

## Amicus and the Aerospace Sector

### Industry Statistics

- The European aerospace industry is a high-tech industry which develops and manufactures a broad range of products: civil and military aircraft, aero-engines, helicopters, launchers and satellites, unmanned aerial vehicles (UAVs), missiles as well as systems and equipment.
- The UK based industry employs a highly skilled workforce of almost 115,000 people. Employment decreased by 6% in 2004 to 114,345, a slightly higher decrease than the long term average of 3% per annum seen over the last twenty years. It is estimated that a further 140,000 people are indirectly supported by the Aerospace industry.
- UKAI employs 45,000 people overseas with a further turnover of £4.96bn.
- Amicus represents almost 63,000 members in the Aerospace and Shipbuilding industries.
- The UK's aircraft and aerospace industry is the second largest in the world and a significant driver of regional and national economic growth and productivity.
- In 2004, UK aerospace turnover increased by 1.6% in real terms to £17.71bn. Although this still leaves the industry below 2001 turnover levels, this modest recovery was achieved through rising exports. Civil aerospace revenue increased for the first time since 2001, rising by 0.2% in real terms to £8.69bn. Defence exports increased by 8.9% in real terms to 4.34bn.
- The rise in defence sales can be attributed to several programmes beginning to gain momentum, such as Eurofighter, Hawk exports and Joint Strike Fighter (JSF) programmes. In the coming decade the JSF programme looks to be especially beneficial to UKAI, with some estimates that the UK has won over 24% by value of the total contracts awarded so far.
- The space sector has a total value of £472m, a real terms increase of 23% on last year.
- Since the early 1980s the focus of UK aerospace has shifted from 65% defence sales in 1981 to 51% today.
- There was a decline of 5.6% in real terms, in R&D spending to £2.02bn. This was in part due to the natural product lifecycle of R&D investments. Overall R&D intensity averaged 11% of total turnover in 2004.

## **Amicus Campaigns for the Aerospace sector**

**Jerry Hicks** – 2005 was marred by Rolls Royce's dismissal of Jerry Hicks, Amicus Deputy Convenor at the company's Bristol site. Jerry was sacked for an "irretrievable breakdown of trust and confidence" following unofficial strike action in support of two suspended union members. Amicus believed that Jerry had been sacked as a direct result of his union activities, and we saw his dismissal as a cynical attack on the union. The whole trade union movement became involved in a high-profile campaign to get Jerry reinstated. Eventually a settlement was reached which forced the company to pay extremely generous compensation to Jerry, plus a return to work agreement which compensated those workers who had been on strike to support him.

During the course of the dispute, an Employment Tribunal hearing of an Interim Relief Application had ordered Jerry's reinstatement – which was refused by Rolls Royce. Although the company were forced to pay Jerry's wages, this highlighted a major flaw in employment law. The union is therefore committed to achieving a change in legislation to ensure that a reinstatement order really does lead to reinstatement.

**Charter for Aerospace Workers** – The National Sector Committee has written a Charter for Aerospace Workers, which was launched in the autumn of 2005. The Charter lays out our demands for workers in the sector and will give a focus to our campaigning and political lobbying. The sector committee also see the Charter as a useful recruitment tool for members in the sector.

European Work – The National Officer for Aerospace and Shipbuilding, Ian Waddell, was appointed Chair of the European Metalworkers Federation's Aerospace Committee in November 2005. This has provided Amicus and the UK with influence in the sector in Europe. The EMF has led discussions with American Boeing workers over the WTO dispute, with a view to finding common ground. This has resulted in a joint position paper being prepared which reflects the concerns and aspirations of the European and American aerospace workers. The committee has also worked with the EU Commission in a review of the EU industrial strategy for the sector, arguing for structural funds to support research and development and retraining and re-skilling workers plus intervention funds to offset one-off shocks such as 9/11 and SARS.

The UK will continue to play a leading role and will be hosting the full EMF Aerospace Committee meeting in May 2006.

**Defence** – Currently the UK has the most open defence market in the world and although we are the world's second largest defence supplier we are also the world's second largest

importer of defence-related products. The openness of the UK MOD tendering process has been in stark contrast to other countries' efforts to protect their indigenous defence companies and home markets. UK companies have been drawn into investing in US subsidiaries in order to break into the US market – with no technological transfer out of the US. In fact many of the larger well-known companies such as BAE systems, Rolls Royce and Smiths Industries have as many workers employed within the US as they do within the UK. In high technology sectors such as aerospace the inability to transfer new technologies into the UK will eventually lead to a situation where the MOD will no longer have the option to buy within the UK.

It is hoped that the forthcoming Defence Industrial Strategy will go some way to addressing this imbalance.

**Defence Industrial Strategy** – The strategy, which builds on the existing Defence Industrial Policy, is due to be published before Christmas. It is intended to develop a clearer joint understanding across Government, industry and the unions of the technologies and capabilities which are essential to retain on shore, but will not cover all the sectors in depth at this stage. Amicus has played a leading role in emphasising to the Government the vital importance of the strategy, in terms of R&D, skills and investment, if the UK is to transform and strengthen its defence industrial base and protect homeland security.

**Skills shortages** – Back in 2003 the Aerospace Innovation and Growth Team (AeIGT) published its report and recommendations highlighting the productivity, innovation and skills challenges that the sector faces. Further feedback from our Amicus members and their employers indicates the industry is facing a demographic challenge on skills. The average age of the workforce in defence has been concentrated due to successive rounds of redundancies and restructuring. If we are to maintain our capability in defence manufacturing this potential skills gap must be addressed now.

**R&D** - It is accepted that a major reason why the UK has enjoyed its number two position in the world was the progressive investment regime of past generations. In recent years the USA has moved further ahead and UK R&D intensity is below the international average in eight out of 12 industries – Europe as a whole, France and Germany all outstrip the UK in R&D investment. The Government must do much more to encourage private industry in the defence sector to concentrate its investment strategy in the UK, when faced with the range of inducements now available globally.

**Technology transfer** – Technology transfer between the UK and US remains a very significant concern for UK firms. Amicus welcomes the Government's efforts to try and achieve an ITAR waiver (International Traffic in Arms Regulations), similar to that enjoyed by Canada. Unfortunately latest reports suggest that the UK is set to lose its five-year battle to

win a waiver on these strict US arms export controls after being told by Bush administration officials that political opposition on Capitol Hill to the transfer of sensitive technologies had become insurmountable.

Currently the United States requires approval of exports of components even to a subsidiary of the same company, which makes it very difficult for the UK to build technology over here. This will become increasingly important during the development of the Joint Strike Fighter (JSF). US and UK officials are reported to be trying to come up with ways to strengthen military technology co-operation without having to change US export law.

**Export Credit Guarantees** – the Export Credit Guarantee department exists to help UK manufacturers and investors trade overseas by providing insurance and/or backing for finance to protect against non-payment. This is of great help to companies who are looking to win contracts in the developing world or with buyers that they might be unfamiliar with.

For exports of defence equipment to other countries, the provision of insurance cover is dependent on necessary Government export licences being in place. Defence exports account for about 24% of the ECGD portfolio of business.

The UK government is currently reviewing the role of the Export Credit Guarantee Department and is particularly concerned about ensuring anti-bribery and corruption safeguards. Amicus recognises that safeguards must be put in place to ensure that public money is not contributing to bribery and corruption. At the same time, operating a policy of transparency must not compromise commercial confidentiality. These objectives must be achieved without imposing unnecessary administrative burdens which would undermine the competitiveness of British exports. The aerospace sector remains a highly competitive global industry and it is vital that ECDG's services are able to compete with those provided in other nations, such as France, Japan and the USA.

**WTO Dispute** – A dispute between America and Europe over subsidies paid to Airbus and Boeing has been referred to the World Trade Organisation. On May 30<sup>th</sup> 2005, the American government announced it would take a case challenging European government subsidies to Airbus. The next day, the European Union (EU) filed a counter claim against the American government's aid to Boeing. The two sides had been trying (sort of) to settle the dispute in bilateral talks since late last year, but the Americans broke them off after Airbus applied for further aid to launch its new mid-sized A350 aircraft.

This dispute has rumbled on since the late 1980s, when Airbus first started to weaken America's dominance of the commercial aircraft market. A truce in 1992, limiting "refundable launch aid" to Airbus to one-third of development costs and Boeing's subsidies from

government to 4% of its turnover, lasted until 1998. By then Airbus was steadily approaching 50% of the market.

The WTO is thought likely to find that both sides have breached subsidy rules.

**Repayable launch investment** – Currently used to support the large civil aircraft sector. LI is a source of project development capital for large programmes in the aerospace sector. It is a direct support for development (but not production) of specific products. Under the 1992 EU/US agreement support may be given for up to 33% of eligible costs, repayable over 17 years on minimum repayment terms linked to the cost of government borrowing.

The DTI have asked for alternative suggestions of funding to be put forward - any change must deliver equivalent levels of funding to UK based aerospace companies; it must be durable and effective in dealing with the long-term financing issues faced by the sector. One further option is research and technology support. Amicus will continue to play an important part in this debate.

**Sustainable development** – Public concern about the impact of aviation on climate change continues to drive the political agenda. Pressure is on aircraft manufacturers and air traffic management providers to improve fuel efficiency, reduce Nox emissions and reduce perceived external noise. Industry pressure favours cleaner environmentally friendly options over and above environmental impact as the way forward for the future.

**UK Industrial Satellite Navigation Policy** - News was leaked out (June 05) that the DfT, which leads Britain's role in the 2.5bn pounds satellite navigation programme, Galileo, had written to Science Minister Lord Sainsbury to "formally confirm" that the Department would not be contributing towards the additional 25m pounds needed to maintain the UK's lead role. Cardiff has been named as the prospective City for hosting the Galileo Supervisory Authority.

Independent experts have estimated that up to 20,000 highly skilled, highly paid jobs could be created in the UK through the downstream application of Galileo. UK Space is one of the most hi-tech, wealth creating industries in Britain. With the most highly skilled workforce in British manufacturing, space employs a niche workforce of 15,000 people across the country.

Britain's lead space company, EADS Astrium, is designing and building key parts of the ground infrastructure and of the 30 satellites needed for Galileo and enjoys high Amicus membership across the workforce.