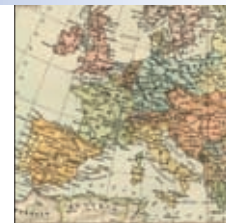


Fears of protectionism grow in Europe



GLOBAL TRADE WILL SHRINK 9% THIS YEAR over 2008, partly because of a collapse in demand and a lack of finance, and partly because of “the increasing presence of global supply chains in total trade,” according to the World Trade Organization (WTO). There is also the potential for damage resulting from new protectionist measures.

Aerospace companies on both sides of the Atlantic are now waiting to see what impact the latest round of fiscal stimulus packages will have on their markets—whether they will genuinely open the door to new global business opportunities, or whether the impetus to add “Buy American” or “Buy European” clauses to these packages will prove too politically attractive to avoid.

If the first round of stimulation packages fails to reignite the global economy, there will be growing pressures on government trade officials to downplay the “carrot”—the continued stimulation of demand—in favor of the “stick”—restricting foreign imports.

Resisting the siren call

Aerospace trade associations in Europe and North America are, in general, anx-

ious that politicians resist these siren calls for new protectionist measures. The aerospace industry is a global one, with complex networks of supply chains and industry ownership arrangements that defy easy regulatory solutions.

According to Ian Godden, chief executive of the Society of British Aerospace Companies, “We operate in a global market, and politicians can do immeasurable harm if they ignore this, regardless of the good intentions behind the policy. ‘Buy American’ should be resisted in the U.S., and a tit-for-tat retaliation should not be on the menu in Europe if we are to get out of the global economic downturn quickly and with the minimum amount of damage.... Protectionist policies on either side of the Atlantic would not safeguard jobs but put them at risk, because artificial barriers prevent our global market from operating effectively, and international supply chains would be prevented from delivering their final products.”

While Europe’s industry has in general been heartened by what it sees as a dilution of buy-American requirements in the February \$787-billion American Recovery and Reinvestment Act, there remain concerns that public works and building projects funded by the stimulus package will use only U.S.-sourced goods, including iron and steel.

But then European companies in general—and aerospace companies in particular—have a great deal more to lose from an outbreak of protectionism than their U.S. competitors have.

First, Europe exports much more to the U.S. than it imports. In 2006 this surplus reached €94 billion, although it fell back to €63 billion in 2008.

Second, the European aerospace industry is smaller and far less productive than its U.S. counterpart and will have to rely less and less on domestic defense programs. According to the AeroSpace

and Defence Industries Association of Europe, the industry sectors (defense and aerospace) employ around 649,000 people, with an annual turnover of over €132.2 billion. In contrast, the U.S. aerospace sector posted revenues of around \$204 billion (according to the Aerospace Industries Association) in 2008, and employed 655,500 workers.

Europe’s actions

Meanwhile, European countries are slashing their defense budgets, putting major equipment programs such as the Airbus A400M under new pressure. There are currently no signs that European governments are putting money into defense spending in an effort to boost their economies, despite pleas from some in industry. Many European government defense departments are under increasing pressure to meet their commitments to NATO and peace-keeping operations in Afghanistan and elsewhere. One of the key results of U.S. President Barack Obama’s attendance at the April NATO summit in Strasbourg was to secure pledges from European nations to send more troops to Afghanistan to provide security for elections in August.

“The crisis will most likely be long,” said Charles Edelstenne, chairman of the French aerospace industries trade association GIFAS in April, “and one of our strengths is our presence in both the civil and military sectors. It is therefore crucial that the defense ministry use all available credit as these investments will create jobs in France.”

But it is by no means certain that the French government will comply. According to a November 2008 Forecast International report, “although Italy and Spain experienced bumps to their respective defense budgets in 2008, each allocated slightly less than 1% of their GDP toward their armed forces. Both



Ian Godden



Charles Edelstenne

are now preparing to slash their defense spending through the upcoming fiscal year, if not further. Meanwhile, Germany spends only 1.3% of its annual GDP on its armed forces, and under current spending plans, its defense budget is to increase by only 1.4% annually through 2012. France and the U.K., which together accounted for nearly 48% of all defense expenditure among European members of NATO in 2008, face difficult decisions regarding several large-scale defense programs as future budgetary increases for both become more circumscribed.”

While aerospace companies in the U.S. will also face job losses if Defense Secretary Robert Gates’ proposed defense budget is passed—capping F-22 and C-17 programs and canceling the Air Force’s combat search-and-rescue helicopter, for example—there are also plans to ramp up production of Lockheed Martin’s F-35 Joint Strike Fighter and other large programs. In contrast to this proposed \$534-billion spending plan, military spending in all dual EU-NATO members in Europe will reach just \$280 billion this year, according to Forecast International.

In addition, Europe’s aerospace industry has already transferred important slices of its manufacturing capacity to U.S. dollar trading areas (see “Airbus looks to U.S. for A350 XWB suppliers,” May 2009, page 4) in an effort to counter exchange rate volatility between the euro and the dollar.

Countertrends

Ironically, the economic downturn and new talk of protectionist measures has coincided with a fresh burst of globalization in the aerospace supply chain and the liberalization of previously protected markets. New airliner programs in Russia (the Antonov AN 148 and Sukhoi SuperJet 100), China (AVIC ARJ 21), and Japan (Mitsubishi Regional Jet)—if they all survive the current recession—are being developed with the help of North American and European systems and engines suppliers.

In a parallel but related trend, U.S. and European prime contractors have accelerated their plans to develop new manufacturing facilities in low-wage areas of the world. In January this year Airbus announced it was to create a new joint venture to produce parts and com-

posite materials in Harbin, China, while a few weeks later announcing job losses in Europe. In March Boeing opened its Bengalur Research and Technology India center to help coordinate the work of over 1,500 researchers working on Boeing projects throughout India.

And a major step forward in opening up the European defense equipment market—at least for European suppliers—was taken in January this year with the adoption by the European Parliament of a new Directive on Defence and Security Procurement.

As part of the process of liberalizing the defense market, the European Union’s European Defense Agency (EDA) has developed an Electronic Bulletin Board portal, on which European defense equipment contracting opportunities are now widely advertised. Accord-



An ISAF soldier, along with his ANA counterparts, pauses during operation AABI TOORAH in central Helmand in March 2009. One result of the NATO summit in Strasbourg was a promise from European nations to commit more troops to the Afghan effort. (International Security Assistance Force photo.)



Despite the economic downturn, new Russian airliner programs like the An-148 are being developed, with the help of European and U.S. suppliers.

ing to the EDA, “Governments have so far published around 400 contract opportunities based on open competition worth more than €10 billion.”

Other approaches

However, unfairly protecting a nation’s aerospace industry is not only managed by increasing taxes on imported aerospace equipment and raw materials or providing covert government support to new programs. Policies on taxation, subsidies, goods specifications, investment rules, product test standards, and support for failing industries all have a role to play in limiting competition from foreign sup-

pliers. With agreement on the Doha Development Round of global trade negotiations at the WTO effectively stalled, governments around the world have access to increasing numbers of policies to protect their home industries.

This might not matter much to U.S. and European aerospace companies now. But soon, with the launching of a new generation of Boeing 737 and Airbus A320 replacement aircraft programs (the essential cash cows to both the U.S. and European civil aerospace industries), the issue of what constitutes fair and unfair subsidies to research and manufacturing initiatives will assume major significance.

Or maybe not. For the sheer scale of the economic problems facing G20 leaders as they met in London in April to find common solutions to the current global financial crisis suggests that we may be entering a new era of global cooperation, not just on stimulating and regulating the global economy, but on nuclear proliferation, the fight against global warming, Afghanistan, and a host of other issues, including trade.

This would have profound, though as yet unclear, implications for the aerospace industries in Europe and North America. But one notable shift in U.S. policy, as highlighted by many European observers since the advent of Obama’s

presidency, has been the support for multinational institutions such as the International Monetary Fund. The G20 agreement to set up a global Financial Stability Board is based on a belief that global financial problems need a powerful new global financial regulator—so why not more intergovernmental cooperation on regulating aerospace trade disputes?

To regulate or not

Most aircraft manufacturers would argue they do not need regulating—their supply chains and customers are global and more or less entwined. But with Airbus and Boeing recording more cancellations than new orders for the first months of this year, and defense budgets being re-focused to support expeditionary warfare operations—greater protection to troops in the field—rather than big-ticket military aerospace programs, there will be growing pressure on governments to protect strategic aerospace jobs and technologies.

Providing support measures for national industries without creating protectionist policies that hurt global trade will require some deft political footwork by European and North American leaders.

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Correspondence

Jerry Grey’s commentary **Addressing climate change, with help from abroad** (April, page 3) was lacking in logical reasoning. In the first paragraph, he states that the loss of the Orbiting Carbon Observatory “...has damaged our ability to develop accurate models of global warming trends,” and yet in the following paragraph he makes the unqualified statement that “The consequences of climate change will affect the whole world.” Given that the ‘proof’ of the link between man-made carbon dioxide and global warming has only

been made through use of climate models, how can such a definitive statement be made if “accurate” climate models are not available?

Later he states that “aircraft contribute less than 2% of the atmosphere’s CO₂ inventory,” a fact I’ve heard before. The policies being created by various world governments would have a crippling effect on our business. Carbon taxes would cause air fares to rise to the point where leisure travel would cease, along with most business travel. Given the lack of an economically viable alter-

native to petroleum, it would need to (otherwise there would be no reduction in CO₂ emissions); however, even if the number of flights per year dropped to zero, the impact on CO₂ levels would be imperceptible.

Why isn’t AIAA, and the aerospace community at large, broadcasting this fact to the public, given the dire consequences the policies being discussed would have on its members?

Joseph Sheeley
Tullahoma, Tenn.

Reply by author: There is no inconsis-

All letters addressed to the editor are considered to be submitted for possible publication, unless it is expressly stated otherwise. All letters are subject to editing for length and to author response. Letters should be sent to: Correspondence, Aerospace America, 1801 Alexander Bell Drive, Suite 500, Reston, VA 20191-4344, or by e-mail to: elainec@aiaa.org.

tency in the two statements cited by Mr. Sheeley. I don't think anyone can argue with the first one: "Loss of OCO's ability to measure miniscule changes in carbon dioxide and oxygen concentrations in the atmosphere, and thereby identify sources and sinks for carbon dioxide, has prejudiced our ability to develop accurate models of global warming trends."

I see no inconsistency with the second one: "...the consequences of climate change will affect the entire world." That is certainly true, whether those changes are natural or are exacerbated by the activities of mankind. In neither statement do I imply that it is mankind's generation of greenhouse gases (or aerosols) that is causing the observed global warming trend, although that conclusion has been drawn, not without opposition, by most climate scientists. Mr. Sheeley is correct in his contention that the link between man-made CO₂ and global warming is based on climate models which still require significant improvement, but nowhere do I imply that those models "prove" such a connection.

On Mr. Sheeley's second point, I fully agree with his view that the impact of aircraft on climate change is too insignificant to warrant the major corrective actions that have been proposed. Nevertheless, as stated in my commentary, "the general perception is that they are "gas-guzzlers" of gigantic proportion." I would strongly endorse any action, by the AIAA or any other entity, that would work toward correcting that false perception.



Conversations with Elon Musk (April, page 14) touched on three of my favorite subjects: extending human life beyond Earth, launch costs, and reusable launch vehicles. Mr. Musk has dared to dream of making progress and has been able to take some positive steps along the path.

He spoke of getting the public excited about space exploration. My suggestion has been to set a goal of establishing a colony, beyond Earth, that can sustain itself without support from Earth. Once man can accomplish that goal, the future of human life will be protected

from catastrophes on Earth, and future expansion will be likely.

Space-X has taken important first steps to reduce the cost of placing payloads in orbit. If the Falcon line continues to be successful, space will be more accessible for all purposes.

Mr. Musk points to reusable launch vehicles as an important future step. My

conclusion is that a partly reusable vehicle is appropriate for current traffic levels. The cost of returning empty tanks from orbital speeds is too high. Expending the entire orbital stage is a reasonable choice in the near future, especially if the rocket engine has been used several times on a booster.

James A. Martin
Huntington Beach, Calif.

Events Calendar

JUNE 1-4

Twenty-seventh International Communications Satellite Systems Conference, Edinburgh, Scotland.

Contact: www.theiet.org/icssc

JUNE 10-12

American Control Conference 2009, St. Louis, Mo.

Contact: P. Misra, pmisra@cs.wright.edu

JUNE 11-13

Fourth International Conference on Recent Advances in Space Technologies 2009, Istanbul, Turkey.

Contact: Col. Sefer Kumaz, seferkumaz1@yahoo.com

JUNE 14-18

Nuclear and Emerging Technologies for Space 2009, Atlanta, Ga.

Contact: S. Bragg-Sitton, 979/862-8446

JUNE 21-25

2009 International Forum on Aeroelasticity and Structural Dynamics, Seattle, Wash.

Contact: www.ifasd2009.com

JUNE 22-25

AIAA 27th Applied Aerodynamics Conference; First Atmospheric and Space Environments Conference; 19th Computational Fluid Dynamics Conference; 39th Fluid Dynamics Conference; 40th Plasmadynamics and Lasers Conference; 41st Thermophysics Conference. San Antonio, Texas.

Contact: 703/264-7500

JULY 12-16

International Conference on Environmental Systems, Savannah, Ga.

Contact: Melissa Jena, 724/772-4008; www.sae.org/ices

AUG. 2-5

Forty-fifth AIAA/ASME/SAE/ASEE Joint Propulsion Conference and Exhibit, Denver, Colo.

Contact: 703/264-7500

AUG. 2-5

Seventh International Energy Conversion Engineering Conference, Denver, Colo.

Contact: 703/264-7500

AUG. 9-13

2009 AAS/AIAA Astrodynamics Specialist Conference, Pittsburgh, Pa.

Contact: Dr. T. Alan Lovell, thomas.lovell@kirtland.af.mil