

The aeronautical industry faces the Euro appreciation: delocalization strategy and consequences for the economy in Greater South West France

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The aeronautical industry is one of the spearhead sectors in French industry. At the beginning of the 2000s, France was making a third of the European turnover in this sector (Petit, 2005). Although the majority of these activities have been essentially concentrated in the Ile-de-France region, there has been a gradual shift to the Greater South West of France, i.e. the Aquitaine and Midi-Pyrénées regions. In 2009, the turnover generated by the aerospace industry was 7.9 billion euros for Greater South West France (INSEE, 2010). In terms of workforce, still in Greater South West France, the entire aerospace sector, including the related OEM and establishments, represented 114,300 jobs at the end of 2009. This concerns main OEM clients as well as contractors and suppliers. The aeronautical industry is a dynamic and cutting-edge industry and was a reference and even a model for a more fragile French economy in other sectors such as the automobile industry, etc.

But there is now a spanner in the works, impeding the standard operation of the industry: the Euro - Dollar exchange rate. Why this particular exchange rate? Simply because the international aeronautical industry is characterized by a duopoly situation between Airbus and Boeing (Bénassy-Quéré et al., 2011). An appraisal of the dollar therefore penalizes Airbus exports compared to its rival Boeing (Rey, 2011). The problem of the value of the Euro has not escaped the eye of politicians. Remember that Nicolas Sarkozy, a candidate for the French Presidential elections, declared in Charleville-Mézières in 2006: *“Overvaluing the Euro is a serious economic mistake.”* Then in June 2008, in an interview with the French television channel France 3, Sarkozy - who had become President of the Republic - confirmed: *“AIRBUS manufactures in the Euro zone and sells most of its production in the dollar zone...every time the Euro strengthens against the dollar by ten centimes, Airbus loses*

a billion Euros! How can you expect us to compete with BOEING who sells in dollars, if the Euro is 30% overvalued compared with the dollar?¹

These statements echoed repeated complaints from corporate leaders in the sector. So, in January 2010, John Leahy², Sales Manager at Airbus, announced a 5.8% average increase in the catalog prices of all its aircraft, under the following terms: *"We have tried to keep prices at the same level for as long as possible... However, in spite of a record number of deliveries and an impressive number of orders recorded over the last few years, the constant strength of the Euro against the dollar and the current financial challenges we are now facing, have obliged us to take the necessary measures."* In May 2010, the Financial Manager at EADS, Hans-Peter Ring came back on the issue of the Euro/dollar exchange rate in the following terms: *"At 1.20 dollars, we are in a situation where we have a balanced exchange rate and we can make a good living"*³. But this period of respite was short-lived, as in May 2011, the exchange rate for the Euro increased to 1.48 dollars.

Confronted by this situation generated by the sharp increase in the Euro against the Dollar as from 2001, the industrialists reacted. A reaction which was materialized first by delocalization processes, in particular to China, but also to the USA. Fontagné (2009) justifies the strategy as follows: *"Why produce in China? To produce at low-cost? Certainly not. Installing an assembly line and organizing supplies is a costly affair. To access the Chinese market? It's an obvious necessity. But above all, Airbus is going to produce in the dollar zone⁴... Airbus, whose prices are essentially quoted in dollars and the majority of costs are in euros"*.

In view of the economic influence of the aeronautical industry in Greater South West France, the question regarding the consequences of this kind of strategy for the regional economy is a legitimate one. And our research project is set against this backdrop.

1. <http://www.elysee.fr/president/root/bank/print/5637.htm>

2. http://www.aerocontact.com/actualite_aeronautique_spatiale/print.php...

3. Reuters, May 22,

4. Remember that the Central Bank of China sets the exchange-rate parity of the yuan compared with the US dollar.

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12 months.