modernisation of their administration with a biometric enrolment of their inhabitants. Safran enrolls over a million people per day in India, developing the largest biometric database in the world. China has decided to give all its provinces biometric administration of their citizens and from 2012 numerous European companies will be offering their services there to contribute to this effort.

AVIATION, DEFENCE AND SECURITY COMPANIES ARE PIONEERS IN EUROPE'S PARTNERSHIPS WITH THE REST OF THE WORLD

These companies have created strong partnerships

in the United States. After the Cold War, the United States restructured its defence industry around five major groups. Today, this industry is still the largest in the world, with nine of the fourteen biggest defence industry groups in the world and 60% of their turnover. Its size enables major synergies in terms of research and development between civilian and military activities. For its part, Europe is home to six of the world's top fourteen groups in terms of turnover and two of them (EADS and BAE Systems) are in the top five. Between the United States and Europe, all these companies have made a major contribution to the industrial dimension of the transatlantic partnership. We know about the success of the CFM joint venture, created in 1970 between General Electric and Safran/Snecma, renewed in 2008 and whose engines are fitted on three quarters of all commercial single aisle aircrafts. Another example is BAE Systems, the world's fifth largest aviation group, which achieves most of its sales in the United States. Thanks to these synergies, European industry is gaining access to the big American market and, more widely, is achieving a leading role in the world.

Apart from the United States, European aviation, defence and security industries are realistic in their relationship with emerging countries. Between 2000 and 2020, the joint share of Europe and the United States in world GDP will have fallen from 48% to 35%, at purchasing power parity. Aviation and defence markets are seeing their centre of gravity shift towards emerging countries. Russia is using its energy resources and domestic market to modernise its production facilities in this sector. India and Brazil are seeking to back up their status as regional powers by giving themselves a modern defence industry. China is recovering its ancient influence over the world economy and wants to reinforce the industrial dimension of its power. It should be remembered that in 1820 China was already producing 34% of world GDP. Currently it represents 20% of the world aviation market and is giving itself the means by which to become a world player. Through its C919 aircraft project, China is setting a challenge for the American-European duopoly in medium haul single aisle aircraft and could well be followed by Brazil and Canada.

All the emerging countries are using their commercial attractiveness in a bid to climb back up the value chain. They demand offsets or industrial partnerships which are increasingly intensive in technologies. The European aviation and defence industry plays the game because it needs these markets. It is aware of the sensitivity of these transfers and remains prudent on technologies that make the strength of Europe or impact its values. Transferring "technologies of continuity" that

are already well known to our groups is less risky than transferring the "edge technologies" being developed in our laboratories. European firms share these concerns with their American counterparts. The C919 designed by the Chinese aircraft manufacturer, COMAC, planned to come into service in 2016, relies on partnerships with Safran (engine system and cabling), Liebherr (landing and braking systems) and GE (avionics and electronics). The Superjet 100 regional aircraft, designed by the Russian conglomerate Sukoi, benefits from the cooperation of several European players, including Alenia Aeronautica and Safran.

Our industries need a constructive partnership between Europe and the rest of the world. Europe can reinforce its growth centres by working intelligently alongside the development of emerging aviation nations. Current industrial cooperation sketches out an Eastern European and North African periphery for European aviation and defence productive centres, as is the case for the United States with Canada, Mexico and even Japan. These European partnerships form part of the enlargements of the European Union: new EU Member States have provided qualified workers, extended the intra-European division of labour and improved Europe's competitiveness; today, European Union can form industrial links with Russia that are greater than those built with Morocco. The European Union can also, through the negotiation of its commercial instruments, help aviation, defence and security industries to strike a fair balance in their partnerships with emerging countries: technology transfers in return for the purchase of European industrial goods as well as co-financing of joint R&D programmes, but – equally important – reciprocity in the management of public tenders. Reciprocity and trust are based as much, if not more, on the quality of the individual relationships to be created with our industrial partners in emerging countries, as they are on treaties between States.

Beyond this industrial cooperation, the European Union can contribute to forging the rules of the globalisation of technologies. The world economy, like any physical system, is built around rules, which often result from a balance of power. Europe can contribute to their elaboration through the promotion abroad of the standards of its internal markets, through an incentivising and creative intellectual property policy and a certification policy based on the imperatives of safety and security. Noise level standards set by EU for aircraft have set Europe as a world reference and represent a major support for the competitiveness of its industries. The intellectual property rules that govern the projects of the European Defence Agency and the Framework Programme for Research and Development could also play an important role, provided that they get refor-

med. For the time being, they open up the benefit of their research results to all Member States, without distinction, a rule that dissuades the most innovative companies from taking part in these programmes.

Similarly, it is necessary to export our safety requirements, by negotiating certification agreements with the major emerging economies on a reciprocal basis. In this respect, the creation of the EASA (European Aviation Safety Agency) and the bilateral agreements signed with the FAA (Federal Aviation Authority) to replace the national regulators of Member States, have been seen as progress in the integration of the European and American markets. In order to set up similar agreements with the major emerging countries, the question of the certification of aircraft and aviation equipment must be addressed solely from the point of view of safety.

In the field of commercial regulation, the European Union can implement a balanced policy, with a concern for reciprocity. In the aviation sector Europe has its main dispute with the United States, but both players have an interest in seeing a better regulated world. They would do well to close through an amicable agreement the Airbus Boeing case opened in 2004 before the WTO and to agree on rules for public support to industries that may become of international significance.

Europe has currently the most open commercial zone in the world. It must encourage others to open up too and seek to inspire efficient legislation amongst its partners. In the United States the "Buy American Act" requires a minimum of American components as well as, in practice, American general contractors in purchases made by the Ministry of Defence. The Committee on Foreign Investments (CFIUS) assesses sovereignly and, without any right of appeal, the compatibility of these foreign investment projects with US national security, in its widest meaning (including critical technologies and energy supplies). Mergers and acquisitions must today be considered from the point of view not only of the principle of competition but also that of consolidation of a European industry. In cases where Europe has supported some technologies to come into being, it may be in its interest to prevent them from going over to the competition.

EUROPEAN UNION CAN CONTRIBUTE TO STRENGTHENING WITHIN EUROPE ITS AVIATION, DEFENCE AND SECURITY INDUSTRY

The EU can help to regulate the globalisation of technologies and can also use its domestic market to strengthen its technological centres. This domestic market of 500 million

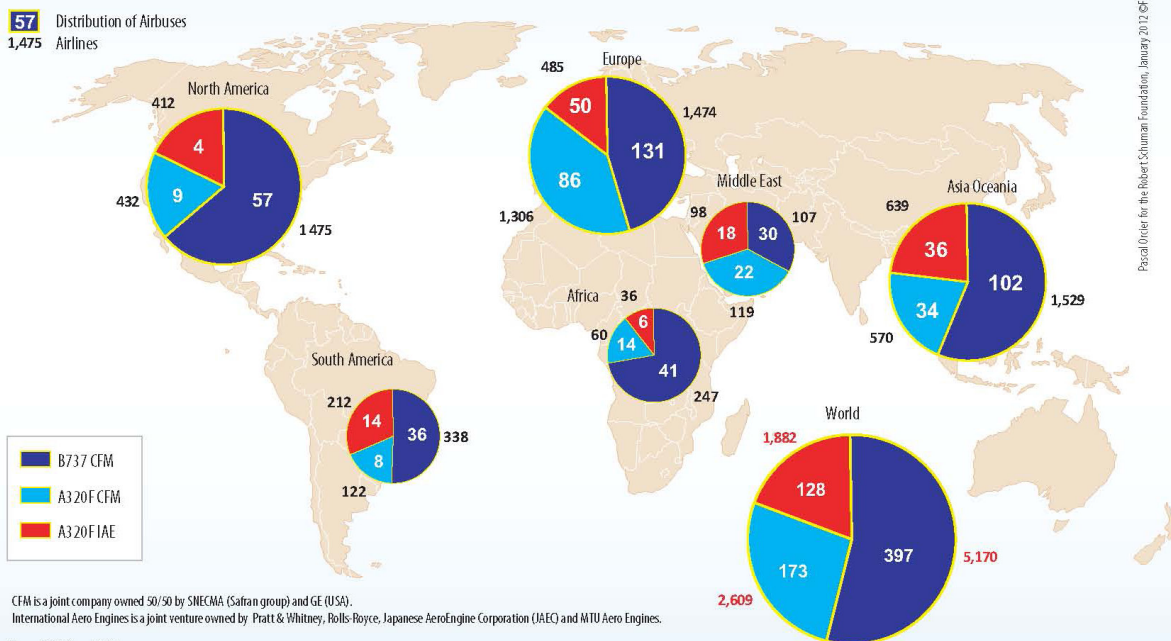
people is an opportunity for companies in the area, I am referring particularly to the security industry. But progress must be made in drawing up standards to stabilise this

market, particularly in terms of airport security equipment, which in some cases continues to function within the Union according to various national regulations.

Aeronautical, defence and security industries in Europe and in the world

Airbus A320 and Boeing B737 motorisation

57 Distribution of Airbus
1,475 Airlines



In order to have an impact abroad, the technological centres of Europe must, above all, be able to give birth to new technologies. To achieve this, the human skills of their companies need to be sustained with new research programmes. However, due to their size and complexity, these programmes require large amounts of finance. In this respect, Member States have a defining responsibility in terms of the future of European aviation, defence and security industries. If they want to make this sector stronger, they must promote European programmes rather than buying their equipment abroad, "off the shelf". They must converge towards a truly European demand for equipment, giving up their claim of national versions of such programmes, which generate extra cost. Reducing the number of versions of the A400M military transport plane would result in considerable economies of scale. This would not

have the impact on jobs that we are led to believe. In fact, redundancy-linked job cuts stemming from the synergies achieved would be greatly compensated for by the recruitments that would result from a massive increase in volume sales. All the restructuring programmes carried out in the past by the aviation industry never reflected in any massive reallocations of activity. Jobs stay where skills are. Moreover, States have major responsibilities in terms of preserving investment and research in their budgets. Current efforts on savings being made by Member States offer an opportunity for restructuring defence budgets. These budgets must be richer in investment and research content. In most Member States, the share taken by staff costs is still over 50%, compared to 30% in the United States. Decisions are therefore being taken at the expense of investments, which do not go beyond 20%, i.e. €40

billion out of €200 billion of total defence budget in 2010, divided between the 27 Member States. As for defence research, according to the European Defence Agency, the EU States devoted €9 billion to it in 2008, compared to 54 billion by the United States. However, and this should be acknowledged, positive developments are appearing. The Framework Programme for Research and Development has opened up, since its 2007-2013 budgets, to projects in the security field, and could progressively extend to that of defence, as permitted by the Lisbon Treaty. Also, if one looks at Member States individually, the investment effort made by France through the creation of the research tax credit followed by the launch of the "Major loan", in

the context of current debt crisis, demonstrates a real will to get prepared for future challenges.

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