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Airbus flies into €3bn funding crisis over the A350

by Russell Hotten

EUROPEAN aircraft giant Airbus may have to ask European governments for another €3bn (\$3.7bn, £2bn) in launch aid as it rethinks plans for its new A350 aircraft. Such a move would spark another trade row with the United States and has raised tensions between it and its parent company EADS.

Airbus hopes to unveil the blueprint for the A350, its rival to Boeing's new Dreamliner, at

the UK's Farnborough air show, in July, but disagreements over the way forward are already emerging.

Problems with the A350 have led to renewed friction between executives at Airbus and EADS, leading one analyst on Friday to describe it as a "return to the bad old days".

Potential customers have given a cool reception to initial designs for the A350, telling Airbus that it needs to be more radical to compete with Boeing's new 787

Dreamliner. The A350 is based on the successful A330, but potential buyers, thought to include Singapore Airlines and the leasing company IFLC, have warned that it needs to be far better to challenge Boeing's Dreamliner.

Modelling the A350 on another aircraft would keep research and development costs to about €2-€3bn, but Airbus would need to at least double that to produce an all-new plane.

An increase in spending on the

A350 would mean the company having to call on European governments for greater launch aid, an issue that previously sparked a trade dispute with the US.

Although Airbus has not yet formally agreed to overhaul designs for the long-haul aircraft, sources at the Toulouse-based company, and at EADS, said this was now inevitable.

Boeing, and political supporters in Washington, have long complained about alleged subsidies for Airbus, and any appeal

for A350 launch aid will fuel another row.

Asked about the A350 at last week's Berlin Air Show, Noël Forgeard, co-chief executive of EADS, spoke of a "growth crisis" at Airbus and the need to improve industrial methods, which served to increase tensions between EADS and Airbus.

At the weekend, in an apparent sideswipe at Forgeard, Gustav Humbert, who replaced him as chief executive of Airbus, hit back. Humbert said it was a "remark-

able concession" by Forgeard, "which should make life easier in the future." Both companies attempted to play down any disagreement as a "storm in a tea cup; it was just a phrase out of turn". In a German newspaper interview this weekend, Forgeard claimed he had an excellent working relationship with Humbert.

The Franco-German EADS has a history of tension with Airbus, something which a management shake-up at the companies last year was supposed to address.

COLUMN SEVEN

The circular reasoning scandal of HIV testing

by Neville Hodgkinson

IT WAS an icon of compassion, a sign you cared. To wear the red ribbon meant to express solidarity with HIV/Aids victims everywhere. It signified you knew the importance of antiviral drugs and HIV testing, Aids awareness and condoms – and of the urgent need for a vaccine.

In contrast, if you cast doubt on the ever-burgeoning and massaged HIV/Aids statistics; or suggested the billions raised for HIV research and treatment might be better spent on established medicines and in fighting poverty; or – perish the thought – if you questioned the theory that Aids is caused by a sexually transmitted virus, you lost your right to be considered a sensible and decent member of the human race. You were a "denialist", a "pariah", a "flat-earther", a "crackpot". Even if you were a leading scientist, your funds would disappear and your ability to publish in mainstream journals reduced to zero.

Today, whether it is frightening the residents of a Cornish town with a cluster of purported infections, or causing the former head of South Africa's National Aids Council to apologise for having unprotected sex with an HIV-positive Aids activist, or enabling U2 front-man Bono to edit an issue of the Independent newspaper dominated by impassioned accounts of Africa's HIV/Aids plight, the virus that has held such sway in the popular mind for more than 20 years is still never long out of the news. It is now very big business: American Express, Motorola, Gap, Converse and Armani are among the corporate giants supporting Bono's RED campaign promoting special products to raise funds for Aids in Africa.

But unreported in Bono's Independent



Employers to foot bill in pensions shake-up

by Fraser Nelson
POLITICAL EDITOR

EMPLOYERS are to be compelled to contribute to a new

blueprint, where 480 are offered by the government including 33 foreign groups. But the money will stay with the employee and can be inherited upon death.

should have the same right to opt out of the scheme depending on circumstances," it said.

Ministers are considering measures to cushion the blow.

UK PUBLIC SPENDING SWIRLS MORE OUT OF KILTER



EMPLOYERS are to be compelled to contribute to a new state-run employee pension scheme modelled on Sweden's system, under plans to be announced this week by John Hutton, the UK's Work & Pensions Secretary.

The White Paper on pension reform will propose a National Pension Saving Scheme (NPSS) where employees will be given a choice of funds, in varying degrees of risk, and will be able to manage their own retirement fund within the state system.

But business groups were warning of salary freezes and job losses, as smaller companies that offer no pension scheme would be hard-pressed to pay the expected employee charge of 3% of salary.

Hutton is to adopt most of the recommendations from Lord Turner's Pension Commission, including the NPSS. But it may be later renamed and is "explicitly modelled on what happens in Sweden", according to a senior government source.

Workers who have no occupational scheme will be able to pay in 5% of their salary, and will be given a small choice of funds - with varying degrees of risk. They may choose more than one and can switch funds as often as they like.

The choice of funds is much narrower than the Swedish

foreign groups. But the money will stay with the employee and can be inherited upon death.

The White Paper is expected to accept most of Lord Turner's recommendations and confirm the state pension age will be raised steadily, from 2030, along with life expectancy, and that the state pension amount will be linked to earnings from 2012.

Stephen Timms, the then pensions minister, had issued what he said was a "challenge" to the pensions industry to "come forward and present an alternative model" if they objected to the costs of the NPSS. The Association of British Insurers put forward rival schemes.

But *The Business* understands none of these has impressed Hutton, mainly as they retained substantial roles for the financial management industry and were deemed too expensive to run. They are expected to be ruled out next week.

Donald Duval, chief actuary at Aon Consulting, said: "The biggest economic impact of this is that it increases labour costs. That is where the biggest impact lies and where the biggest political sensitivities lie." Small firms, he added, are likely to protest.

The British Chambers of Commerce said it remains "strongly opposed" to the idea. "Businesses continue to tell us that they would have to freeze salaries, freeze investment and lay off much-needed staff," said David Frost, the BCC's director-general.

The CBI said it had hoped for an alternative to NPSS after Timms's challenge last December. It stressed that employment could be damaged. "Employers

ing on circumstances," it said.

Ministers are considering measures to cushion the blow, including a full subsidy of the employers' part of NPSS contributions for five years if the company has fewer than 50 employees. Employers are always at liberty to offer their own rival pension scheme.

Which? the consumers' association, is lobbying for personal pension accounts, saying it will "restore trust and confidence in the pension system and provide the opportunity for collective consumer power to harness the power of capital markets".

The White Paper comes after a bitter struggle in the heart of government. Gordon Brown, the Chancellor, is opposed to linking the basic state pension to earnings and believes government aid should be reserved for the poorest, not everyone.

But Prime Minister Tony Blair and Hutton persuaded him to back down a fortnight ago, although the link is not due to be restored until 2012.

The Swedish system, completed in 1998, introduced a "premium pension", which exists on top of the basic state guaranteed retirement income. It diverts 2.5% of a worker's income into various notional accounts. The system is administered in Stockholm by 220 employees, keeping running costs low.

But British ministers propose to have fewer than a dozen funds, pointing out that most Swedes now choose the state default pension fund, which has been a strong performer and is not risk-averse and has a tenth of its assets in hedge funds.

Brown spends 22% more on the Scots than on the English

by Allister Heath

PUBLIC spending per person in Scotland will be 22.2% higher than in England and 40.9% higher than in the east of England this year, official figures published by Chancellor Gordon Brown reveal this weekend.

The share of the state in regional economies will also reach a record high across the country, according to an analysis of the official statistics.

Spending per person in Northern Ireland was £8,898 (£13,137, \$16,783), £8,096 in Scotland, £7,509 in Wales and £6,623 in England in 2005-06. The English regions also have very different levels of spending, with £7,873 per person in London, £7,531 in the north-east, £7,217 in Yorkshire and Humberside, £6,539 in the West Midlands, £6,205 in the south-west, £6,120 in the East Midlands, £5,837 in the south-east, and £5,744 in the eastern region.

The figures will fuel fears that Brown's public sector spending binge is failing to achieve better health-care, education or life

expectancy as there is no positive relationship between regional levels of public spending and outcomes. They will also confirm that most of Britain is now even more dependent on government spending than social-democratic countries such as France but that the southern tip of England is less dependent on state handouts than almost all other rich economies.

Government spending as a share of gross domestic product (GDP) in north-east England was 58.1%, in the north-west 50.4%, in Scotland 51.1%, Wales 59.3% and Northern Ireland an astonishing 66.2% of GDP, according to an analysis of the 2004-05 figures by Williams de Broë. It is only 31.3% in the east and south-east and 36.8% in London, but those regions pay a disproportionately high tax burden, which is then spent in the north and the rest of the UK. David Smith, chief economist at Williams de Broë, said: "North-east England, Wales and Northern Ireland almost qualify as Potemkin economies, with virtually no ability to stand on their own two feet."

South-east England would qual-

ify as possessing the second lowest public expenditure burden in the OECD after South Korea. Wales exceeds Sweden's record of 57.2% by 2 percentage points and Northern Ireland overshoots it by 9 percentage points. If London, the south-east and the east are treated as one, their combined government expenditure amounts to 34% of GDP. This is below Ireland, the US, Switzerland, and Australia, all considered low tax-and-spend economies, and would still leave the London/south-east/east bloc with the second lowest public spending share in the OECD area, after the 31% recorded in Korea.

The standard measure of GDP includes value added tax as part of economic output, which artificially reduces the relative size of government. If this is stripped out and a pure measure of GDP is used instead, government spending in south-east England amounts to 35.8% of the factor cost measure of GDP, while the equivalent figures for Scotland, Wales and Northern Ireland are 58.5%, 67.9% and 75.8%, respectively, Williams de Broë says.

But unreported in Bono's Independent (or in any other edition of the paper, which for years has followed an unquestioning line on Aids) there are signs that the power of the red ribbon is in serious decline. In the United States, where respectable opinion has long held the HIV theory of Aids to be immune to questioning, a controversial 15-page critique in the influential Harper's Magazine has caused culture shock. As well as detailing a cover-up by government scientists regarding Aids medication trials, the article approvingly quotes scientists who have argued for years that HIV is not the cause of Aids.

Meanwhile the Washington Post last month published an investigation headlined "How Aids in Africa was overstated", arguing that "increasingly dire" and inaccurate assessments of HIV infection by UNAIDS (the Joint United Nations Programme on HIV/Aids) had "skewed years of policy judgments and decisions on where to spend precious healthcare dollars".

In India, a proposed Red Ribbon Campaign through the national rail network has been abandoned, following a national convention on HIV in Bangalore last October attended by more than 1,500 HIV-positive people where the once-fashionable symbol of Aids awareness was ceremoniously rejected. In front of television cameras, a six-foot red ribbon was cut into pieces as a protest against the "oppressive and patronising" symbol.

Speakers said there were no similar icons of solidarity for people suffering from other diseases. The ribbon's connotations that "HIV=Aids=Death" - the scientific orthodoxy subscribed to by UN agencies, pharmaceutical interests and thousands of activists around the world - was said to further the isolation, discrimination and sense of doom suffered as a result of an HIV diagnosis. Veena Dhari, the first woman in India to declare herself HIV-positive, said that when HIV-positive people see the ribbon "we feel like committing suicide". She called on all Aids organisations to stop using it.

The story appeared on the front pages of newspapers as well as national television in India, where media have proved more resistant than in most

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