

Boeing faces challenge to prove harm from CSeries, says U.S. think tank

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Boeing Co. appears to face an uphill climb to prove to U.S. trade authorities that has been harmed by Bombardier's CSeries commercial jet given that the world's largest aircraft maker is running full out and earning big profits, a trade expert with the Cato Institute said Thursday.

The U.S. Department of Commerce recently announced nearly 300 per cent in preliminary tariffs and dumping duties on CSeries aircraft exported to the United States. The rate could be lowered in a final determination in December.

The future of Boeing's case largely rests with the U.S. International Trade Commission, which is scheduled to determine in February if the aerospace giant suffered harm.

"If the evidence doesn't show that Boeing was injured by this, then the whole case disappears," said Simon Lester, a trade policy analyst for the Washington-based independent research organization the Cato Institute.

Without that ruling, Boeing's trade challenge could face years of legal appeals.

Trade investigators typically examine a series of factors to determine harm, including actual and potential declines in sales, market share, profits, employment, wages and ability to raise capital, Lester said.

"Boeing is doing pretty well right now on all of these and so it's not a great time to prove injury," he said in a conference call hosted by Desjardins Capital Markets.

"Usually you get more of these cases in times of recession where companies can say: 'look how badly we are doing'. But as Donald Trump keeps telling us, the economy is booming right now so maybe it's a little harder for Boeing to prove its case."

Chicago-based Boeing (NYSE:BA) recently raised its earnings forecast for the year as it has a backlog of 5,700 commercial planes on order, valued at US\$424 billion.

Several industry analysts are puzzled about Boeing's claim of harm since the CSeries hasn't yet entered the U.S. market and Boeing doesn't even make a competitive product in the 100- to 120-seat size.

The motivation for Boeing's complaint is unclear, Lester said. It could be trying to force Bombardier (TSX:BBD.B) to raise the price of the CSeries, forestall a larger version of the plane or create a precedent to prevent China from following down this path in a decade or two.

Delta signed a deal for up to 125 CS100s in 2016. The firm order for 75 aircraft had a list price of US\$5.6 billion or about US\$75 million each, although large orders typically secure steep discounts. Deliveries were scheduled to begin in the spring.

Bombardier has denied Boeing's claim that Delta paid less than US\$20 million for each CS100 that cost US\$33 million to produce.

The trade dispute has gained lots of attention with Canada threatening to cancel the planned purchase of 18 Boeing Super Hornets to temporarily augment Canada's aging fleet of CF-18s.

Canadian Environment Minister Catherine McKenna said the issue of Bombardier came up Thursday when she met with Irish Prime Minister Leo Varadkar in Dublin.

Ireland and Great Britain are concerned about the impact on the Northern Ireland economy and the fragile peace in the long-troubled region from potential Bombardier job losses and McKenna said Canada has support from Ireland in the battle.

"They are very supportive of Bombardier," she said. "They have been sending messages to the U.S. administration that they need to find a positive resolution at this because there are jobs at stake but beyond jobs there is the political situation in the north at stake."

Bombardier employs more than 4,000 people at its factory in Belfast, including almost 1,000 who make wings for the CSeries. McKenna said another 11,000 people are employed indirectly because of Bombardier, which also represents one-tenth of Northern Ireland's manufacturing exports.