

THE FIGHT FOR AEROSPACE JOBS

Germany's Airbus Disadvantage

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The government in Berlin is not giving up -- to the surprise of the French. But in the dispute over the Airbus restructuring, Germany is at a distinct disadvantage. When it comes to aerospace expertise, the country lags decades behind France and Spain.

Most theater aficionados agree: When it comes to politics -- a discipline already characterized by often magnificent performances in the limelight of public scrutiny -- summit meetings are by far the most theatrical. In no other performance on the political stage can the audience be so completely deceived as to the true intentions and interests of the actors.

It was thus with great eagerness that lovers of the genre anticipated the German-French summit meeting last Friday near Berlin. And they were not disappointed. The two principal actors -- French President Jacques Chirac and German Chancellor Angela Merkel -- offered a skilled performance of cozy togetherness at the Baroque palace where they met. And that despite the Airbus issue. No issue has driven such a wedge between the governments in Paris and Berlin in recent weeks as deeply as the restructuring plans for the ailing European aircraft manufacturer.

Twelve billion euros were invested in the development of Airbus's new super jumbo jet, the A380. But production delays have resulted in an almost two-year delivery delay, forcing the company to pay its customers hefty compensation. Indeed, Airbus very likely lost money in 2006, the first time ever the company has been in the red. Cash for investments is likewise in short supply. A restructure is necessary, and in response, the Germans and French have embarked on a bitter, all-out battle for production sites and future-oriented technologies, prestige projects and jobs.

Find out how you can reprint this DER SPIEGEL article in your publication. But not a peep of pique was heard when Chirac and Merkel met last Friday. Dispute? Perish the thought! The only face the French and German leaders were interested in presenting to the world was one of carefully staged harmony.

France and Germany agreed that "Airbus's successful model is based on the concept of partnership," Merkel gushed. Chirac dutifully thanked her for her "personal involvement" in selecting the furnishings of the guesthouse. Oh, and the point of restructuring Airbus, he said, is to engage in a "responsible social dialogue," and that there should be no "painful layoffs."

The markets celebrated this overabundance of German-French harmony with an extremely modest rise in the price of Airbus parent EADS's stock by an anemic 0.23 percent. The French president kissed the Chancellor's hand and the two leaders retired to a festive luncheon to discuss all kinds of issues, everything but the Airbus spat.

But sweeping the problem under the rug doesn't eliminate it. The summit performance stands in sharp contrast to the heated activity (and words) behind the scenes, where the players are busy weaving their intrigues and religiously toeing their respective party lines -- consistently at the expense of Airbus's incredulous employees. Years of management mistakes have driven the company into a crisis. Although its order books are full, employees are forced to look on as their jobs are placed on the line and the stage is dominated by political cockfights.

"We will adamantly defend French interests at EADS," Arnaud Lagardère, the French chairman of EADS said combatively last week. German Economics Minister Michael Glos was equally unequivocal. He said he had no intention of allowing the French to trample German interests, saying that otherwise, Germany might be forced to "rethink its defense contracts with Airbus parent company EADS."

There is much at stake on both sides. France is in the midst of a presidential election campaign. Berlin doesn't want to spoil high spirits over the upswing in the German economy by the loss of thousands of jobs, especially in such an important and prestigious industry.

Meanwhile, the Germans are emulating the French by fighting with no holds barred, using threats and targeted indiscretions in place of rational arguments. The core issue is no longer preserving as many jobs as possible at Germany's seven Airbus production sites, but rather the future prospects of an industry that affects many other sectors with its innovations. "The friendship between France and Germany is like a rose bush that is constantly producing new blooms," former Chancellor Konrad Adenauer said to then French President Charles de Gaulle in July 1963, adding that roses also have thorns. Those thorns seem to come out whenever France's economic interests are at issue.

Airbus factories in Europe France is the only country in the world with an "Ecole de Guerre Economique," or a "School of Economic Warfare." Its graduates have proven often enough that the school does not train paper tigers.

The brusque French approach in the pharmaceutical industry has had an especially traumatic effect in Berlin. In 1999, German pharmaceutical company Hoechst merged with French competitor Rhône Poulenc to form the German-French pharmaceutical giant Aventis, headquartered in the French city of Strasbourg. In 2004, Aventis was acquired by another pharmaceutical company, Sanofi, and has been a purely French-owned corporation ever since.

The then Minister of Finance Nicolas Sarkozy helped arrange the coup to prevent Aventis from being taken over by Swiss competitor Novartis. The Social Democratic and Green Party coalition government in Berlin looked on helplessly as the French government became involved in the merger of two private companies, a merger that was even announced by a government agency.

If Chancellor Merkel has her way, the Sanofi case will not be repeated. She knows how important it is for a country to be the site of corporate headquarters, which brings highly qualified jobs to that country. Airbus has become a test case for Merkel. This time, at least, she plans to show the French what their limits are. In Paris, the French government has been shocked by Germany's newly tough stance on the Airbus issue. Representatives of the chancellor are attempting to apply pressure at all levels: on the French, on the company's management and on shareholders. Their message has been consistent: One cannot make decisions solely on the basis of economic considerations; one must also take the political

ramifications into account.

After all, officials in Berlin argue, the German government has invested billions in recent decades to develop the European company. Moreover, the German military is EADS's largest single customer by far. These factors must be reflected in both the number and quality of jobs in Germany. Under Berlin's new approach, the political and economic levels are closely interwoven.

But the German offensive is on shaky ground. The German government has neglected the aviation industry and the research it requires for years, instead focusing on the automobile industry, which is considerably less demanding technologically than the production of passenger and military jets.

The French have taken a different approach altogether. They declared the aviation industry a key technology early on and ensured that all truly critical -- in other words, indispensable -- Airbus jobs would remain within French borders. Although Airbus employs more people in Germany than in France, many fear that the company's most advanced technologies are being developed on the French side of the Rhine River.

As a result, the Germans have fallen behind over the years. This deficit is most apparent in state-of-the-art carbon fiber composite technology (CFC), which is expected to revolutionize aircraft construction in the coming years, and will be especially critical in the development of the A350 long-distance jet.

In recent years, the governments in Spain and France have allocated large government subsidies to upgrade their Airbus plants for the new plastic panels, which are extremely light but difficult to process.

Germany, on the other hand, was initially tight-fisted in approving publicly funded-research. The government approved only €25 million on its most recent aviation research program, and much of the money was spent on the wrong projects. To its credit, the current governing coalition in Berlin has increased that budget by €40 million annually.

But instead of investing in materials research, the Germans are spending their money on other ventures, including fuel economy and noise reduction projects, as well as the search for more comfortable passenger seats. Only one German Airbus plant, located in the northern German city of Stade, where the vertical tails of various Airbus models are produced, has serious if limited knowledge of CFC production.

The company's plant in Nordenham, on the other hand, has been passed over when it comes to new technology, and any plans to shutter plants will likely focus on Nordenham first. No matter which downsizing plan EADS's German-French management, under co-CEOs Louis Gallois and Thomas Enders, chooses, the Nordenham site will suffer. Sources say that the plant could face layoffs of up to one third of its employees. Other proposals include the removal of entire production lines or even the sale of the Nordenham plant.

The plant is considered lacking in competitiveness because it still produces the outside walls of aircraft fuselages out of metal instead of CFC, a technology Airbus competitor Boeing now uses with its new "Dreamliner" -- and that many customers are demanding.

CFC has been used in the past at Nordenham to produce elevators and takeoff and landing flaps for the Airbus A320. But when a sharp decline in orders sent Airbus into a deep crisis in the mid-1990s, the former DASA management under Jürgen Schrempp, which owned Airbus at the time, decided to pull out all CFC production lines from Nordenham.

Hundreds of jobs were lost in Nordenham, especially in the critical CFC technology division, to the "Dolores" cost-cutting program of Manfred Bischoff, the former chairman of the company's German management board. In any other company, a responsible management team would not have allowed individual divisions to fall behind technologically. The German Airbus plants, unlike their French counterparts, are not even licensed to build entire aircraft anymore.

But Airbus is not and never was a normal company. Its German employees are represented by executives who know far more about automobile construction than about designing high-quality jets. This is the consequence of a faulty decision the German government made almost 20 years ago. At the time, there was a movement to massively reduce government influence over aviation. Unlike the French, the Germans decided to privatize the government's shares in the aviation and defense sector.

Until the late 1980s, the states of Hamburg, Bremen and Bavaria still held majority shares in MBB, an aviation and defense company. MBB had previously acquired aircraft manufacturer VFW and was also in control of the German Airbus subsidiary.

In 1986, German Economics Minister Martin Bangeman attempted to convince private companies to invest in MBB and, by extension, Airbus. But his efforts were unsuccessful when preferred candidates like electronics giant Siemens and automaker BMW showed little interest.

That left Daimler-Benz. Jürgen Schrempp, an ambitious Daimler executive and later CEO of the company, became the head of the new German aviation subsidiary, which was named DASA after it was privatized in 1989. But Schrempp's ambitious plan to enter the regional aircraft construction sector by acquiring Dutch competitor Fokker failed. The company went bankrupt in 1996, costing the parent company billions. A few years later the same fate befell Dornier, another subsidiary that was spun off at about the same time.

The Daimler executives made the next serious mistake after a proposed merger with British Aerospace failed in 1999. To strengthen their position for a planned merger with French aircraft manufacturer Aérospatiale, the Daimler executives offered the Spanish company Casa work that had been done in Hamburg until then.

The Spaniards promptly latched onto DASA and later merged with Aérospatiale to form EADS, Airbus's current parent company. The merger was considered a necessary condition for the resulting company to be able to afford projects worth billions, such as the giant A380. The Spaniards, who have mastered the technology of the new state-of-the-art composite materials, are now among the Germans' toughest competitors within the company. Were it solely up to him, EADS co-CEO Gallois would have the A350 long-distance jet produced and assembled mainly in Spain and France.

But his German co-CEO Enders and four other German executives blocked the Gallois plan at the last minute two weeks ago. They want to see parts of the composite wing produced in

German plants, even though the plants currently lack the technological expertise to do so. The British, responsible for the wings until now, are already threatening to cancel defense contracts with EADS should they be disadvantaged in the A350 project.

Industry insiders can hardly imagine that Gallois wasn't aware that his proposal would encounter opposition. "What we are currently experiencing," says a senior Airbus executive, "is a poker game with marked cards, bluffing and high stakes."

The Germans are currently in the majority on the EADS board of directors. It is quite possible that Gallois deliberately risked the threat of failure to pass the buck to the Germans should production of the new A350 falter. And would once again prove that the Germans aren't up to playing the high-tech aerospace game.

Translated from the German by Christopher Sultan