

Arianegroup's New CEO Faces Launch Rate Quandary

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CEO Andre-Hubert Roussel took the helm of the ArianeGroup, the manufacturer of the Ariane launchers and a pillar in Europe's space industry, on Jan. 1. He had been the head of operations at [Airbus](#) Defense and Space since 2016 and while there—in 2014—he contributed to the creation of the ArianeGroup, the launch of the Ariane 6 and the on-time progress of that program.

But Roussel's new job will be more challenging than what could have been expected only six months ago, when he joined the ArianeGroup's board of directors. The 9,000-employee company in November announced a plan to cut 2,300 jobs over a 4-5-year period. The planned launch rate of the Ariane 6 simultaneously was reduced because of a lack of orders. Then-CEO Alain Charmeau gave notice of his retirement late in the same month.

Ariane 6's launch rate cut due to weak demand

Economies of scale at risk

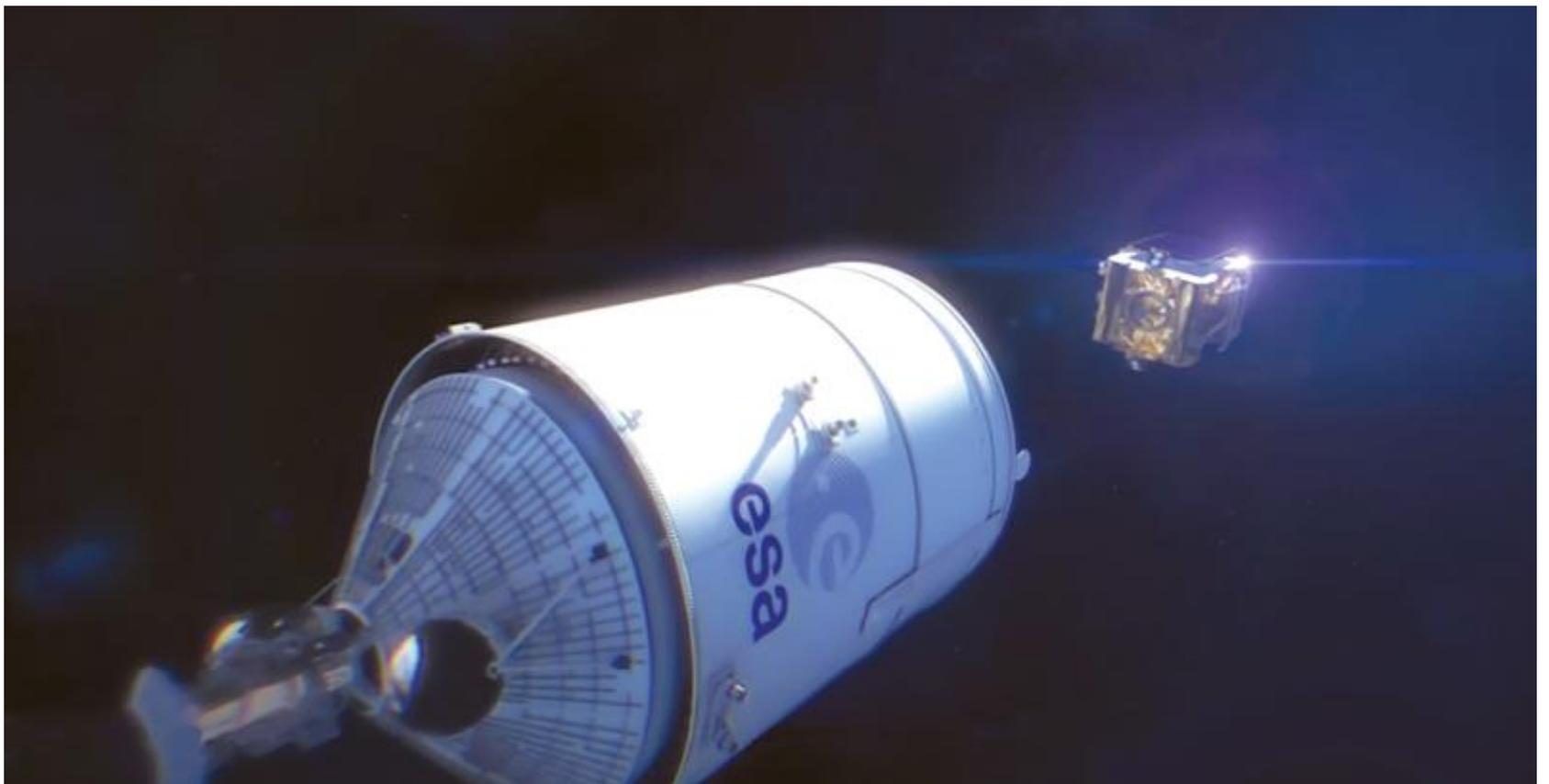
2,300 job cuts planned by 2023

Is that situation sending a bad signal about the market success of the Ariane 6? The short answer is “yes,” but each element should be reviewed carefully.

ArianeGroup insists there is no relationship between the job cuts, lack of orders and Charmeau's departure. The first decision stems from the program schedule, according to the company, as the transition between the Ariane 5 and Ariane 6 programs is scheduled to be completed by 2022, and fewer design engineers will be needed. ArianeGroup points out that 1,500 people have been hired since 2015 for the endeavor, and it says it wants to “strengthen its competitiveness.”

Planning ahead is the goal to avoid actual layoffs in four or five years. Some 1,300 jobs are expected to disappear due to retirements or termination of temporary contracts. The other 1,000 employees will be offered positions elsewhere within the Airbus and [Safran](#) groups. If they are on-site employees of a subcontractor, ArianeGroup will take their jobs in-house.

Maybe the most striking change in company plans is a reduced annual launch rate, to “8 or 9,” according to Philippe Gery, a CFE-CGC union representative who attended the works council’s meeting where the move was announced. The rate had been planned to be 11 or 12 annually.



For the Ariane 6 program, the ArianeGroup has bet on launches for the geostationary market as well as constellations. Credit: ArianeGroup

The commercial geostationary market has been slow, and new constellation projects have yet to evolve into launches. The launch rate may be at the heart of the problem. For the in-service Ariane 5, it is around seven per year. Key to the anticipated 40-50% cost reduction is an economy of scale generated by the greater launch rate of the Ariane 6. The program has been entirely cost-driven, as opposed to aiming for improved performance, because of the competitive pressure from new entrants such

as [SpaceX](#). Less frequent launches thus may make ArianeGroup's position more difficult.

As for Charmeau's retirement, it is only linked to his age (63 in 2019), an ArianeGroup spokesperson says. "He had begun talking about it to the parent companies, Airbus and Safran." For three months, he is acting as a special advisor to Roussel.

Meanwhile, a firm commitment from European institutional players for a minimum number of launch orders every year has proved elusive. The so-called European Institutional Exploitation (EIE) agreement is expected to guarantee launch service operator Arianespace five Ariane 6 launches per year, in addition to three or four Vega Cs. (Italy's Avio is Vega's prime contractor.) Or, as Charmeau suggested a year ago, 34 Ariane 6s and 9 Vega Cs over four years, for an average of slightly fewer than 11 launches per year. In exchange, Arianespace would charge for launches at market prices, as opposed to the institutions subsidizing them.

The EIE should be signed by Arianespace, on the one hand, and—on the other hand—the European Commission (EC), European Space Agency (ESA), weather observation organization Eumetsat, an unspecified number of national space agencies and possibly defense ministries.

Little has been achieved thus far. Five Ariane 6 launches have been secured, including three for European institutional customers the EC and the French defense ministry. In October, representatives of ESA and the French, German, Spanish and Swiss agencies signed a joint statement on the institutional exploitation of Ariane 6 and Vega C. They expressed "full support" for the European launcher industry and its programs. They "recognized the benefit" of aggregating their institutional demand but did not make their statement binding.

In an interview with French daily newspaper *Le Figaro*, Roussel said that to launch mass production, ArianeGroup needs 14 institutional orders.

Although it did order two, the EC may keep the company waiting for a

broader commitment. Spending for 2021-27 is being discussed, a process that will probably end in late 2019 or early 2020, says an EC official, adding that “the EC knows it needs three or four Ariane 6s per year.” However, it will not be able to make a firm commitment until the budget for the period is approved.

ESA would not comment on the EIE.

ArianeGroup’s predicament is causing concern for the CFE-CGC union. It has started a legal action to require the company to specify the skills to be affected by the job cuts. The company also will have to disclose the assumptions behind the 2,300 number.

The union fears some skills may be lost. That could be all the more harmful as significant performance upgrades already are envisioned for the Ariane 6. Moreover, the program will be “shorter than its predecessor and shorter than initially expected,” says the union’s Gery. Ideas already are emerging for its successor, codenamed Ariane Next. Therefore, there will be work for design engineers in the short and medium terms.

Competition from non-European countries is widely perceived as unfair. Most players in the European space industry, including ArianeGroup and Gery’s union, believe non-European space-faring countries agree to pay a premium when they use their national launchers for a governmental satellite. Therefore, the launch service operators can offer discounted prices on the commercial market. Meanwhile, some European governments are so oriented toward a free-market economy that they do not necessarily order launches from the companies they have funded, Gery believes.

He also blames protracted decision-making at ESA: Ministers meet every two or three years to decide on strategic plans.

There is still some duplication in know-how and production facilities. The main factor is believed to be sub-optimal organization in production, because countries demand “a fair geographical return,” Gery notes. The

concept is also known as “global balance,” under which each partner country should be content with the workshare its industry receives. “Let’s consider it at a broader level, not program by program,” says Gery.

Another concern has been ArianeGroup’s productivity, as the goal set in 2014 has yet to be met, according to Gery. Since the creation of the company, “we have made progress in productivity, but that gain is insufficient, as we have been adding our work procedures one to another, rather than merging them,” he adds.

At least ArianeGroup’s defense business has been steady thanks to French orders for submarine-launched ballistic missiles, the nuclear M51s, which account for more than one-third of its revenues.