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## Airbus Courts Beijing With Assembly Plan

**Jet Maker May Bet Sales Opportunity  
Outweighs Risks of Setting Up Shop in China**

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Airbus wants to win a competitive edge in selling jetliners to China's surging airline industry. To gain it, the European plane maker is employing some of the same tactics it is using in an attempt to woo another deep-pocketed but politically sensitive customer: the U.S. military.


Airbus expects by this summer to complete a feasibility study on whether to assemble single-aisle planes from its A320 family in China, and if so, at which of four potential sites. Chinese officials handling the location selection with Airbus said there is "no timetable" for a decision.

Officials at Airbus, the world's biggest producer of commercial jetliners by orders and deliveries, and at parent company **European Aeronautic Defence & Space Co.**, admit opening a plant in China would be challenging and costly, especially amid concerns that Airbus will have to ratchet up spending to compete with a resurgent **Boeing Co.** of Chicago. A similar venture by a U.S. aircraft maker in previous years ended in failure. And some industry officials fear work done in China eventually could help create a new competitor.

But Airbus executives view it as a way to win favor with Chinese government officials who approve jetliner orders by demonstrating how seriously Airbus takes China. "As a symbol, the final assembly line is the most visible project," said Noël Forgeard, co-chief executive of EADS. Franco-German EADS owns 80% of Airbus and British defense giant **BAE Systems PLC** owns 20%.

Airbus's interest in building planes in China underscores the political challenges businesses face in dealing with that fast-growing economy, where government can play an outside role in business decisions. Airbus's parents bring experience to the negotiations: In multibillion-dollar arms deals, it's common for defense contractors like EADS, BAE, Boeing and **Lockheed Martin Corp.** to win contracts from foreign governments by establishing assembly lines in their countries.

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In fact, the only other country besides China in which EADS has proposed creating a new Airbus assembly line is the U.S., to curry favor with the Pentagon. EADS wants to supply Airbus A330 jetliners to the Defense Department for use as midair refuelers, in a contract Pentagon officials hope to award by summer 2007 and whose value could top \$20 billion. EADS has joined with **Northrop Grumman Corp.** to prepare a bid.

Boeing today sources some components from China, but Airbus's move would be a much bigger step. Brazil's **Empresa Brasileira de Aeronautica SA**, or Embraer, assembles jets in China, through a joint venture in the northern city of Harbin. Output has lagged due to slow sales of the small planes amid demand for larger models from Airbus and Boeing.

Sending parts by sea to China and training staff would be expensive for Airbus. One company official said that if low Chinese labor rates fail to offset higher costs, the project could become a loss-leader, justifiable only if Airbus can generate enough new sales in China.

Yet Airbus believes the sales opportunity far outweighs the downside of building aircraft in China. Both Airbus and Boeing predict that China in the next two decades will become the world's No. 2 aviation market, after the U.S. Airbus predicts China will buy 1,790 passenger planes, with a catalog value of \$242 billion, by 2023.

Airbus last July opened an engineering center near Beijing. It already buys a small number of aircraft doors, wing components, cockpit floors and other parts from Chinese companies. In December, it said it aims to quadruple purchases in China, to \$120 million, by 2010. EADS subsidiary Eurocopter has also had helicopter joint ventures in China since 1980.

EADS wants to establish a "long-term presence in China," said EADS Chief Operating Officer Jean-Paul Gut, who is leading the Airbus project.



Mr. Forgeard said big issues to resolve include protection of EADS's intellectual property rights and the investment terms. EADS officials say they would own more than

51% of the venture and would control management, to ensure that the quality of planes made in China equaled that of those produced in France and Germany.

Airbus's plans for China echo efforts by McDonnell Douglas Corp., which assembled single-aisle planes in China starting in the 1980s. McDonnell executives said they hoped the plant would boost orders from China, but it produced only a few dozen planes due to snags. The company suffered because it initially promised to sell China only planes made there. The project closed soon after Boeing acquired McDonnell Douglas in 1997. Airbus officials say they aim to learn from that project's mistakes.

Chinese officials, meanwhile, hope assembling Airbus planes will advance their goal of eventually producing a large, all-Chinese jetliner. That ambition has prompted some observers to worry that Airbus could wind up helping China develop a rival to itself and Boeing, its sole competitor -- just as Shanghai Automotive Industry Corp., which makes cars in ventures with **General Motors Corp.** and **Volkswagen AG**, plans to produce its own vehicles and compete directly with its Western partners.

China's new agenda for jetliners is spelled out in the current five-year plan, which runs through 2010 and which also emphasizes basic aeronautical research on big passenger planes. The government announced in January that China plans to relaunch research in the field, which had been shelved in 1985. Gao Liang, a government researcher, said assembling aircraft is a "complicated" project from which the Chinese could learn about design, manufacturing and components. "It's not just a 'screw-fastening' job," he said.

Airbus officials play down the risk of giving away the shop. "Creating an assembly line in China does not ipso facto create your competitor," said Olivier Andries, head of strategy at Airbus.

--Cui Rong in Beijing contributed to this article.

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