

PATRICK DE CASTELBAJAC

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Jeffrey FRIEDEN

That brings me to Patrick, who faces a similar problem, with what makes sense on the one hand, as opposed to what is politically possible. Patrick, you are at Airbus in the centre of the storm that has been building since the referendum, over what Brexit implies for both the European economy -- and I use Europe in the geographical sense to include the United Kingdom -- and the European business community. As we all know, Airbus is a tightly integrated organisation. What are you going to do when whatever happens, happens?

Patrick de CASTELBAJAC

(NOTA: The following statements were made on 26.10.2018, prior to the agreement between the EU Commission and the UK government)

First, I think when I discussed with Thierry and Nicolas, we said we want to give a kind of European industrial company view on what is going on. Airbus has the privilege of being part of the Europe that works, and our success has had the base over the last 40 years of the free-flow of people, goods, services, assets throughout Europe. We have got 14 000 employees in the UK, which to give you an idea, means 80 000 trips across the Channel by Airbus employees every year. We have got over 2 000 suppliers, so it is an absolutely integrated component of what we do. There is 15 billion euros of trade going across the Channel on a yearly basis.

The issue today is a simple one, well it is not a simple one. When we build an aircraft, we have between one and two million parts for each one. Every part has to be just-on-time and you can imagine the logistics to get all these two million parts from all across the world and Europe coming at one point in time, on quality, at a given place. Obviously, if you want to start to build buffer stocks everywhere in terms of working capital, it is just simply a kiddie. You cannot have two million parts stopped all over Europe because there is a risk of disruption in the UK. Therefore, frictionless trade is absolutely key, because we live in a very competitive world. We are a business, which is, I am sorry to say, not efficiently supported by our political states, contrary to our competitors. Therefore, we absolutely need to deliver, and we need to deliver according to very high standards of performance.

We are very worried today, because if you look at the traffic and logistics it is mostly trucks and there are approximately 6 000 crossing the border every day. Even if you say that the goods can go in, but will the truck be controlled? Will the driver of the truck be controlled if he is French, Moroccan or Spanish? If they are controlled, and you say they are very efficient and need maybe two minutes per truck, that means 30 miles of queues before Dover, 50 kilometres of queues every day. Will that disrupt every business? Probably so.

The other thing which concerns us a bit is, and I am not talking tariffs here, I am talking administrative papers, we are now going to have to build roughly a quarter of a million administrative documents per year. We were in a place when we were exporting across the Channel, we had a form filled once a month with a dozen pieces of information. Now, such a form will have to go across the border with every part, with 54 data points. The level of complexity, inefficiency and administrative load is huge and that is not just Airbus, it is for any company doing business with the UK.

The challenge for us and we raised our hands a while ago, because we were very concerned about the level of unpreparedness. We are working at full capacity at Airbus. This year we are targeting, selling and delivering 800 aircrafts, which means more than three per working day. If we have one week of delays, we cannot recover that week because we are running at full capacity. One week of delays means that we will lose one billion and we will be very, very lucky to have only one week of delay with Brexit as we are going into it today. It will massively harm not only the UK and companies, but also, I think European competition.



Another point, which is aside from the industrial, which I think relates to any industry that is heavily regulated, like pharmaceuticals, chemicals, defence, etc. To give you an idea, when every part on the aircraft has to be certified, certified by the European Aerospace Safety Agency, the day a part is not certified the aircraft cannot fly, the world over not only in Europe. Until very recently, the point was that the British expressed their willingness to go out of the EASA, because with this authority goes the jurisdiction of the European Court of Justice and if you deny the jurisdiction, you cannot be part of it. That would have meant, that again anywhere in the world, once you have to change to put a British part in the aircraft, the aircraft is not certified and if it is not certified, it cannot fly.

We have been working for months now with EASA and the British and many of our suppliers. A couple of weeks ago there was an agreement in principle on how it should work and the EASA very constructively agreed to give a third-country approval to the UK suppliers. However, again, there are more than 2 000 suppliers and more than 10 000 parts and there are now less than six months to implement this if we do not want the aircraft to be grounded.

If you go into the UK today, the head of the Customs recently said that he would take four to five years to setup a customs system that would work. Imagine for the SMEs in the UK, which grew in a world where they did not have to bother about customs, I do not even mean tariffs, I mean customs, because they did business with neighbouring businesses in the EU and there is free trade and it is easy. Today, no firm knows what will happen after March 29th. Today, none of them know if they will have to invest in certain systems, which systems to do what, what the delay will be, how you manage your production, your sales, your aftersales, your support. Nobody knows.

It is the same for the airports. Actually, there was a report the day before yesterday from the National UK Audit Agency, which said the airports would need a minimum of three years to get the appropriate border system. IATA, which is the UN for aviation, said that they were concerned about what would happen after March 29th. Today, no one knows what will happen and the UK Transport Department, again this week, said that it had great concerns about what would happen to aviation, but also to train on norms, security, what happens with the insurance, etc.

I think the level of uncertainty for a no-deal Brexit is extremely significant and as an industrial company in the UK, we feel that maybe today it is not exactly fully understood by all the stakeholders. We feel today, that even a bad deal could be better than no deal. Again, it is easy for me because I am not a politician, but it is certainly something we do. Very quickly, what we are all doing now, same with automotive, is we are building buffers. We are spending a billion euros in buffers now, both sides of the border and that impacts our ability to invest. We are in a very competitive industry and we would rather invest one billion in R&D or to be more competitive, rather than one billion to build stocks, but we have to do it. We are also investing a very significant amount to anticipate what the customs system could be and work out how we can digitalise it and have something flexible, so whatever the countries come up with we can adjust and react fast. We are also trying to help our suppliers get ready, but most of them are not today.

To conclude very quickly, I am extremely worried by the level of readiness of our governments on the issue and also some industries and businesses, which I think listen a bit too much to the flow of information saying, it will be okay. Well actually, hopefully it will be okay, but nobody can know today how it will be okay. Of course, I am conscious that Airbus is an extreme example, because it is very integrated and very European, but we are not the only ones. I think in automotive, pharmaceuticals, space, defence and many other industries, we find the same concerns and the same worries. I think for all of us large companies today, this uncertainty and the possible consequences forces us to revise our view on what we will do in the UK tomorrow. Clearly, today we have fantastic people there. I think it is the most competitive place for all of Airbus in Europe by a significant margin, but if a hard Brexit happens, we will have to revise everything, our investment, our footprint. Again, I think that having talked with people in automotive in particular, BMW amongst others, it is going to be very worrying.

Jeffrey FRIEDEN

I think the broader implications are significant. Airbus is a special case, but Airbus is simply an extreme example of a global value chain. Global value chains are central to the functioning of the international trading system and the international economy more generally. The disruption that Brexit has or will imply for that global value chain, is analogous to the disruption that could pertain if there was disruption to the SWIFT settlement system or to world trade



more generally. I think that Airbus gives us a sense of the kinds of problems that are likely to arise more and more in the future as this moves forward.