

Canada's aerospace battle brewed amid Washington meeting

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WASHINGTON — An awkward encounter above Washington's Pennsylvania Avenue last spring provided early evidence of a rift between the Canadian government and the world's largest aerospace company.

Representatives of the Boeing Co., wound up hastily leaving a meeting at Canada's embassy after a tense conversation with the ambassador.

They had arrived to discuss business with the Canadian government. The giant plane-maker has been hoping to add a multibillion-dollar fighter-jet sale to its more than US\$94 billion in annual revenues.

But it so happened this visit fell on the same day Boeing filed a trade action against Canada's largest aerospace player, the far smaller Bombardier. It also happened that the Canadian hosts were given little warning.

Word filtered up to the top-floor office of ambassador David MacNaughton about an hour beforehand about the trade action, which this week resulted in whopping 220-per-cent preliminary duties on Bombardier sales.

"(MacNaughton) called them out of the meeting," one source said.

Two sources say the ambassador delivered a message similar to what's now the Canadian government's public mantra: "I don't do business with people suing me," and, "You shouldn't treat customers this way."

The Boeing people decided it was better to leave. The meeting was over.

What the Canadian government has heard from Boeing is that the company is torn between two imperatives: completing the military sale with Canada and avoiding what it perceives to be a colossal mistake of its past.

The company has said this publicly.

In an interview with The Canadian Press, Marc Allen, president of Boeing's international division, said: "We watched another competitor come up and enter the market in a very similar fashion."

That competitor was Airbus, in the 1970s.

A consortium of French, German, and U.K. interests, Airbus started small in the U.S. market, with European subsidies propping up its twin-engine and single-aisle planes. But the product lines, and the planes, grew, and by the 1990s the company had become a U.S. giant in its own right, muscling aside smaller players like McDonnell Douglas.

Now Airbus is aiming for 50 per cent of the American market after opening its first jetliner plant in the U.S.

Boeing claims to fear a repeat. After Bombardier's sale of 75 mid-sized planes to Delta Air Lines, it launched a complaint based on Bombardier's various forms of assistance from Canadian and Quebec taxpayers.

Never mind that Boeing is by far the No. 1 recipient of U.S. government subsidies. It drew US\$14.4 billion in various forms of assistance since the 1990s according to the website Subsidy Tracker, far more than any other U.S. company and far more than what Bombardier received. The U.S. Export-Import bank is jokingly referred to in Washington as, "the Bank of Boeing."

And Boeing doesn't even make planes similar to those Bombardier sold Delta. One Washington critic, Dan Ikenson of the free-market Cato Institute, compares this to a snowplow maker suing a bicycle company.

What matters is a smaller rival can grow, Boeing says.

It repeated that cautionary tale of Airbus several times during a daylong hearing before the U.S. International Trade Commission.

"Airbus in 40 years has an airplane now in every single market segment," said Raymond Conner, Boeing's vice-chair.

"What Airbus did is they entered ... the smaller (plane market) ... and then moved on from there ... Today we are fighting for our lives to maintain upper 40s or 50 per cent (market share). The impact is real and it sometimes takes many years to materialize.

"What (Airbus has) done in 40 years, we had to do in 100."

Washington aeronautics consultant Richard Aboulafia says Boeing is making a grave error. It is antagonizing governments and companies in several countries, including the U.K., where Bombardier has more than 3,000 employees, and angering big U.S. buyer Delta.

That's not all.

He says it's harming itself in two other ways: jeopardizing future military contracts in those countries and stoking protectionist sentiment in an industry that relies on international trade.

And Boeing might find out its efforts pointless in the end as the Department of Commerce duty could be overturned by the more historically neutral ITC, or by the U.S. domestic trade court, or other international panels.

"People said the entire Vietnam War was the triumph of tactics over strategy," Aboulafia said.

"You could win a battle and then find yourself having outraged (everyone) ... Can (Boeing make) an effective trade complaint? Yeah, probably. What are the second-order effects? Oh my dear God, that's a strategic question. (They'd) rather not think strategically."

He heaps scorn on the idea that this is the ghost of Airbus, stirring again.

Aboulafia said it's not the 1970s. The planes are different, the market is different and Canada's subsidies to Bombardier are nowhere close to as threatening as an international consortium being propped up by different countries.

Of the attempt to draw parallels, he says: "That's what you'd think if you had no sense of strategic history."