

Airbus vs Boeing (B)^(c)

In 2005, Airbus had outsold Boeing 1111 to 1029. In the following half-year, however, Airbus' market share fell sharply relative to Boeing's. By June 30, 2006, Boeing had secured 480 orders, while Airbus had secured just 117 orders. Boeing's sales were powered by the 787 Dreamliner, with 360 cumulative orders. By contrast, the Airbus A350 had attracted just 100 orders.

Airbus's miserable summer began with an announcement in [early June] that delivery of the jumbo A380 would be delayed by six months. News of the delay triggered widespread speculation that Airbus would be liable to customers for substantial damages. Airbus's parent, EADS, issued a €2 billion profit warning and the price of its shares, listed on the Paris, Frankfurt, and Spanish stock exchanges, sank by 26%.

The delays in the completion of the A380s were due to Airbus's policy of building each aircraft in separate sections at the Hamburg and Toulouse plants. Customer airlines ordered entertainment systems in different configurations according to their first, business, and economy class layouts. These differences affected the electrical and electronic wiring, which are installed in bundles called "harnesses".

To accommodate the specific airline requirements, engineers in Hamburg and Toulouse had adjusted the harnesses, but forgot to inform each other. When sections of the plane arrived in Toulouse for final assembly, workers received a rude shock. Airbus Executive Vice President for Quality, Tom Williams explained: "We had brackets where we weren't supposed to have brackets, walls where there weren't supposed to be walls".¹

Airbus halted all A380 assembly in Toulouse to resolve the wiring problem. The resolution was expected to take months. Meanwhile, Airbus had cut planned deliveries of the A380 in 2007 from 25 to just 9 units.

Soon after the A380 bombshell, another one struck. Noel Forgeard, the French government's nominee as co-chief executive of EADS, was accused of insider trading. He and his family were revealed to have sold €6.7 million worth of EADS shares in March 15-17, about two months before the announcement of the A380 delays and the collapse in the EADS share price.

^(c) 2006, I.P.L. Png. "Co-chief of EADS defends share sale", *International Herald Tribune*, June 17, 2006; "Bad timing for stumble by Airbus", *International Herald Tribune*, July 11, 2006; "Airbus outlines an 'entirely new' A350", *International Herald Tribune*, July 18, 2006; "Airbus packs new A350 with latest technology", *Business Times*, July 18, 2006; "Airbus back in race for credibility", *Financial Times*, July 18, 2006.

¹ *International Herald Tribune*, July 18, 2006, *ibid*.

Amidst mounting public criticism, the EADS board of directors was forced to act. In deference to the joint Franco-German control over EADS, the board removed both Mr Forgeard as co-chief executive of EADS and Gustav Humbert, the German government's nominee as chief executive of Airbus. They were replaced by Louis Gallois and Christian Streiff respectively.

Compounding Airbus's woes, on July 10, lawyer Frederick-Karel Canoy announced that he would file a class-action suit seeking €10 billion on behalf of EADS shareholders against EADS.

Two days later, at the Farnborough Air Show, Airbus's new management team attempted to regain the initiative in the 787-A350 duel. Steven Udvar-Harvy, chairman and CEO of International Lease Finance Corporation (IFLC), had warned that the A350 was only a silver to Boeing's 787 gold. IFLC is one of the world's two largest aircraft lessors.

With two-page spreads in the major financial newspapers, Airbus announced the "A350XWB", with "XWB" representing "extra wide-body". New Airbus chief executive Streiff emphasized, "This is an entirely new design, without compromise and using all the latest technology".²

Airbus had dropped the original plan to modify the existing A330 in favor of a completely new design. With the new plan, estimated development costs jumped from €4.35 billion (\$5.7 billion) to \$10 billion, and the start of commercial deliveries had to be pushed back to mid-2012. By contrast, the Boeing 787 was scheduled to begin commercial service in 2008.

Mr Streiff candidly acknowledged the manufacturer's difficulties: "Yes, Airbus is in the middle of a serious crisis in our relationship with our customers. Yes, this is something we are taking extremely seriously inside Airbus, and yes, we know the competition is taking advantage of this today".³

² *Business Times*, July 18, 2006, *ibid.*

³ *Business Times*, July 18, 2006, *ibid.*