

ST. LOUIS POST-DISPATCH

In pursuing trade case, Boeing is willing to risk defense orders

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Even in the sometimes illogical world of trade law, Boeing's complaint against Canada's Bombardier is quirky.

Boeing is complaining about sales that haven't occurred yet, of a plane that doesn't compete with its own models. And yet experts say it has a pretty strong case.

We should know more Monday, when the U.S. Commerce Department is expected to make a preliminary ruling on the anti-subsidy part of Boeing's complaint. Boeing also accuses Bombardier of dumping, or selling its C-Series plane for less than the cost of production.

By the time the case wraps up early next year, the U.S. could impose punitive duties that more than double the planes' price. That might make Delta Air Lines, which has ordered 75 Bombardier CS100s with deliveries beginning next spring, rethink its commitment to the aircraft.

A victory on the trade complaint may come at a high price. Canadian Prime Minister Justin Trudeau said Monday that unless Boeing withdraws the case, he won't move forward with a \$5.2 billion purchase of 18 F/A-18 Super Hornet fighters, which are made in St. Louis County.

That's a big chunk of defense revenue risk over a commercial order that Boeing didn't even compete for. Delta wanted a 100- to 110-seat plane, and the smallest version of Boeing's 737 seats 138.

U.S. law allows Boeing to claim potential future damage, though, and the company argues that the stakes are high. It doesn't want a subsidized competitor gaining a toehold and then going on to sell larger planes that would compete with the 737.

Fixing a problem for Boeing's airliner business may create one for its military salespeople. Richard Aboulafia, an aerospace analyst at Teal Group in Fairfax, Va., says Canada is also interested in buying P-8 Poseidon surveillance planes and CH-47 Chinook helicopters.

British Prime Minister Theresa May joined Trudeau in criticizing the trade complaint, because Bombardier makes wings for the C-series at a plant in Northern Ireland. Britain doesn't have any big aircraft orders pending, but it's been a good customer for Boeing hardware over the years.

“The economic value of Canadian and possible UK defense contracts dwarfs any possible damage from the C-series,” Aboulafia said.

Ken Herbert, an analyst at Canaccord Genuity, assumes that Boeing has weighed the costs and benefits. “The F/A-18 is an incredibly important product line, and Canada is one of the larger opportunities for it,” he said. “Clearly, Boeing has made its calculation and is willing to take a risk to establish some rules of engagement on the commercial side.”

Boeing has a strong complaint on subsidies — the Quebec provincial government invested \$1 billion in the C-series when Bombardier was on the brink of bankruptcy — but anti-dumping determinations are more technical.

Dan Ikenson, a trade expert at the Cato Institute, says the Commerce Department typically reviews a year’s worth of sales to determine if dumping has occurred. Bombardier won’t have any sales until it delivers the first plane to Delta.

Another issue is determining production cost. “Boeing and the Commerce Department know that in a high-fixed-cost environment, the first aircraft they make is going to cost 50 to 75 percent more than the 75th unit,” Ikenson said. “If they just ask for cost data on the first three or four planes, those costs are going to be enormous, and the price is going to be below cost.”

President Donald Trump takes a tough stance on trade and is already tangling with Canada over lumber and dairy products, so his administration is likely to side with Boeing. The question is whether Boeing can afford the cost of victory.