

By pursuing trade case, Boeing helps create a stronger rival

David Nicklaus

October 20, 2017

Before it started a trade battle over Bombardier's CSeries aircraft, Boeing was competing with a company on shaky financial footing and a plane that wasn't selling all that well.

Now, thanks in part to Boeing's actions, the CSeries is in the hands of its archrival Airbus. The European giant's strong balance sheet and worldwide support network should help it sell far more planes than Bombardier, a Canadian manufacturer that was near bankruptcy not long ago, ever could.

In fact, Bombardier's order book for the CSeries hadn't grown since it booked a 75-plane sale to Delta Air Lines 18 months ago. That was the deal that spurred Boeing to file a trade complaint with the U.S. Commerce Department, even though Boeing didn't compete for the order and doesn't make a plane in the 100- to 110-seat range that Delta wanted.

The Commerce Department recently sided with Boeing, announcing preliminary duties of 299 percent. That effectively priced Bombardier's planes out of the U.S. market and pushed it to find a partner.

"They've done a pretty good job of tipping Bombardier over the brink and forcing them into the hands of Airbus," Teal Group aerospace analyst Richard Aboulafia said. "It gives Airbus an impressive new product to sell that Boeing doesn't have."

Airbus got a sweetheart deal, too. It paid just \$1 for a 50 percent interest in the CSeries, with the right to take full control in seven and a half years. Not only can Airbus market a plane without incurring the estimated \$6 billion in development costs, but Bombardier also agreed to cover up to \$700 million in production cost overruns.

Airbus plans to assemble some of the CSeries jets at its plant in Mobile, Ala., which may let it avoid the U.S. duties. Dan Ikenson, a trade expert at the Cato Institute, says it's unclear what Airbus' involvement means to the case.

The duties, which could be made final early next year, are supposed to apply to aircraft that are fully or partially assembled in Canada. Boeing says the penalty applies to "any imported CSeries aircraft or part," but Airbus can argue that the North American Free Trade Agreement allows it to import parts duty-free for a made-in-USA airplane.

Besides, President Donald Trump's administration may not be inclined to rule against a product that creates jobs in Alabama, the heart of Trump country.

"It's a little challenging to determine the full impact on Boeing," says Jeff Windau, an analyst at Edward Jones. On the one hand, Boeing's archrival just got stronger; on the other, Boeing may prefer to compete with Airbus than with a heavily subsidized upstart that could, some people speculated, eventually have ended up in the hands of a Chinese company.

Scott Hamilton, head of consulting firm Leeham Co. in Sammamish, Wash., has flown on a CSeries jet and says the passenger experience "beats the crap out of the Boeing 737." The plane also is fuel-efficient, boasting operating costs that are 18 percent less than older planes. Hamilton says airlines may want about 6,000 jets with between 100 and 150 seats over the next 20 years, and Airbus is now positioned to grab a big share of those orders.

We shouldn't forget that, by angering Canadian Prime Minister Justin Trudeau with the trade complaint, Boeing may have lost the chance to ship 18 F/A-18 Super Hornets north of the border.

Perhaps, having effectively driven Bombardier to its knees, it's time for Boeing to drop the trade complaint and begin mending fences with Trudeau.