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Contribution from EADS
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Abstract

The European aerospace industry represents huge opportunities in terms of growth and employment and has for long played a major role in stimulating Europe's excellence in research and innovation. **A flourishing and competitive aerospace industry is essential to ensure a secure and prosperous Europe.**

Creating a European competitive economy requires launching **large structuring, federating pan-European programmes** -security and space being two highly promising sectors- as well as ensuring the sustainability of programmes already launched.

The EU policies should aim at strengthening European competitiveness and **be better coordinated** with this ultimate objective. One of the top priorities is to ensure coherence between the EU industrial and competition policies, notably through the re-creation of a **cluster of Commissioners dedicated to aerospace issues**. Simplifying administrative procedures of research programmes, tackling the environmental challenges in a balanced way and ensuring a level-playing field in international competition are also key for competitiveness of the European industry. The EU should moreover maximize the potentialities introduced by the Lisbon Treaty as regards defence issues and ensure the creation of a strong European Defence Technological and Industrial Base.

The European Aeronautic Defence and Space Company (***EADS***) welcomes the Commission's working document on the EU 2020 strategy.

The European aerospace industry is a world leader in several key market sectors, accounting for **one third of the world's aerospace business** in terms of turnover. The sector represents huge opportunities in terms of growth and employment with around **680.000 direct jobs** and a strong subcontracting network of SMEs.

The European aerospace industries invest around 8 bn €[1] a year of their private money to develop new technologies and products. This represents roughly more than **8 % of their turnover[2], i.e. far more than the average and well above the 3 % of GDP target** of the Lisbon Programme for Innovation and Growth. 80 % of EADS' R&D spending on airplanes and helicopters is related to **environmental concerns**. It is a strategic sector which has for long played a major role in stimulating Europe's excellence in research and innovation as well as generally high quality employment and significantly contributing to European exports.

Despite continuous efforts to strengthen its competitiveness, the EU aerospace and defence industry is facing **unprecedented challenges**, among which the Euro-Dollar exchange rate together with an increased international competition from the US, but also Canada, Brazil, Russia, Japan and China.

A flourishing and competitive aerospace industry is essential to ensure a secure and prosperous Europe. No doubt that the sector will play a major role in creating a competitive, knowledge-based, greener economy in Europe for the next 10 years and beyond.

[1] Aeronautics only, 2008.
[2] Aeronautics only, 2008.

In order to achieve the aforementioned objectives, the EU should take both following points into account:

I. Large structuring, federating European programmes for European competitiveness

Creating a European competitive economy requires launching large structuring, federating pan-European programmes as are Airbus, Ariane, the ATR (civil programmes) as well as the Eurofighter and the NH90 (military programmes).

1. Critical challenges at stake for the EU

a) Maintaining the expertise, know-how and high-skilled jobs which are key elements for Europe's competitiveness, including the creation and maintenance of a real European Defence Technological and Industrial Base (EDTIB) with centers of excellence.

b) Standing first when it comes to defining international standards (e.g. SESAR, suborbital plane, UAV insertion into non-segregated airspace).

c) Showing a clear determination to protect and promote the European interests in the worldwide competition**.** Airbus is the only European player able to challenge and surpass Boeing on the critical large commercial aircraft market. Airbus' activity is a key driver of the European economy and drags major benefits throughout the industrial supply chain. A level playing field should be ensured, in particular as regards support to aircraft programs.

d) Overcoming fragmentation of the internal security as well as the defence market in order to increase synergies between relevant institutional and industrial actors.

2. Security and space: sectors with huge potential for large structuring European programmes

Security

EADS welcomes the Stockholm Programme and calls for a quick implementation. We need and favour a strong **European Security Industrial Policy (ESIP)** which should aim at sustaining and enhancing competitiveness of the security industrial base in Europe and help European industries become more internationally competitive. We therefore see the need for **launching a limited number of key structuring and federating security programmes** with clear roadmaps which would show that the financing of R&T and R&D is directed towards the right development of capabilities and that economies of scale can be achieved.

Critical infrastructure protection, integrated border control (including maritime surveillance), **civil protection** (including CBRN, fire-fighting and quick implementation of the European Transport Fleet) and **cyber-security** could be the focus for the first EU security programmes. This would not only increase the spin-in off research efforts but also ensure seamless, interoperable and integrated approaches among Member States.

Space

Space systems are strategic assets which guarantee autonomy and security for the EU and provide solutions for a better day-to-day life for the European citizens (meteorology, telecommunications, navigation). **They drive intensive R&D and are critical for European competitiveness.** Space systems are and will be essential to anticipate, monitor and understand environmental threats and help fight climate change. Space-based existing solutions are one of the very few technologies which allow an immediate, global and complete diagnosis of our planet's health. In this respect a **broad, structured Climate Change program** which would coordinate all the space contributing missions could reinforce the EU's legacy and means to become the world leader in fighting climate change.

The EU should moreover be an active contributing partner in the field of **exploration**: European contribution to the International Space Station operation (i.e. ISS to be considered as an EU Space Laboratory), recurring Automated Transfer Vehicle (ATV) access, ATV evolution (Return cargo, Human ATV). **Dual-use programs** such as Space Situation Awareness (SSA) and European Data Relay Satellites (ERDS) should also be developed. As far as **infrastructure** is concerned, the European Union should contribute to the European Space Port and Access to Space. Access to the internet everywhere in Europe through broadband by satellite could also be a major, visible and citizen-oriented EU programme.

3. Ensuring the sustainability of programmes already launched

SESAR is a typical example: whereas the financing of the € 2.1bn development phase is secured, the financing of the € 30bn deployment is a serious issue which has not been tackled so far. At a time when the EU has launched a programme which encompasses thousands of jobs with high added-value, it is essential to give the EU the means to achieve its ambitions. It is urgent to ensure the visibility of the programme and dedicate sufficient financing in order for the industries to tackle the challenge of technological deployment. **A high-profile personality directly reporting to President Barroso** should be appointed in order to manage the programme at the highest level and ensure its success.

As far as **space programmes** are concerned, the European Commission should make sure that its industrial policy remains coherent with the ultimate objective of European competitiveness on the international scene.

Appropriate financing for of **GMES services** must be ensured so that the program can develop towards mass production with long-term sustainability to the benefit of end-users, be they public authorities or private operators.

Industrial capabilities required for **Future Air Systems** have been built up in Europe over past decades, but are at risk. If key skills and knowledge are lost it will take a long time and be very costly for Europe to reinstall the required European Defence Technological and Industrial Base (EDTIB) to have access to world-class sovereign systems. Investments in critical areas are therefore needed now to prepare for the future.

II. A coherent regulatory framework for European competitiveness

*The EU policies should aim at strengthening European competitiveness and be better coordinated with this ultimate objective. In this respect **the re-creation of a cluster of Commissioners dedicated to aeronautics and space issues** as it existed under previous Commissions could ensure a better articulation and coherence of the relevant policies for the sector.*

1. More coherence between competition policy and industrial policy

European industrial policy is at the very heart of EU global competitiveness. The uncontestable success of Airbus and Ariane rewarded **political choices which market alone would not have allowed**. However, to date, the issue of having a strict competition policy coexisting with the interests of competitiveness has not been resolved. **Competition should not be an objective *per se*** and should not be considered only from a legal point of view. It is important not to oppose the industrial policy and internal market rules, but instead seek better coordination and articulation between both.

In this respect, **naming a focal point for industrial policy within DG COMP** could ensure a better coordination.

State aid rules should moreover take the specific needs of the EU industrial policy into account. As proposed by Commissioner-designate Almunia, a simplification of the state aid procedural framework should be launched.

It would also be highly beneficial to the European industry that the European Commission makes use of the so-called ***matching clause*** introduced by the Community Framework for State Aid for Research and Development and Innovation in order to address distortions of international competition and avoid double burdens for European companies.

Rules related to **protection of assets for strategic companies** should be harmonized within the EU in order to ensure a level-playing field and a clearer framework.

2. Easier access to research programmes

Promoting and maintaining skills

The EU educational system generates 9,000 high-skilled aerospace engineers a year while the European aerospace industry would need 12,500 to be able to compete with its international competitors. Considering this deficiency and its long-term consequences as regards the European excellence in terms of skills and innovation, the EU should strongly **encourage the emergence of world-class European universities and research centers**, notably by facilitating their access to European financing.

Simplifying procedures

Two years after the launch of the current 7th Framework Programme, including Clean Sky -a fully-fledged Joint Undertaking since September 2009- **serious administrative problems persist**. The Joint Technology Initiatives (JTI) are more than one year late. The Framework Programmes of collaborative research face ponderous administrative procedures, in particular the imposition of cost accounting methods which the industry cannot apply.

It is therefore urgent to **simplify the administrative procedures** and make the Financial Regulation more flexible so that the research community and the industry can truly benefit from the opportunities promised by the Framework Programmes. In this regard it is important to accelerate the implementation of the recent initiative on Public Private Partnerships in order to ensure better suitability to industry needs.

It is also necessary to review the structure of the future Framework Programmes in order to **concentrate on big programmes** -such as the Clean Sky JTI- and avoid sprinkling and over-fragmentation which lead to inefficiency. The objective should be to develop technology platforms in support of new big projects which would integrate the new environmental challenges. In this respect the Future Green Civil Aircraft could be one of the flagships. There are also some strong **renewal needs in terms of technology platforms** for the fix-wing aircrafts such as the A350 and the A320. **Broad programmes for helicopters** dedicated for instance to civil protection missions (coast guards, emergency, medical service…) would also be useful and could be used as a tool for the Commission's new competence in civil protection.

3. Tackling the environmental challenge in a balanced way

Sustainability has become one of EADS' major strategic concerns. **80 % of the R&D spending on airplanes and helicopters is related to environmental issues**. Space largely contributes to monitoring and fighting climate change through meteorology, water management, deforestation, risk prevention, crisis management…

Significant steps have already been taken to reduce the environmental impact of our industry. Over the past 50 years, fuel consumption by seat has already been reduced by 70 %. We nevertheless want to sustain our efforts: Airbus fully supports International Civil Aviation Organisation (ICAO)'s pledge to further reduce fuel consumption and therefore CO2 consumption by 1.5% per annum until 2020. Eurocopter is engaged in programmes whose objectives are to reduce not only noise, CO2 and NOx emissions as defined by the ACARE targets, but also to look at the 'recyclability' of its helicopters and hazardous material used during the production.

Nevertheless, aviation is a truly global industry with intense competition from all continents. It is vital for competitiveness of the European aerospace industry that an **international agreement on greenhouse gas emissions reduction** is reached as soon as possible. If such an agreement is not reached the European measures alone will not significantly reduce the global emissions but certainly place a heavy burden on the European industry and distort competition.

Aviation has been included in the EU Emission Trading System; it is absolutely essential that the **income thus generated is reinvested by the Member States into new technologies to improve the environmental impact of the sector**. This is fundamental for a serious EU commitment to develop radically greener technologies.

The current environmental challenge can only be tackled through an **integrated approach and coordination between all actors of the same sector**. As far as air transport is concerned, the regulatory framework should include aircraft manufacturers together with motorists, airlines, airports and Air Traffic Management authorities.

4. Competing on world markets

The European aerospace industry faces increasing international competition. The huge capital investments which characterize the sector require close relations with governments with various forms of public support from direct or indirect funding to support for exports and protection of domestic markets.

Ensuring a level-playing field in international competition is a prerequisite for a competitive EU economy. The European trade policy should encompass these three key priorities:

- Euro/Dollar exchange rate
The fluctuations of the Euro/Dollar exchange rate are becoming one of the major concerns of the sector's industrial strategy. **A variation of $ 10 cts engenders a € 1 bn loss for EADS' EBIT.** In order to cope with this very difficult issue, we must find new strategies among which charging our subcontractors in US Dollar, buying equipments and even settling factories in the US Dollar zone**. This can only be highly detrimental for European industry as well as European economy at large** and should be carefully addressed by the relevant EU authorities. It is also crucial that the exchange rate is put on the agenda for the next G20 summit.

- **Enforcement of WTO rules**
Mutual recognition of international trade obligations is key to ensure a fair and balanced competition between all international competitors.

- **Fair reciprocal market access**
Export barriers are huge obstacles. Ensuring a fair reciprocal market access with our international partners is vital for the European aerospace industry**. Access to the US market, in particular the US defence market is here a major concern**, massive US restrictions on procurement of foreign defence equipment being a big matter of concern for the European industry.
In order to keep employment in Europe and avoid delocalization, the EU should carefully monitor practices of constrained investments or forced cooperation in exchange for market access.

- Intellectual Property Rights
A strong intellectual property rights system implemented both within the EU and in case of cooperation with third countries is a prerequisite for a dynamic and stimulating EU economy with encouraged innovation and R&D. A quick implementation of the EU patent is needed to ensure more efficiency and more protection for innovation.

5. Exploring new potentials to overcome the institutional divide on defence issues

Defence-oriented industrial activities constitute an integral, non-separable part of the aerospace & defence industry as they constitute a **strong reservoir of technologies**; aerospace & defence industrial activities are mutually beneficial, supportive and dependent.

Defence industrial activities face the same unprecedented challenges mentioned earlier; while sustaining a highly qualified workforce, they are destined more than ever to support Europe's strategic autonomy.

The post-Lisbon framework has the potential to support initial steps aimed at **overcoming the downside effects of the institutional divide separating responsibility for defence capabilities** from other areas of common EU policy-making. A non-negligible danger exists that the sustained post-financial crisis budgetary environment will negatively impact Europe's defence posture if Member States are left to individually rely on their own resources.

For this reason we suggest that serious consideration be directed at **exploring the potential of available new instruments** (e.g. *Permanent Structured Cooperation*) and to consider new initiatives that are able to sustain Europe's ambition under CFSP/CSDP.

6. Matching ambitions and capabilities

Aerospace and defence sectors are very capital intensive, with high development costs and long life cycles. Public support for these sectors exists everywhere and the amount of financial support from public authorities does make the difference in competitiveness of those sectors. The future financial perspectives should take into account the needs of the EU industrial policy which requires a **long-term investment strategy**. The European Commission should therefore dedicate appropriate financing for aeronautics, space and security research in the 8^{th} Framework Program. Today's innovation is key for tomorrow's success and future competitiveness.