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# Western Europe's Airbus Industrie: Growing Threat to US Commercial Aircraft Markets



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An Intelligence Assessment

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GI 82-10156  
July 1982

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**An Intelligence Assessment**

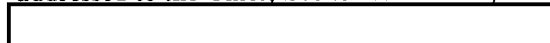
This assessment was prepared by [redacted]

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[redacted] Office of Global Issues.

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Comments and queries are welcome and may be  
addressed to the Chief, Economic Division, OGI,

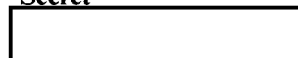


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**Western Europe's Airbus  
Industrie: Growing  
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**Key Judgments**

Airbus Industrie—began in 1970 as a joint government-industry initiative to develop a short- to medium-range wide-body commercial aircraft to service the West European market—has matured into the second-largest manufacturer of commercial aircraft in the West. Airbus has sold or has on option more than 500 aircraft and continues to land new deals while orders for US producers are slowing:

- Airbus Industrie accounted for 55 percent of the wide-body aircraft sales last year; based on scheduled production increases, its market share—in terms of delivered commercial jet aircraft of all types—should rise to 25 percent by 1985.
- Much of Airbus's success outside of its relatively sheltered West European market stems from its rapid growth in the Third World markets. A growing Airbus infrastructure and broadening product line will probably lead to increasing losses of US sales to this area. South America, in particular, is receiving increased attention from Airbus's sales force.

Airbus's existence was and continues to be made possible by massive government financial support and, in some cases, by nonfinancial inducements to potential buyers:

- Through the end of 1981, participating governments have provided Airbus with: (a) an estimated minimum of \$1.8 billion to underwrite the development of the A300 and A310 aircraft; (b) \$1.6 billion to offset plant and equipment costs; and (c) at least \$500 million to cover production subsidies.
- Airbus is expected to receive some \$400 million annually during the next few years to cover expenses accruing from increases in production. It will also receive funds needed to underwrite the proposed development of the A320, a narrow-body 150-seat aircraft.
- Through direct financing and generous export credits, the price of Airbus aircraft has been brought well below competing US aircraft.
- Promotion has also included selective noncredit inducements including landing rights and military sales.

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*Information available as of 23 July 1982  
has been used in the preparation of this report.*

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Airbus is moving aggressively to begin development of the A320. Paris has indicated that it will contribute up to half of the estimated \$2 billion development cost for the plane, and London appears ready to enlarge its role in the consortium in hopes of reviving a sagging domestic aeronautics sector. To secure additional development capital and market access, Airbus, with diplomatic support from affected West European governments, is intensifying its lobbying for additional partners including Australia, Canada, Italy, and the Netherlands.

Airbus competition has already cut into US exports and has significant and growing implications for US producers:

- Since 1972 Airbus has received \$6 billion in revenues that would otherwise have flowed to the United States; scheduled production capacity indicates a \$3 billion average annual loss in potential US exports through 1985.
- Competitive pressure from Airbus has forced US producers to step up the degree of foreign contracting for US-assembled aircraft.
- Airbus sales have cut into the expected production runs for newly introduced US models at a time of ever-increasing development costs. This cutback will severely strain profit margins on these models and heighten risks associated with potential new aircraft programs.
- US producers are ill positioned to respond to an expected Airbus decision to develop a 150-seat aircraft. They have just borne costs associated with the development of derivative and all-new aircraft designs and also suffer from slow sales. If US firms do not match Airbus in a relatively timely fashion, they risk losing a substantial share in what aviation analysts expect to be the largest single market sector for commercial aircraft over the next decade.

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**Western Europe's Airbus  
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**The Initial Gamble**


In the mid-1960s, West European commercial aircraft manufacturers were facing the prospect of being put out of business by US competitors. Despite substantial industry consolidation, the firms lacked a market that would support new aircraft development. European governments were nevertheless determined to maintain a viable civil aerospace industry. They considered it a key contributor to national technological advancement and a necessary complement to military aerospace programs. Seeing the growing difficulties faced by their respective producers, West European governments began to work with industry on an approach that would yield both a market large enough to justify commercial production and a means of sharing manufacturing responsibility among formerly competing firms. 

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In the late 1960s the West Europeans gambled on the joint development of an aircraft that would complement the existing US product line. All US-produced wide-bodies at that time were three- or four-engine, medium- to long-range aircraft with 350 to 500 seats—specifications ill suited for the shorter haul routes of Western Europe. In 1967, under French leadership, four West European countries—France, West Germany, the United Kingdom, and Spain—began discussions aimed at developing a wide-body prototype (the A300) that would satisfy this market and organizing a means of production. The financial costs of the program were apportioned among the four according to the expected participation of each country's aerospace industry; France and West Germany each held 37.9-percent shares, the United Kingdom held 20 percent, and Spain 4.2 percent. 

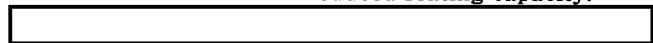
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The United Kingdom withdrew from the group in 1969. Anxious to revive the nationalized Rolls Royce corporation, London had insisted that the A300 incorporate a newly designed Rolls engine. In 1968, however, Rolls won the contract to equip Lockheed's L1011. Preoccupied with the L1011 program and somewhat

pessimistic over the A300's future, London withdrew from the consortium; its 20-percent share was divided equally between France and West Germany. 

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In designing the A300, aeronautical engineers combined established wide-body technology with an advanced wing design to gain greater fuel efficiency for short-haul operations, and to further improve fuel efficiency they used two engines rather than the three to four used in US models. These design changes gave the A300 a 25-percent advantage in fuel use per seat kilometer over its US competitors, a factor that was to prove critical to the A300's ultimate sales success. The aircraft was originally designed to hold 300 passengers but was subsequently scaled down to some 250 seats when London's withdrawal forced the use of GE's already available CF6-50 engine. Regional airlines also lobbied for the reduced seating capacity.



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Having agreed in 1970 on the final design and production assignments, the member governments and their respective aerospace industries established Airbus Industrie—a multinational manufacturing consortium. Airbus operates under French law as a "grouping of economic interest." The governments of consortium members are legally obligated for all of Airbus's financial commitments. Manufacturing responsibilities, and probably any profits, are shared among consortium members; the value-added contribution of each partner roughly parallels the parent government's share in the consortium (figure 1):

- France's aerospace industry, led by Aerospatiale, is responsible for selective support systems and avionics, the nose section, the lower center fuselage, engine pylons, and, most important, final aircraft assembly at Aerospatiale's Toulouse facility.
- West Germany's Deutsche Airbus manufactures the forward fuselage, the upper center and rear fuselage, and the vertical tail sections.

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- The United Kingdom's BAe Hawker-Siddeley group designs and manufactures the wings and wing-fixed structures.
- Spain's CASA builds the horizontal tail surfaces, the two forward passenger doors, and the landing gear doors.

US firms provide a number of key components whose accumulated value accounts for roughly 30 percent of the A300's sales price. In addition to furnishing the engines, US companies supply avionics and various support systems. [redacted]

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[redacted] early design development costs for the A300 amounted to \$450 million; roughly half was funded by the French Government, 45 percent by Bonn, and 5 percent by West German private industry. Based on US industry experience in comparable programs, we believe that \$600-800 million was ultimately required to bring the A300 to prototype. These funds apparently carried little or no interest costs and, according to West European press reports, repayment was to be made through royalties, with the rate to increase as sales increased. [redacted]

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**Continuing Government Support to Production**

Orders for the A300 got off to a slow start—even the national airlines of the participating countries hesitated to commit themselves to the aircraft. Only about a dozen orders existed when the prototype made its maiden flight in October 1972, and the inventory of unsold planes, completed or in production, rose to some 40 units by the end of 1976. Price incentives and improved fuel efficiency proved insufficient to offset airlines' publicly expressed concerns over: (a) Airbus's long-term viability, (b) the aircraft's performance under varying commercial conditions, (c) the spare parts and maintenance infrastructure, and (d) the cost of integrating an entirely new plane into existing fleets. A slowdown in air traffic growth in the mid-1970s added to Airbus's problems. [redacted]

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Airbus would not have been able to weather these lean years without extensive financial support from Paris and Bonn. For the first several years (1969-76),

Airbus suffered massive cash outflows as it maintained production schedules despite slow sales and almost no revenues. In addition, it carried a growing and costly inventory from the early 1970s until late 1977 when A300 sales picked up momentum.

[redacted]

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We conservatively estimate total direct government support for Airbus Industrie through the end of 1981 at a minimum of \$4 billion.<sup>1</sup>

[redacted]

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[redacted] have indicated net government support levels at some \$400 million annually through the mid-1980s, when increased sales revenues will offset the high costs of capacity expansion. In addition, based on the overall Airbus consortium agreement, participating governments will bear the major share of design and development costs associated with new model introductions [redacted]

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Government funding, along with the waiving of the value-added tax, allowed Airbus to price its aircraft competitively with US models despite significantly higher production costs. [redacted]

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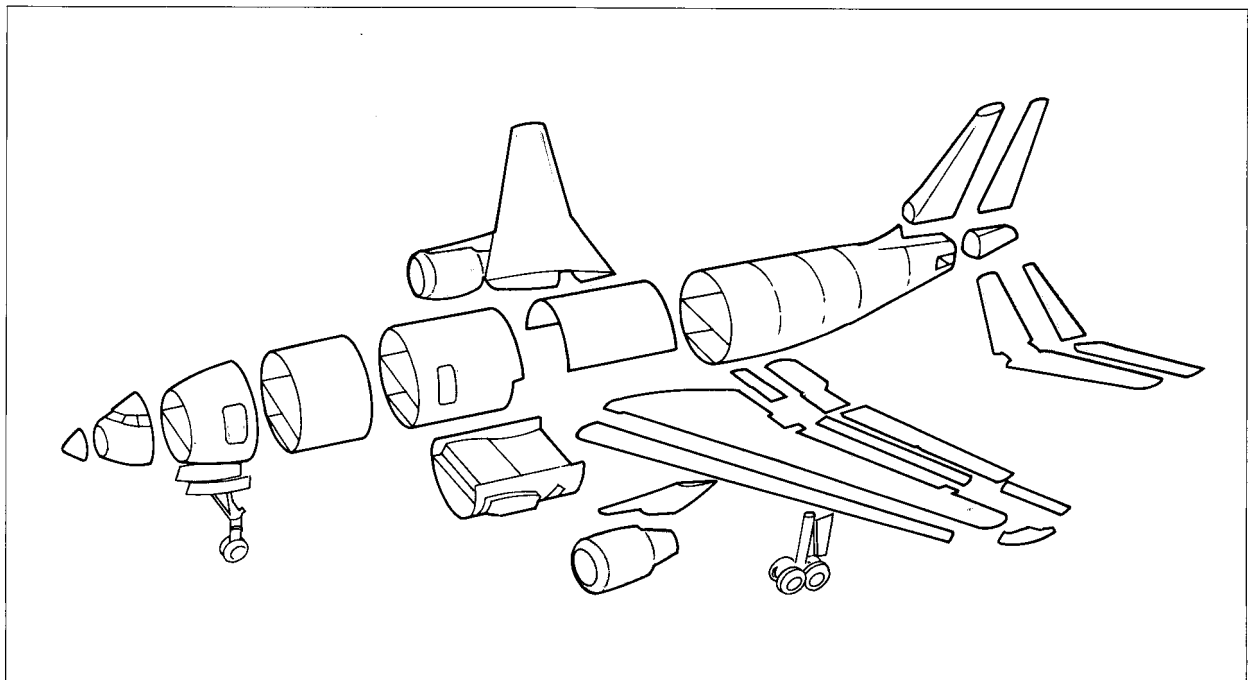
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**Figure 1**  
**The A300: Major Manufacturing Responsibilities (by Country and Company)<sup>a</sup>**

Country	Company	Component
France	Aérospatiale	Nose section, lower center fuselage, engine pylons, and landing gear.
○ West Germany	Messerschmitt-Bölkow-Blohm (MBB)	Forward fuselage, upper center fuselage, rear fuselage, and vertical tail.
○ United Kingdom	British Aerospace	Main wing structure.
○ Spain	C.A.S.A.	Horizontal tail surfaces, fuselage doors, landing gear doors.
○ The Netherlands	Fokker	Wing flaps and rear slats.
○	US engine manufacturers are major suppliers.	

<sup>a</sup>Individual partners build full sections; install all the systems' plumbing and wiring, and test all the elements before delivery to the final assembly line at Toulouse, France.



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**Achieving Commercial Success**

**Rising Demand.** Demand for the A300 rose sharply beginning in 1977 and has remained strong. Cumulative sales and options rose from about 35 units at yearend 1974 to 95 by the spring of 1978. To date, 325 A300s have been ordered or are on option by 35 different airlines; deliveries stand at more than 170 aircraft (foldout map and tables 1 and 2). Airbus's fortunes were helped substantially by the initial order in 1978 by Eastern Airlines for 23 aircraft along with an option to purchase an additional 25 [redacted]

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The A300's success stems from the strong worldwide jump in air traffic in the late 1970s that triggered major purchases by air carriers as well as a number of other factors:

- The aircraft was correctly sized for European and a growing number of Third World markets, and it benefited from the absence of comparable US planes.
- The rapid rise in jet fuel prices—more than doubling between 1974 and 1978—had substantially improved the aircraft's operating cost advantage over larger US planes.
- The use of US engines allowed Airbus to tap US firms' support infrastructure to provide spare parts and maintenance on a worldwide basis.
- The aircraft had proved competitive with US-built planes in day-to-day operational performance.

Furthermore, as sales picked up, more airlines gained confidence in Airbus's long-term viability. [redacted]

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**Vying for Third World Markets.** From its sheltered sales base in Western Europe, which accounts for more than one-third of its orders, Airbus has successfully captured a major share of the rapidly growing Third World market. The most notable success has come in the Middle East where many small regional airlines, benefiting from the region's oil wealth, were able to expand their fleets and inaugurate short- to medium-range services, including some to Western Europe. Airbus has particularly had success with carriers along the famous "silk route," which stretches from the Eastern Mediterranean to Australasia. Sales to national airlines in this region exploded from eight aircraft (two countries) in 1976 to 102 aircraft (13 countries) in April 1982. In fact, Airbus has thus far effectively blocked US Boeing 757 and 767 sales in this region with its new A310. [redacted]

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**Table 1**

Percent of Unit Sales

**Major Commercial Jet Aircraft**

	1977	1978	1979	1980	1981
<b>Share of Western market</b>					
Airbus	6	9	24	12	16 <sup>a</sup>
Total US	94	91	76	88	84
Boeing	68	71	56	78	76
McDonnell Douglas	24	15	15	7	7
Lockheed	2	4	6	4	2
<b>Share of wide-body market<sup>b</sup></b>					
Airbus	21	21	41	34	55
Total US	79	79	59	66	45
Boeing	44	56	39	47	36
McDonnell Douglas	30	14	10	8	4
Lockheed	5	10	10	11	6

<sup>a</sup> Note: Owing to rounding, numbers may not add to the totals shown. Excludes A320 conditional orders by Air France.  
<sup>b</sup> Includes the A300, A310, 747, 767, DC-10, and L1011.

[redacted]

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We believe that Airbus will continue its focus on the Third World. Most Western aviation analysts believe the region's passenger traffic will grow at an average annual rate twice that of the 5 to 6 percent estimated for the United States and Western Europe. Airbus hopes to build on its base of past sales in the Middle East and on its growing fleet maintenance capability, which has been improved with each sale. Based on this infrastructure and the tendency of airlines to buy varying aircraft models from the same manufacturer whenever possible, Airbus should do well there. [redacted]

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The consortium also plans to gain a market share in Latin America. Initial moves have centered on Brazil, which is considered a key customer because of its influence in regional civil air matters and airline operations. Paris has pushed Airbus sales hard with Brasilia. The consortium has landed orders for five A300s from two of Brazil's largest carriers and is currently negotiating with VASP, another major Brazilian airline. [redacted]

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[redacted]

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Table 2

## Airbus Industrie: Sales and Options as of June 1982

Customer by Region	A300 Sales	Options	Total	Delivered	A310 Sales <sup>b</sup>	Options	Total
<b>World Total</b>	<b>258</b>	<b>69</b>	<b>327</b>	<b>172</b>	<b>90</b>	<b>90</b>	<b>180</b>
<b>Western Europe</b>							
<b>Total</b>	<b>86</b>	<b>21</b>	<b>107</b>	<b>70</b>	<b>63</b>	<b>64</b>	<b>127</b>
Air France	23	12	35	22	5	10	15
Air Inter (France)	8	—	8	8	—	—	—
Alitalia	8	3	11	8	—	—	—
Austrian Airlines	—	—	—	—	2	2	4
British Caledonia	—	—	—	—	3	3	6
Cyprus Airways	—	—	—	—	2	—	2
Hapag-Lloyd (FRG)	7	—	7	5	—	—	—
Iberia (Spain)	6	—	6	6	—	—	—
KLM (Netherlands)	—	—	—	—	10	10	20
Laker (UK)	10	—	10	—	—	—	—
Lufthansa (FRG)	11	—	11	9	25	25	50
Martinair (Netherlands)	—	—	—	—	3	1	4
Olympic Airways (Greece)	8	2	10	7	—	—	—
Scandinavian Airlines	4	4	8	4	—	—	—
Sabena (Belgium)	—	—	—	—	3	3	6
Swissair	—	—	—	—	10	10	20
Trans Europe Air (France)	1	—	1	1	—	—	—
<b>North America</b>							
<b>Total</b>	<b>34</b>	<b>26</b>	<b>60</b>	<b>25</b>	<b>6</b>	<b>6</b>	<b>12</b>
Eastern Air Lines	34	26	60	25	—	—	—
Wardair (Canada)	—	—	—	—	6	6	12
<b>Africa and Middle East</b>							
<b>Total</b>	<b>59</b>	<b>14</b>	<b>73</b>	<b>29</b>	<b>21</b>	<b>18</b>	<b>39</b>
Air Afrique (Ivory Coast)	3	—	3	1	—	—	—
Air Algerie	—	—	—	2 <sup>a</sup>	—	—	—
Egyptair	8	—	8	5 <sup>a</sup>	—	—	—
Indian Airlines	10	3	13	8	—	—	—
Iranair	6	3	9	4	—	—	—
Kuwait Airways	3	—	3	—	8	—	8
Libyan Arab Airlines	6	—	6	—	4	—	4
MEA (Lebanon)	—	—	—	—	5	14	19
Nigeria Airways	—	—	—	—	4	4	8
Pakistan International Airlines	4	6	10	4	—	—	—
Saudia	11	—	11	—	—	—	—
South African Airways	7	1	8	5	—	—	—
Tunis Air	1	1	2	—	—	—	—

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Table 2 (continued)

## Airbus Industrie: Sales and Options as of June 1982

Customer by Region	A300 Sales	Options	Total	Delivered	A310 Sales <sup>b</sup>	Options	Total
<b>East Asia and Pacific</b>							
<b>Total</b>	<b>68</b>	<b>7</b>	<b>75</b>	<b>45</b>	<b>--</b>	<b>2</b>	<b>2</b>
China Airlines (Taiwan)	4	—	4	—	—	—	—
Garuda (Indonesia)	9	3	12	6	—	—	—
Korean Air Lines	8	—	8	8	—	—	—
Malaysian Airlines	4	—	4	4	—	—	—
Philippine Air Lines	5	—	5	3	—	—	—
Singapore Air Lines	12	—	12	5	--	2	2
Thai International	12	2	14	10	—	—	—
TOA (Japan)	9	—	9	6	—	—	—
Trans-Australian Airlines	5	2	7	3	—	—	—
<b>Latin America</b>							
<b>Total</b>	<b>9</b>	<b>—</b>	<b>9</b>	<b>3</b>	<b>--</b>	<b>—</b>	<b>—</b>
Air Jamaica	2	—	2	—	—	—	—
Cruzerio do Sul (Brazil)	2	—	2	2	—	—	—
Varig Airlines (Brazil)	2	—	2	1	—	—	—
VASP (Brazil)	3	—	3	—	—	—	—
<b>Unannounced</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

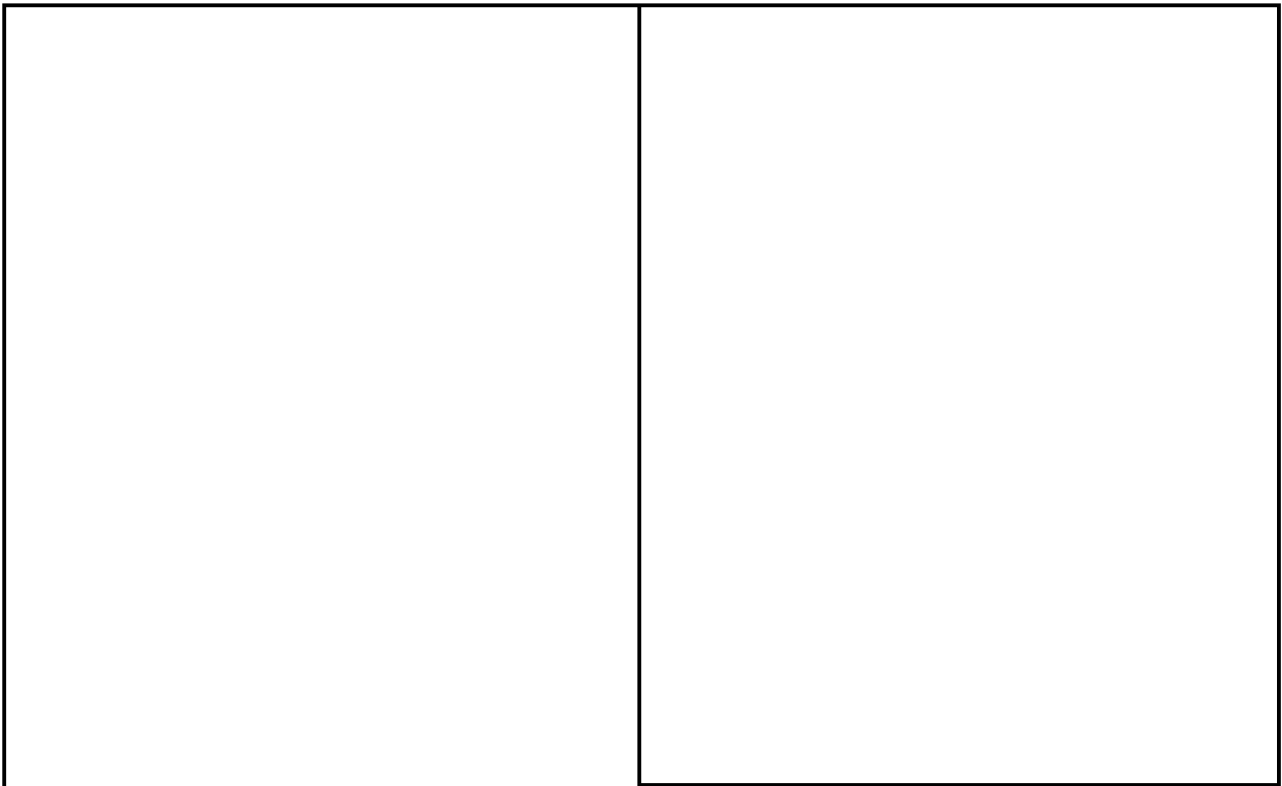
<sup>a</sup> Includes leased units.<sup>b</sup> The A310 in flight-testing; initial deliveries scheduled for 1984.

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**Expanding the Airbus Product Line**

Emboldened by the surge in sales of the A300 and benefiting from continued substantial government funding, Airbus designers have taken dead aim on other segments of the commercial aircraft market. Consortium officials have spoken of plans to develop a "family of aircraft" which will compete across the board with all US planes except the Boeing 747. The initial step toward this goal was taken in mid-1978 when the consortium formally announced the A310, which targets the 200-seat sector of the market and will compete with the Boeing's new 767.<sup>3</sup> The next major move will probably come later this year with the formal launch announcement of the 150-seat, A320 narrow-body aircraft. If announced, we believe Airbus will aim to have the all new A320 in service by 1988.

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*The A310.* Airline interest in 200-passenger, wide-body aircraft first emerged in 1974, but then Airbus



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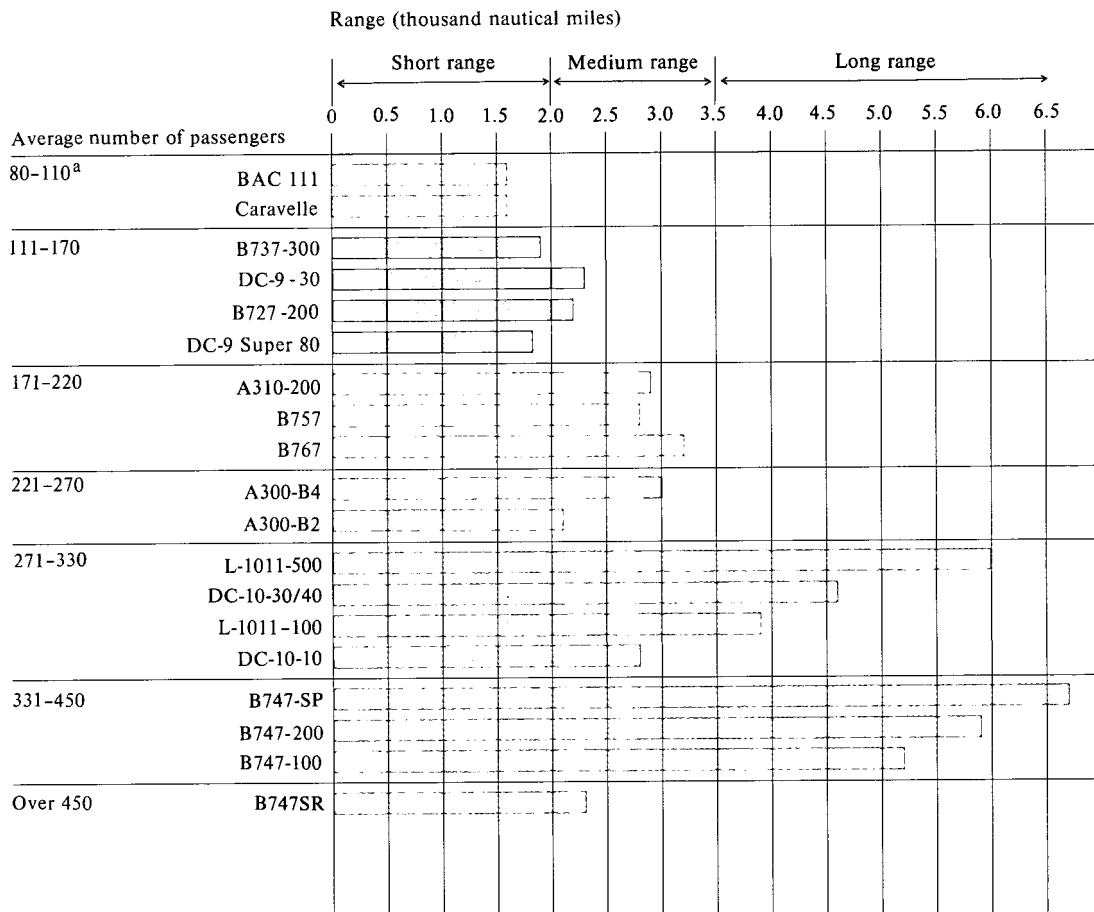
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Figure 2

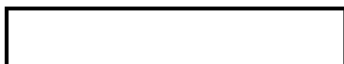
Specifications For Selected Commercial Aircraft

Legend  
 [Dashed line] Other Aircraft Included For Comparison  
 [Dotted line] Current Market Segment Competition  
 [Solid line] Future 150-Seat Market Segment Competition



<sup>a</sup>Commercial aircraft in this segment may be replaced, in part, by designs aimed at the 150-seat market.

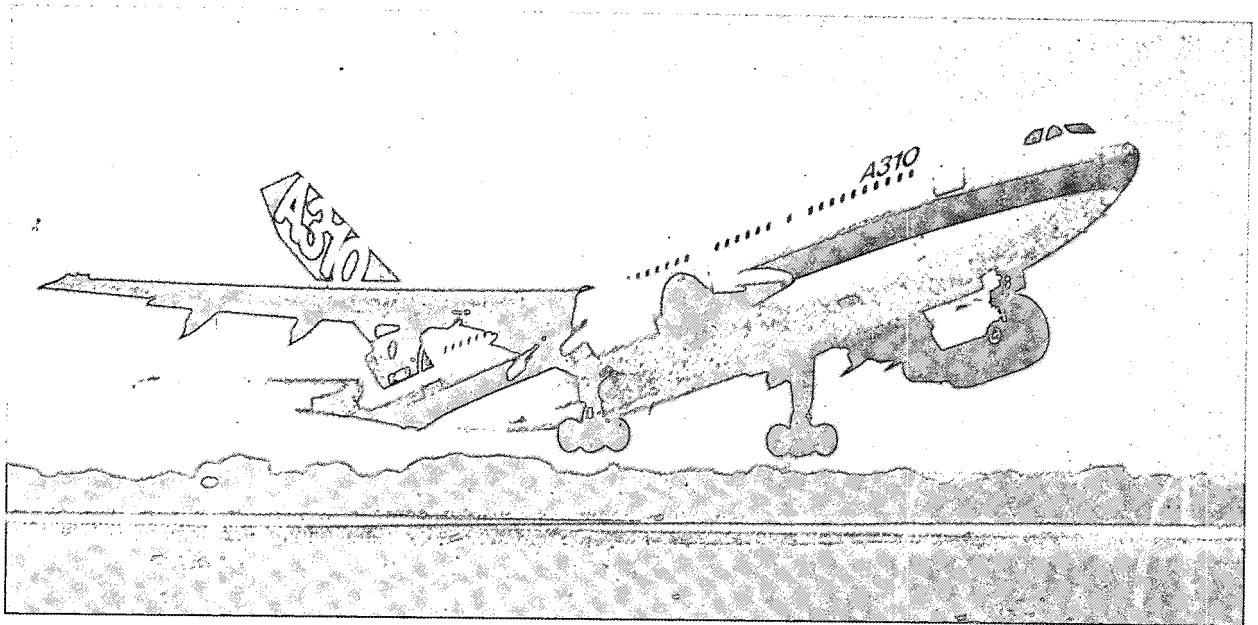
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25X1 Figure 3. Airbus Industrie: Model A310 [redacted]

Flight International ©

25X1 was preoccupied with ensuring a market for the 250-seat A300. Boeing's 1978 decision to move ahead on the 767 and 757 forced Airbus's hand. While the A300 seemed firmly established, some Airbus officials expressed concern that the plane was threatened by the 200-seat, US-built wide-body. Airbus announced the A310—a shortened version of the A300—within a few months of Boeing's decision. Airbus is now moving ahead expeditiously on the A310 which was successfully test flown in April 1982, only six months after the maiden flight of Boeing's 767 [redacted]

twin-engine aircraft with a range of up to 3,500 kilometers, is tailored specifically to meet many airlines' narrow-body aircraft replacement needs for low-density, short- and medium-range routes, which are to start in the late 1980s.<sup>4</sup> Airbus plans to offer at least two models with different range and seating capacities. By moving aggressively, Airbus hopes to gain a substantial lead over its US competitors and thus make inroads in the lucrative US market, as well as further solidify its gains in the rapidly expanding routes in the Middle East, South Asia, and the Far East. [redacted]

25X1 To date 14 airlines have placed 90 firm orders for the A310 plus options for 90 additional aircraft based on articles in trade journals. In comparison, Boeing has stated it has firm orders from 17 airlines for 173 new 767s and options for 138 more. Two-thirds of the A310 orders come from West European carriers, with the largest single purchase—25 aircraft—from West Germany's Lufthansa. Other orders include Canada's Wardair (6), Kuwait Airways (8), Lebanon's Middle East Airlines (5), and Nigeria Airways (4). [redacted]

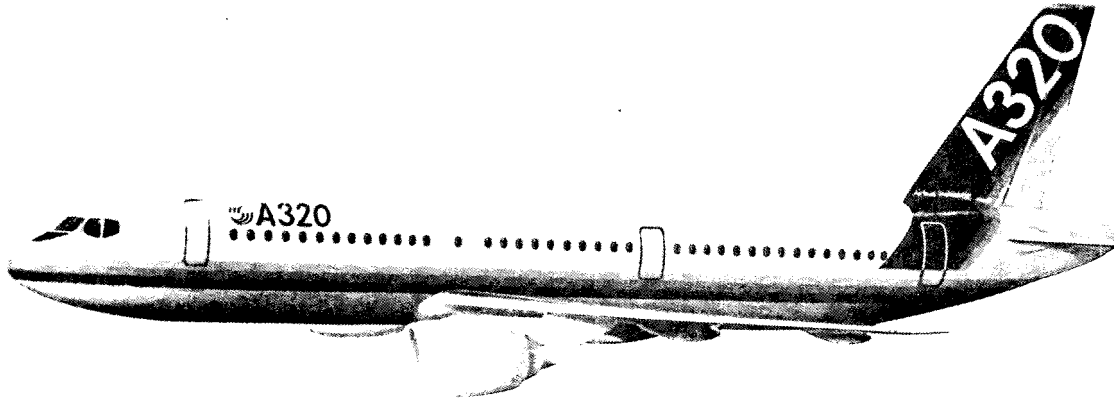
When Air France placed a conditional order for 50 A320s last year, Airbus said they had hoped for an order from at least one US airline before launching. Apparently the Air France order is still in force, but the consortium now appears willing to accept the financial risk of developing the plane in the absence of a US order. Airbus almost certainly hopes that early market entry will enhance its long-term chances for market share, particularly in the United States. Based

25X1 **The A320.** We believe the Airbus consortium is solidifying plans for its A320, 150-seat commercial aircraft. The current design, an advanced technology

<sup>4</sup> Aviation analysts expect US airlines to account for about 40 percent of this market (down from the more traditional 50-percent share), the West Europeans 25 percent, and the Third World 35 percent. [redacted]

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25X1 Figure 4. Airbus Industrie: Model A320 [redacted]

Interavia ©

on Airbus official statements, France appears ready to commit as much as half of the estimated \$2 billion needed to develop the prototype, and the United Kingdom—which wants the production line for the A320—has recently indicated in the West European press a willingness to expand the 20-percent share held in earlier Airbus programs to get the project under way. West Germany wants to reduce its 37.9-percent share to 20 percent or less, in part because Bonn feels it has not gotten its money's worth out of past programs. [redacted]

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[redacted]

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**Future Designs.** Airbus officials have several additional aircraft designs under consideration. The simplest, and one which can be moved on quickly, involves stretching the A300 to a 325 seat capacity (the A330). The aircraft would compete more directly with the L1011 and DC10 on selected longer haul routes. The firm—at West Germany's urging—is also considering a four-engine design derivative of its A310 for long-haul, thin-density operations. This plane would aim at the replacement market for the B707 and DC-8. Other potential designs include the TA-12, a long-range, twin-engine plane that would compete with versions of the DC-10, the L1011, and the 747SP and a four-engine TA-11 designated for long-haul transoceanic operations. [redacted]

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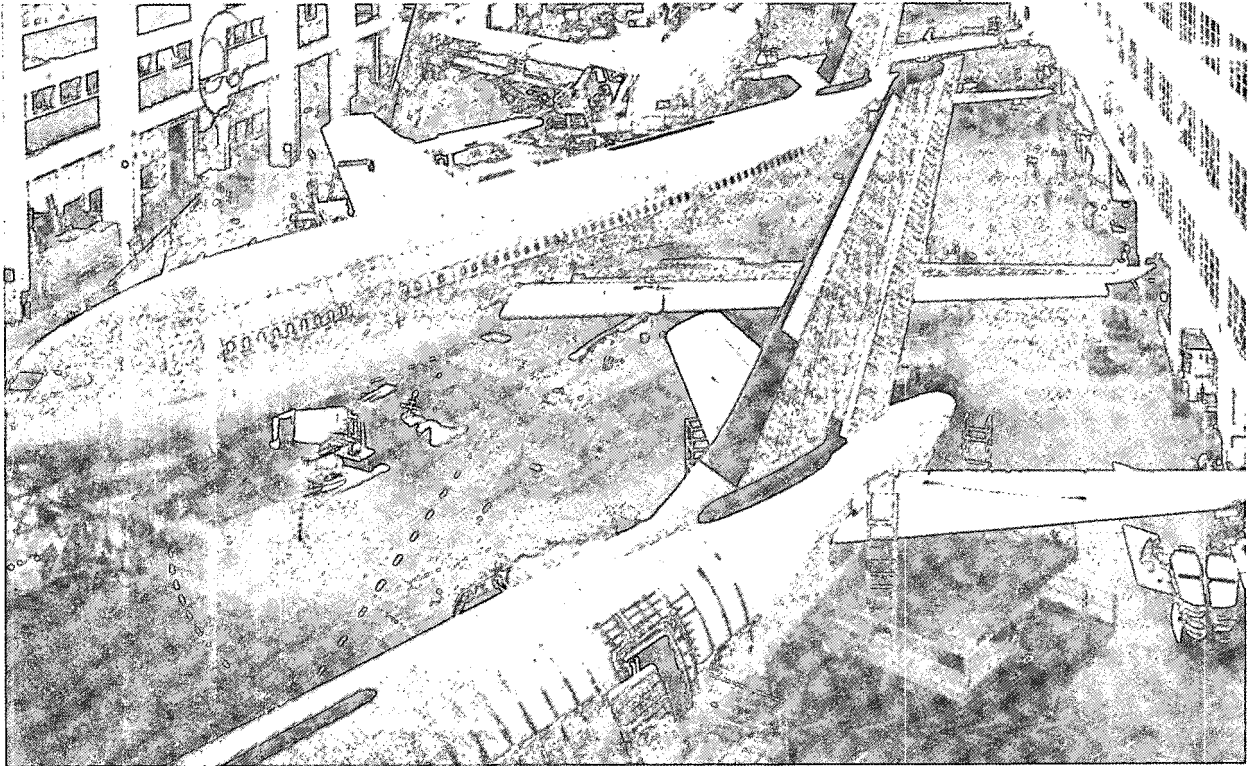


Figure 5. Airbus Industrie: Final assembly plant at Toulouse

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**Production Capacity**

In an effort to cut into its mounting order backlog, Airbus made a strategic decision in 1980 to increase the assembly rate at the Toulouse facility from about three to eight aircraft per month by the end of 1985.<sup>6</sup>

Although we believe component subcontractors are expanding their capacity and investing in equipment and personnel, they have traditionally lagged behind the capacities of the mainframers they supply. Moreover, long leadtime items (for example, high-capacity automatic riveting machines and landing gear forgings) have often constrained surge capacity in aircraft assembly lines. We believe Airbus will move to head off potential problems by making inquiries in the United States for possible backup components.

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Taking all factors into consideration, we believe the moderate rate of annual increases planned by Airbus allows it sufficient leeway to take the necessary action—order tooling and ensure supplies of raw and semifinished materials—to meet its revised production goals. Even with some slippage, Airbus may not be hurt; the severe slump in overall demand for commercial aircraft takes some of the pressure off delivery schedules and has already cut the pace of new

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<sup>6</sup> In 1980 promised delivery dates were well beyond four years compared with an average of a little more than 24 months for most US-produced aircraft

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Table 3

Airbus Assembly Projections

Year	Units Per Month (Average)	Production
1980	3.3	40
1981	3.5	42
1982	4.5	54
1983	5.8	70
1984	7.3	88
1985	8.0	96

25X1 [redacted]

orders from the record levels of the late 1970s. If planned production schedules are met, Airbus will account for 25 percent of total commercial jet aircraft deliveries in 1985. [redacted]

25X1 [redacted]

Any constraint on increasing capacity at the Toulouse facility should not delay plans for production of the 150-seat A320. British aviation officials have said they want the assembly site to buoy its sagging aerospace industry, which has been hard hit by recession, the winddown of the BAC 111 program, and cutbacks in military orders. Assembly facilities at Hurn, Filton, and Weybridge laid off another 950 workers in May, bringing total unemployment within the industry to 20,000, or more than 10 percent of the aerospace work force. Unused production capacity should allow Britain to start production of an A320-sized aircraft at two per month and move to four per month within two years. The British are also hoping to equip most of the airplane domestically, a move that would substantially reduce the share of US-built parts from the 30-percent level in the A300. Rolls Royce is already working closely with the Japanese on an engine design for the aircraft, and British firms—Lucas, Smiths, and Marconi—are developing avionics packages that could be used in the envisioned A320. [redacted]

Implications for the United States

25X1

The rise of Airbus Industrie to the second-largest producer of commercial aircraft in the West has had a direct and detrimental impact on the US balance of

trade and civil aeronautics industry. These adverse effects will continue to mount as Airbus increases production rates and broadens its product line. [redacted]

25X1

Airbus growth has affected the US trade balance in two ways. Since 1972 Airbus has received a total of some \$6 billion from sales that would otherwise have gone to US producers. Current scheduled production capacity at Toulouse allows for an estimated \$3 billion in average annual revenues through 1985 from the A300 and A310 models. When the planned production of eight aircraft per month is achieved, revenues—at today's prices—will approach \$6 billion annually. Competition from Airbus has contributed to the further acceleration in the use of foreign parts in US-assembled aircraft. To counter Airbus competition for foreign markets, US producers have stepped up their subcontracting with foreign aircraft manufacturers [redacted]

25X1

The pressure on the US aircraft industry is significant and growing. Perhaps most importantly, competition from Airbus has effectively cut into the expected production runs for newly introduced US models. This cutback comes at a time of ever-increasing development costs for new aircraft, which, in turn, require increased sales levels to maintain profitability. The loss of a market share coupled with rising costs will severely strain profit margins, add risk to any new aircraft program, and could lead to a further shakeout of the industry [redacted]

25X1

An Airbus decision to proceed with the 150-seat A320 will pose special problems for US producers faced with sagging orders, particularly with their having just borne costs associated with development of two all new aircraft and major derivatives of existing models. US firms are financially ill positioned to move on the development of their own design for a 150-seat plane without foreign participation on a risk-sharing basis. [redacted]

25X1

<sup>7</sup> A forthcoming OGI Intelligence Assessment will review trends in internationalization of commercial jet aircraft manufacture, analyze the growing capabilities of West European aerospace industries, and assess the implications for the US supplier base [redacted]

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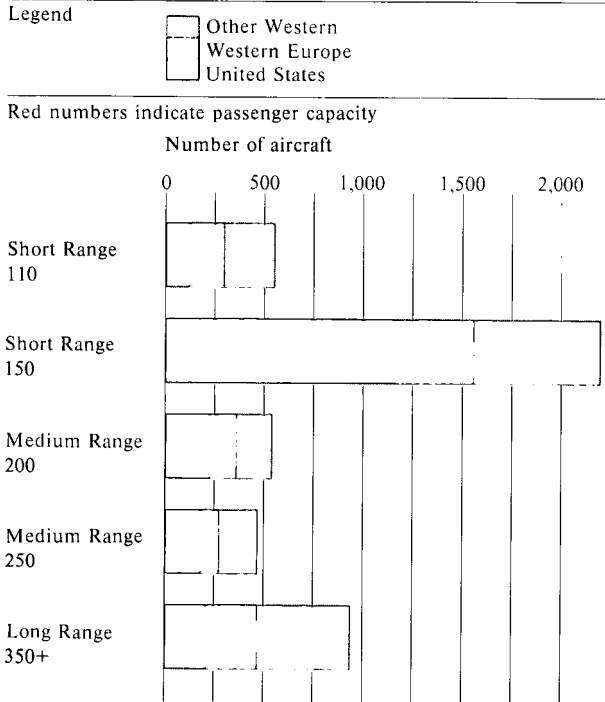
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**Figure 6**  
**Commercial Passenger Jet Aircraft:**  
**Estimated Market 1981-95, by Range,**  
**Passenger Capacity, and Region**



Key US and foreign airlines may be willing to accept some delay in the US response. A substantial lead on the part of Airbus, however, could cost the United States a large share of the market for what is expected to be the commercial aircraft most in demand during the late 1980s and early 1990s. The consensus among industry analysts is that the 150-seat aircraft on a unit basis will account for about 40 percent of demand in the West for commercial aircraft between 1985 and 1995, or some 1,200 aircraft currently valued at \$35-45 billion.

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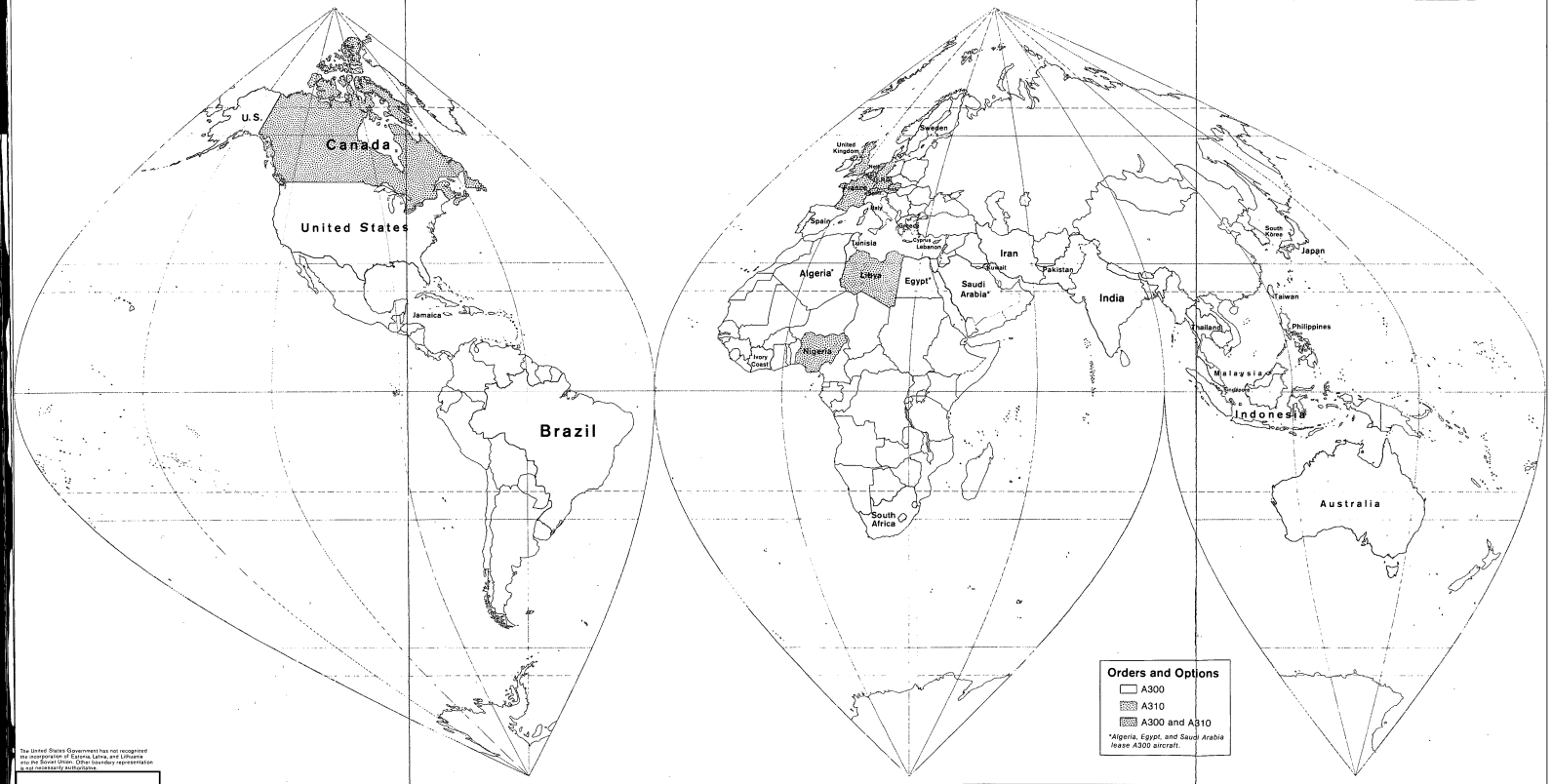
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Figure 7  
 AIRBUS INDUSTRIE: A300 and A310 Aircraft Sales, July 1982

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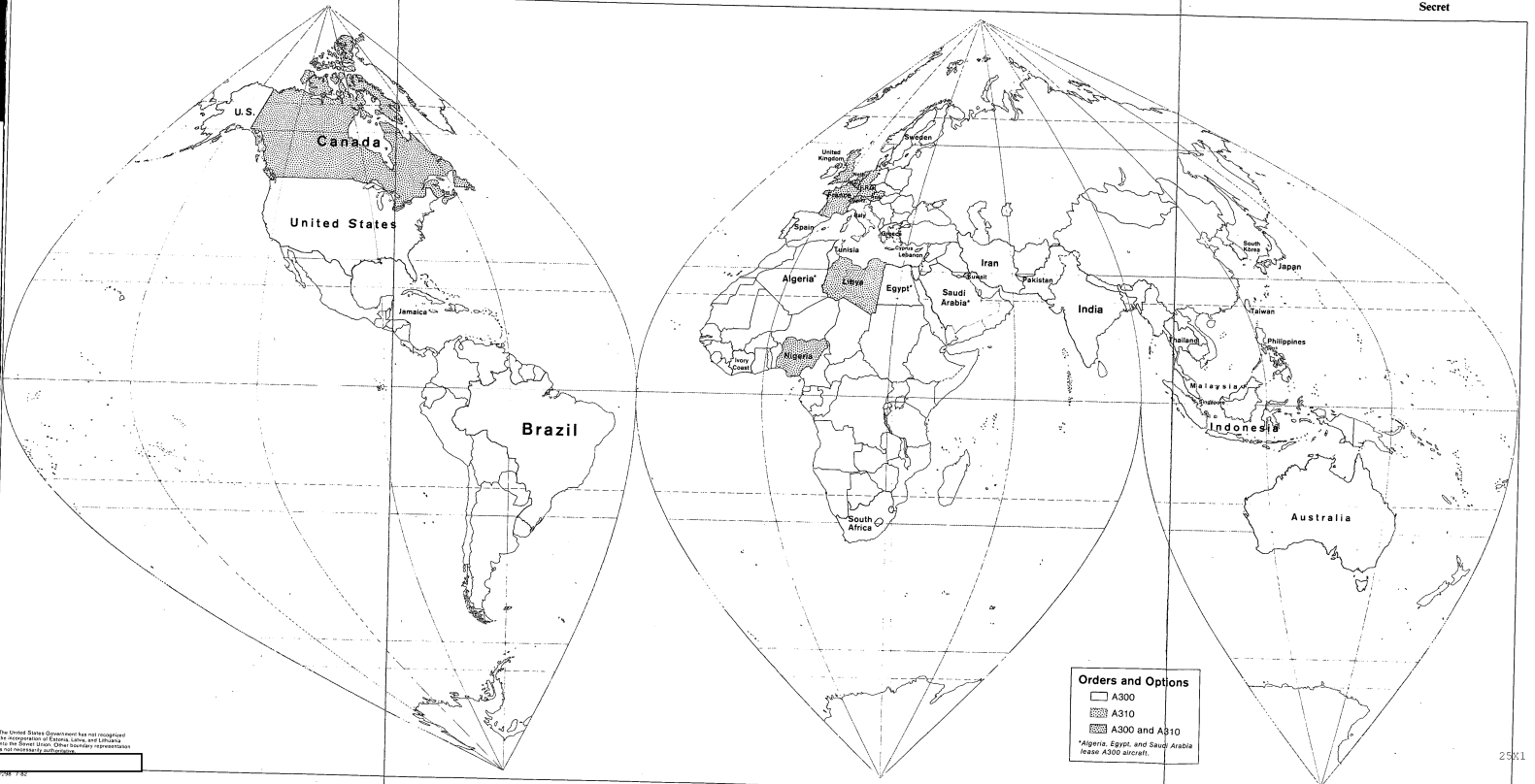


The United States Government has not recognized the incorporation of Crimea, Cuba, and Vietnam into the Soviet Union. Other territory representation is not necessarily authoritative.

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Figure 7  
 AIRBUS INDUSTRIE: A300 and A310 Aircraft Sales, July 1982

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