BREXIT – Risk Assessment

Airbus has four major engineering and manufacturing facilities in the UK, 14,000 employees at 25 sites, our people make 80,000 business trips between the UK and the EU a year, we have 1,900 expatriates and we support more than 110,000 jobs in the UK supply chain. The decision by the UK to leave the EU will set new boundary conditions cutting through this highly integrated system. Brexit thus raises major operational challenges for Airbus as UK employees and suppliers are today key and efficient contributors to Airbus’ success.

Airbus has more than 4,000 suppliers in UK and an integrated supply chain with parts crossing the Channel multiple times. This is operated on a just-in-time basis relying on frictionless trade today provided by the combination of the EU Customs Union and Single Market rules. Any change in customs procedures, logistics and environmental standards would have major industrial and cost impact.

Aerospace operates in a unique, safety driven and heavily regulated environment. The design, production, maintenance, repair & overhaul and use of parts follow tight regulations and can only be executed by certified organizations under EASA, such as Design Organisation Approval (DOA), Production Organisation Approval (POA) and Maintenance Organisation Approval (MOA). More than 10,000 original aircraft parts originate in the UK.

In the absence of a Brexit agreement, UK aerospace companies will not be covered anymore under existing regulatory approvals including EASA approvals. All UK companies will need to transfer their DOA, POA and MOA into the EU. This means that should a single supplier not be certified, its parts cannot be installed and consequently prevent the delivery of aircraft. It is therefore vital that the EU supply chain gets duly prepared.

This is why Brexit imposes additional major risks to the aerospace sector compared to other industries and Airbus is getting increasingly concerned by the lack of progress on the Brexit process.

No deal Brexit

In case of the UK leaving the EU without a deal on the 29th March 2019, there would be no Transition Phase, the UK would leave the Single Market, the Customs Union and the European Court of Justice jurisdiction. Therefore, WTO rules would kick in and numerous frictions would heavily impact our operations and that of our supply chain.

Airbus’ production is likely to be severely disrupted due to interruption to the flow of parts and/or discontinued airworthiness. Given today’s prevailing uncertainty, buffer stocks would be needed (estimated value circa €1B, not accounting for lead time and logistics disruptions).

Given Airbus’ steep ramp-up demands on the best-selling A320 and A350 families, our critical industrial capabilities are already running at full capacity. With no spare capacity left over years to come, every disruption to production would most likely turn into an unrecoverable delay.

Every week of unrecoverable delay would entail material working capital impact, re-allocation cost, cost for inefficient work, penalty payments to customers and up to €1B weekly loss of turnover. Despite the incremental stocks, the disruptions in a no deal Brexit situation are likely to add up to several weeks; potentially translating into a multi-billion impact on Airbus.
A no deal Brexit must be avoided, as it would force Airbus to reconsider its footprint in the country, its investments in the UK and at large its dependency on the UK (with many potential undesirable consequences such as repatriating competencies, patents, revisit Research and Development footprint, reduce UK’s weight in the supply chain etc…). Given the “No deal/Hard Brexit” uncertainties, the company’s dependence on and investment in the flagship “Wing of Tomorrow” programme would also have to be revisited, and corresponding key competencies grown outside the UK.

This extremely negative outcome for Airbus would be catastrophic. It would impair our ability to benefit from highly qualified British resources, it would also severely undermine UK efforts to keep a competitive and innovative aerospace industry, while developing high value jobs and competencies.

**Orderly Brexit (with an agreement and transition period)**

An orderly exit in March 2019 would lead to a new EU/UK relationship after a transition phase currently planned to end Dec 2020. The UK will no longer be part of Single Market, Customs Union or European Court of Justice jurisdiction.

Though a much better outcome than a no deal scenario, this way forward would still pose a significant amount of risk and be difficult to manage as the proposed transition phase seems too short for governments to agree on all important open points, and for Airbus and its tier one suppliers to agree and implement all changes with their extensive UK supply chain.

During the transition phase, the current boundary conditions will be maintained, but the details of the new EU/UK relationship will only be known late in the process, leaving short lead time for preparation. The necessary change from an old to new framework contains inherent risks for all involved elements like data, systems, supplier readiness etc. Thus, it is likely that short-term production disruptions of 1 or 2 weeks may occur post-transition due to the supply ecosystem not fully ready (though the weekly amount would not vary, the number of weeks of delay is likely to be significantly reduced compared to a no deal scenario).

*Past the transition phase*, the new EU/UK relationship will entail new procedures, regulatory regimes, duplication of tasks, divergence of standards etc… potentially leading to higher complexity, more effort, more cost, more risks; more friction/delay in our cross-channel, deeply integrated supply chain (€10B UK ➔ EU; €5B EU ➔ UK) operating today on a just-in-time basis.

*Until we know and understand the new EU/UK relationship, Airbus should carefully monitor any new investments in the UK and should refrain from extending its UK suppliers/partners base.*

Customs Union and a harmonized regulatory framework with the EU on aviation are the two major issues for Airbus that will determine its future strategy in UK, and they need to be addressed urgently.

The critical issues amongst others are the increased cost base due to trade procedures, airworthiness efforts and difficulty to move people. For trade procedures (non-tariff cost) alone, an OECD study estimates the range of the recurring extra cost between 2% and 15% of overall trade. This translates to up to €1B per year to be borne by the Airbus UK-related aerospace ecosystem.

Thus, even with an orderly exit and transition, the active engagement of all stakeholders, including Airbus and the UK government, will be necessary to build an environment in which UK aerospace companies can continue to be world leaders in our ever-growing industry.