

Globe & Mail

OCTOBER 17, 2017

Boeing Co. is the big loser in the deal between Bombardier Inc. and Airbus Group SE that provides new life and a brighter future to the Canadian company's C Series airplane program, aviation industry analysts say.

The deal between Bombardier and the European giant gives Airbus a new, more fuel-efficient and technologically advanced aircraft in the 100-seat to 150-seat segment of the single-aisle airplane market and, for now, a plane that Boeing cannot match.

The Bombardier-Airbus transaction comes in the midst of a trade war launched against Bombardier by Boeing over the sale of C Series planes to Delta Air Lines Inc. that the U.S. aerospace giant said could not have been made without the help of generous government subsidies.

"It doesn't look like there is any good that comes out of this for Boeing as the law of unintended consequences plays out," said Addison Schonland, an industry analyst who is a partner in aviation consulting firm AirInsight.

The deal gives Airbus a full range of planes in the single-aisle segment. It can offer airlines the newest technology on the market between 100 and 150 seats or the larger A320 and A321 planes that compete directly against Boeing's 737.

The C Series fits superbly beneath the A320, said a former Bombardier executive who spoke on condition that he not be identified. The former executive noted that the A319, the Airbus plane that offered 100 to 130 seats, never made sense economically. That's in part because it's simply a shrunken version of the A320, while the C Series is purpose built for airlines that need a smaller plane.

The response by Boeing is likely to involve the Chicago-based manufacturer cozying up to Embraer SA of Brazil, which has been developing single-aisle planes to compete with the C Series.

The pressure rises on Boeing to do a joint venture or alliance in the smaller segment of the single-aisle market, said Richard Aboulafia, vice-president of analysis of aviation consulting firm Teal Group Corp. of Fairfax, Va.

"Boeing needs to resume thinking of itself as a global company," Mr. Aboulafia said Tuesday. "They might have spent the last year getting away from that important concept."

Embraer and Boeing combined on the KC-390 military tanker program and an environmental demonstration aircraft.

But Boeing could also be forced to develop its replacement for the 737 earlier than planned, said Ernie Arvai, another partner in AirInsight.

The plane is scheduled to be replaced around 2030, but it likely will need to be available by 2025, he said.

Boeing said Monday evening after the deal was announced that the Airbus-Bombardier link-up appears to be "a questionable deal between two heavily state-subsidized competitors to skirt the recent findings of the U.S. government," on Boeing's trade complaint against Montreal-based Bombardier.

Embraer said in a statement that the deal validates its own development of a plane in the 100- to 150-seat segment, saying its new E2 family will be the most efficient aircraft in the segment.

Some airlines that have been wary of buying the C Series for fear the program would not survive may now step up to the plate, including JetBlue Airways Corp. and Spirit Airlines.

JetBlue operates a fleet consisting of planes from the A320 family and E190s made by Embraer. Spirit's fleet is all Airbus.

Other long-time Boeing customers might bolt, including UAL Corp., parent of United Airlines and American Airlines Corp., Mr. Arvai said.

United "has shown some interest in the C Series and they need an airplane in that size range," he said. "With Airbus there and a stronger support network, stronger service network with Airbus's essential endorsement of the airplane, they could be a candidate."

The C Series disrupted the single-aisle market. New engines developed by Pratt & Whitney gave it a 20-per-cent fuel advantage over existing Airbus and Boeing offerings.

The Bombardier plane spurred Airbus to develop its NEO (new engine option) variants with more fuel-efficient engines than those on its existing planes, but the European aerospace company did not develop an entirely new plane. Boeing responded to the Airbus NEO with the 737 MAX, which also offered new engines only, not a new airframe.