



## C Series decision still up in the air

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Bombardier, Boeing and Airbus will be on tenterhooks for a few weeks now that the U.S. International Trade Commission has finished hearing witnesses from both sides on the Commerce Department's proposed 300 per cent duties on Bombardier C Series aircraft.

Boeing's petition to the U.S. government—for an initial duty of 80 per cent—was sparked by Delta Air Lines' announcement last April that it would buy up to 125 of the single-aisle narrow-body jets. Comprised of a firm order for 75 with an option on 50 more, it was the largest order yet for Bombardier.

Clearly expecting the deal to go through, Boeing had filed its petition just a day earlier. The ITC agreed in June that the U.S. aerospace industry could be threatened if there was no action. Then, in September, it dropped its 300-per-cent bombshell, made up of 220 per cent to offset the alleged subsidies and a 79.82 per cent preliminary anti-dumping duty.

ITC spokesperson Peg O'Laughlin told *Skies* Dec. 19 that the organization's final "injury determinations" won't be released until late January. That would set the stage for Commerce to issue its final position Feb. 8, in turn positioning Canada to appeal to the World Trade Organization.

"Commission hearings are part of the fact-gathering process for the investigation," said O'Laughlin in an email. "The Commission takes testimony and questions witnesses on the record, and the information becomes part of the record on which the Commission will base its final injury determinations."

Boeing's petition to the ITC was predicated on claims that the Delta deal would materially injure the Seattle-based manufacturer even though it has nothing in its catalog that would compete directly with the C Series.

Appearing before the ITC panel, Canada's Ambassador to the U.S., David MacNaughton, dismissed the material injury claim.

"Boeing's assertion is necessarily based on just the type of speculation and conjecture that is prohibited under U.S. and international law," he said, calling the looming duties "illegitimate." He noted Boeing doesn't have an aircraft in the C Series size range, and that Boeing has a seven-year backlog of orders.

MacNaughton told reporters afterward that the U.S. politically-motivated anti-trade stance is effectively encouraging U.S. companies to initiate commercial attacks against competitors.

“The rhetoric that exists in the United States at the present moment—and I’m not just referring to one source of the rhetoric, I’m talking broadly of the anti-trade rhetoric—it has given U.S. companies the permission to take action they wouldn’t have taken before,” said MacNaughton, reiterating that the real danger of this is the way a negative ruling could affect 23,000 jobs at Bombardier supplier operations in nine states.

MacNaughton’s British counterpart, Kim Darroch, who sat beside him at the hearing, said Boeing’s arguments about Canadian governments’ support for their aerospace sectors, come at a time when Boeing itself “enjoys billions of dollars of U.S. government subsidies for its aircraft.”

Boeing’s main witness at the hearing was Kevin McAllister, executive vice-president of The Boeing Company and president and chief executive officer for Boeing Commercial Airplanes.

Bombardier was represented by Ross Mitchell and Rob Dewar, respectively the vice-presidents of commercial operations and the C Series program within the Commercial Aircraft Division, as well as Sylvain Levesque, vice-president of corporate strategy for Bombardier Inc.

Latvian carrier airBaltic was the launch customer for the larger CS300 aircraft. Bombardier Photo

Mike Nadolski, vice-president of communications and public affairs at Bombardier, said in a Dec. 19 statement that the testimony by the diplomats and Bombardier at the hearing had shown that Boeing’s petition was “an unfounded assault on airlines, the flying public, and the U.S. aerospace industry. That has been true since the start of the investigation.”

Nadolski said there was “clear evidence today that the C Series simply does not threaten Boeing,” not only because it didn’t compete for the Delta order but also because “it has not made a plane sized to Delta’s needs for many years.”

Shortly after the ambassadors’ testimony, Dan Ikenson, director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, a non-partisan think-tank in Washington, said in a televised interview that the ITC, being “less political” than Commerce, is “more likely to weigh the facts” of the case.

Ikenson said the notion that Boeing is “threatened with material injury because of sales of products that it doesn’t even make, in a . . . segment of the industry that it abandoned 12 years ago, really stretches the limit.”

Suggesting that Boeing is being “penny wise and pound foolish,” given that Canada announced last week it would not purchase 18 new Super Hornet fighter jets from Boeing to fill “a capability gap” until an entire fleet of 88 new aircraft is acquired. “It’s making a real mess of things . . . and it’s going to regret having pursued this action.”

As for what he called Bombardier’s “workaround in Alabama,” whereby an investment by Airbus would enable Bombardier to assemble C Series aircraft in a new plant, possibly circumventing Commerce and the ITC, Ikenson was uncertain that would work.

Bombardier and Delta Airlines announced in May 2016 they had executed a firm agreement for the sale and purchase of 75 CS100 aircraft with options for an additional 50 CS100 aircraft.  
Bombardier Photo

That deal, announced in October, is still being reviewed by the Canadian government for whether it would be of “net benefit to Canada,” and Boeing is targeting not only complete aircraft but also major components, some of which could be shipped from Canada.

“The parts will likely have to be more ‘decomposed’ so that there will be more value-added activity in the United States,” said Ikenson. “But certainly Boeing is going to try to nip in the bud that business plan. But it’s ridiculous because one of Boeing’s chief arguments is that they’re trying to preserve U.S. jobs. Well, Bombardier and Airbus have come up with a solution that creates U.S. jobs. There’s a lot of hypocrisy going on here.”

Bombardier estimates that the new assembly line would add 400 to 500 direct jobs in the U.S. as well as “thousands more indirect and induced” jobs.

“It will also bring approximately \$300 million in new foreign direct investment,” said Nadolski. These new U.S. jobs and investment are in addition to the 22,700 jobs already supported by Bombardier’s C Series through its U.S. supply base.

Earlier this year, Bombardier’s C Series program director at the time, Sebastien Mulot, pointed out to another ITC panel that “an opening at the lower end of the single-aisle market” had been identified as far back as 2004.

Airbus and Boeing had decided that their A320 and 737, with 15 seats or more, would be the best target market, together with double-aisle wide-bodies.

“No other new aircraft were specifically designed for this smaller size range,” the 18-year Bombardier veteran explained. “Older jets like the MD-80 and Boeing 717 were in service but were expected to need replacing within 10 to 15 years.”

Mulot also said that market studies showed that interest in smaller platforms was widespread because carriers, projecting significant unused capacity, “were expressing interest in an offering in the lower seat range.”

But there was more to it than specific capacity.

“Smaller single-aisle aircraft were disadvantaged in the U.S.,” he explained. “First, average seat costs per trip were higher due to the lower seat count. Second, pilot contracts were more expensive for planes larger than 100 seats. So airlines needed a breakthrough in operating efficiency to offset these costs. They also wanted features that no manufacturer to date had been able to integrate into a single aircraft of that size.”

The first iteration of a clean-sheet design emerged in 2006, but Mulot said prospective buyers pushed for more efficiencies. By 2008, technical improvements included integration of the Pratt & Whitney geared turbofan and the integration of more advanced fuselage and wing materials, resulting in a lighter and more efficient platform. That set the stage for further development and, finally, U.S. Federal Aviation Administration certification of the CS100 and CS300 in 2016.

Mulot dismissed suggestions that Bombardier was targeting Boeing’s 737 family.

“The C Series is a brand new technology, custom-built from the ground up,” he told the ITC. “The 737-700, by contrast, is really just a smaller version of the 737-800. But simply shrinking an aircraft doesn’t enable much weight reduction or efficiency gain—most of the systems and components remain unchanged. Moreover, the 737-700 has old technology generally.”

As for the 737 MAX 7, that was “Boeing’s attempt at breathing new life into an aging platform by using a new engine. But there have been few takers.”

He also said Boeing’s own communications with investors compared the MAX family only with the A320neo family.

“Even Boeing doesn’t really believe that the C Series is competing with the 737 MAX 7.”