

Business Standard

U.S. slaps steep duties on Bombardier jets after Boeing complaint

Allison Lampert and Alwyn Scott

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The US Commerce Department on Tuesday slapped preliminary anti-subsidy duties on Bombardier's CSeries jets after rival Boeing accused Canada of unfairly subsidising the aircraft, a move likely to strain trade relations between the neighbours.

The department said it imposed a steep 219.63 per cent countervailing duty on Bombardier's new commercial jets after it made a preliminary finding of subsidisation. Boeing has complained that 110-to-130 seat aircraft were dumped below cost in the US market last year while benefiting from unfair subsidies.

Britain told US planemaker Boeing on Wednesday that it could lose out on British defence contracts because of its dispute with Canadian rival Bombardier which has put 4,200 jobs at risk in Northern Ireland.

The ruling is a political headache for Britain's minority Conservative government, which relies on support from a Northern Irish party to stay in power.

It also undermines the government's assurances to Britons that free trade and London's close ties with Washington will be pillars of Britain's prosperity and global influence after it leaves the European Union in 2019.

An April 2016 order for 75 CSeries jets from Delta Air Lines stemmed from the same harmful sales practices European rival Airbus employed to win business in the 1990s, according to Boeing.

Corporate Spat

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- Boeing has complained that 110-to-130-seat aircraft were dumped below cost in the US market last year
- The final decision on penalty is expected in 2018
- If imposed, the duties
- would more than triple the cost of a CSeries aircraft sold in the US to about \$61 million
- per plane
- Bombardier CSeries components are supplied by American companies that support almost 23,000 jobs in the US

The Commerce Department's penalty against Bombardier will only take effect if the US International Trade Commission (ITC) rules in Boeing's favour in a final decision expected in 2018. "We strongly disagree with the Commerce Department's preliminary decision," Bombardier said in a statement, calling the magnitude of the proposed US duty "absurd." Commerce's announcement and accompanying fact sheet on the preliminary duty order did not provide any rationale or methodology for how it calculated the 220 per cent duty.

The CSeries starts at \$79.5 million, according to list prices, but carriers usually receive discounts of about 50 per cent.

If imposed, the duties would more than triple the cost of a CSeries aircraft sold in the US to about \$61 million per plane, based on Boeing's assertion that Delta received the planes for \$19 million each. Bombardier has disputed the \$19 million sales figure.

There are not that many Commerce countervailing orders that are this high, but it is lower than the 256 per cent final duties slapped on Chinese cold-rolled steel last year. The timing is awkward because Canada and the United States are in a three-way negotiation involving Mexico to modernise the North American Free Trade Agreement.

A source familiar with the Canadian government's thinking said the Boeing trade dispute was "separate" from the Nafta talks.

"This in no way is part of our conversation" the source said. "People should not read too much into this piece today." The spat between Boeing and Bombardier has snowballed into a bigger fight this month when British Prime Minister Theresa May asked President Donald Trump to intervene in the dispute to help protect jobs in Northern Ireland, where Bombardier is the largest manufacturing employer.

The United States has also faced opposition from a handful of American carriers and elected officials over potential US job losses.

Canada's foreign affairs minister Chrystia Freeland said Bombardier CSeries components are supplied by American companies that support almost 23,000 jobs in US states, including Connecticut, Florida and New Jersey. "This is clearly aimed at eliminating Bombardier's C Series aircraft from the US market," Freeland said. She added that Canada strongly disagrees with the anti-dumping and countervailing duty investigations. reuters

Boeing said in a statement that the dispute "has everything to do with maintaining a level playing field and ensuring that aerospace companies abide by trade agreements." Bombardier's was unwilling to swallow the extra cost for airlines if the United States slaps duties on its CSeries jet, Reuters reported on Tuesday, citing people familiar with the matter.

"We are confident...no US manufacturer is at risk because neither Boeing nor any other US manufacturer makes any 100-110 seat aircraft that competes with the CS100," Delta said in a statement.

Duties could chill US sales of the fuel-efficient CSeries, raising concerns over future orders and jobs in Canada and the United Kingdom.

Canadian Prime Minister Justin Trudeau had put his government's planned purchase of Boeing Super Hornet fighter jets on hold because of the trade dispute, saying it could not "do

business with a company that's busy trying to sue us and put our aerospace workers out of business.”

Boeing has argued that the military sale to the Canadian government and its petition against Bombardier are not linked.

But the US jetmaker has said the CSeries would not exist without hundreds of millions of dollars in launch aid from the governments of Canada and Britain, or a \$2.5 billion equity infusion from the province of Quebec and its largest pension fund in 2015.

To win its case before the ITC, Boeing must prove it was harmed by Bombardier's sales practices, despite not using one of its own jets to compete for the Delta order, Dan Pearson, a senior fellow at the libertarian Cato Institute think tank in Washington, said before Tuesday's announcement.

“This (ITC case) cannot be a slam dunk,” said Pearson, a former ITC chairman. “I'm having a hard time figuring out how Boeing was harmed by this.”

Canada has pushed to settle the dispute. But one industry source said Boeing, which could gain some leverage with the Commerce Department's initial decision in its favor, sees the possible CSeries dumping as a long-term threat to its civilian airliner business.

Bombardier stock has fallen about 15 per cent over the past month on uncertainty around the duties and a rail venture. On Tuesday, Bombardier missed out an opportunity to strike a rail deal with Siemens, when the German company decided to combine its rail operations with French group Alstom.