

Airbus Gets Edge Over Boeing in Future Jets With C Series Swoop

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- Bombardier model could save \$10 billion in development costs
 - Deal also widens European company's current narrow-body range
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Airbus Executive VP: Right Time for Bombardier Deal

Airbus SE's acquisition of a majority stake in [Bombardier Inc.](#)'s C Series plane threatens to leave Boeing Co. trailing in a race to develop a new generation of more advanced short-haul jets.

At one level, the [deal](#) appears to be neat way of providing Airbus with a 108 to 160 seat narrow-body aircraft, fitting below its own A320-series models and competing with the smallest variants of Boeing's 737 workhorse, while alleviating pressure on Bombardier from a bitter trade spat with its U.S. rival.

At another, the pact gives the European planemaker access to a technologically advanced, fuel-efficient design that could form the basis of its challenge in the highest volume jetliner sector for years to come, saving billions in development costs and putting the squeeze on Boeing, which is only now embarking on plans for a new short-haul model.

“It makes it tough for Boeing to be cost-competitive in the narrow-body space,” said Nicholas Heymann, an analyst at William Blair & Co. in New York, who estimates that piggy-backing on the C Series could save Airbus \$10 billion in development costs.

The Airbus-Bombardier tie up makes a 737 replacement even more critical for Boeing, which may need to recast the “dynamics and timing” of new aircraft programs to take account of changed competitive realities, said Ernie Arvai, founding partner of the AirInsight consulting firm.

Airbus shares rose as much as 4.2 percent in Paris, while Bombardier’s widely traded Class B stock soared 25 percent in Toronto. Boeing fell 1.3 percent in New York.

Mid-Market Race

Airbus’s move turns the tables on its rival after Boeing appeared to have gained an edge with its plans for a 220- to 270-seat aircraft fitting between the biggest single-aisle planes and the smallest wide-bodies to re-open a market that hasn’t been properly served since the U.S. company’s 757 ceased production more than a decade ago.

Nicknamed the 797, the New Mid-market Airplane, or NMA, is a twin-aisle, oval-shaped jet that is expected to get the formal go-ahead from Boeing in coming months. The model is slated to debut in the mid-2020s.

By bringing Bombardier’s C Series into the fold, Airbus gains a plane featuring a high proportion of composite materials -- a first in the narrow-body segment -- and far more modern design than either the Boeing 737, which in its original form dates from the late 1960s, or Airbus’s own A320, which first flew in 1987.

That technology could help it challenge the 797 after Airbus seemed powerless to keep up, distracted by the troubled production ramp ups of its newest A350 and A320neo planes, efforts to bring a re-engined A330 to market and the saga of whether to upgrade its slow-selling A380 superjumbo.

Change of Heart

When announcing the deal, Airbus Chief Executive Officer Tom Enders said it’s too early to speculate on whether the plane will form the basis for the company’s next short-haul offering, while acknowledging that it is

likely to take cues from areas such as the Canadian model's cockpit design and advanced aeronautics. The accord marks a change of heart by the CEO, who personally vetoed a similar alliance plan two years ago when the future of the C Series was in doubt and Airbus was starting out on the A350 ramp up.

Boeing's product-development head, Mike Sinnett, said in an interview Tuesday that the NMA will serve a "very different market" and that C Series sales in its current niche suggest "there isn't a lot new" in technological terms. He added of the plane that Bombardier has been "shopping it for quite a while."

Credit Suisse analyst Robert Spingarn, though, said in a note that a larger "CS500" version of the C Series overlapping more directly with Boeing models will most likely be developed to "negate the need for Airbus to develop a shrunk variant of the next-generation, clean-sheet A320 replacement."

Formidable Lineup

Regardless of the development boost for Airbus, the near-term ramifications for Boeing may be severe, with its Toulouse, France-based rival able to bundle the C Series and the larger A320 into a single offer. That would form a formidable lineup in a single-aisle market that's by far the biggest category in commercial aviation.

C Series customers said they were thrilled with the Airbus-Bombardier combination. Carsten Spohr, CEO of [Deutsche Lufthansa AG](#), whose Swiss unit was first to operate the C Series, said in Brussels that the deal is "good for Bombardier, good for Airbus and good for Lufthansa," while Martin Gauss, his counterpart at [Air Baltic](#), launch customer for the larger CS300 variant, said that "to have both of them now as a partner is perfect."

Airbus, which following the transaction will own 50.01 percent of the C Series program without any initial contribution of funds, may also be able to rationalize the bottom end of its own range -- where the CS300 overlaps with the 140-seat A319 -- to focus on the bigger and more lucrative A320 and A321.

"The C Series could supplant the A319 and eat into demand for the 737 Max 7," Howard Rubel, an analyst with Jefferies, said in a note, referring to the smallest of Boeing's re-engined 737s. Both the Airbus A320neo and the C Series share the same geared turbofan engine made by Pratt & Whitney.

Mobile Workaround

With the backing of Airbus, the Bombardier model, already outperforming customer expectations, in turn becomes "the" plane in its category, Heymann said, transforming order prospects for an aircraft whose future had appeared in doubt after complaints of unfair state aid from Boeing had led President Donald Trump's administration to impose a 300 percent import tariff.

A second production line at Airbus's plant in Mobile, Alabama, could help sidestep the duties won by Boeing. The plane already has more than 50 percent of its content coming from the U.S. and the new assembly facility could render the aircraft a "domestic" product and so free from trade restrictions, according to Rubel.

"If one doesn't want to be eaten up alive on the international stage, the deal between Airbus and Bombardier is good news," France's economy and finance minister, Bruno Le Maire, said in a meeting with the AJEF economic journalists association in Paris, signaling his country's backing for the plan.

Boeing said in a statement that Airbus and Bombardier appear to be seeking to circumvent the U.S. findings and labeled the deal "questionable."

While the transaction has parallels with Boeing's acquisition of McDonnell Douglas in 1997 - which secured it much needed production capacity -- the impact could be much greater, according to Heymann.

"This is a totally different dynamic," he said. "McDonnell Douglas was a 30-year-old plane. Bombardier's C Series is a brand new plane."

— With assistance by Benjamin D Katz

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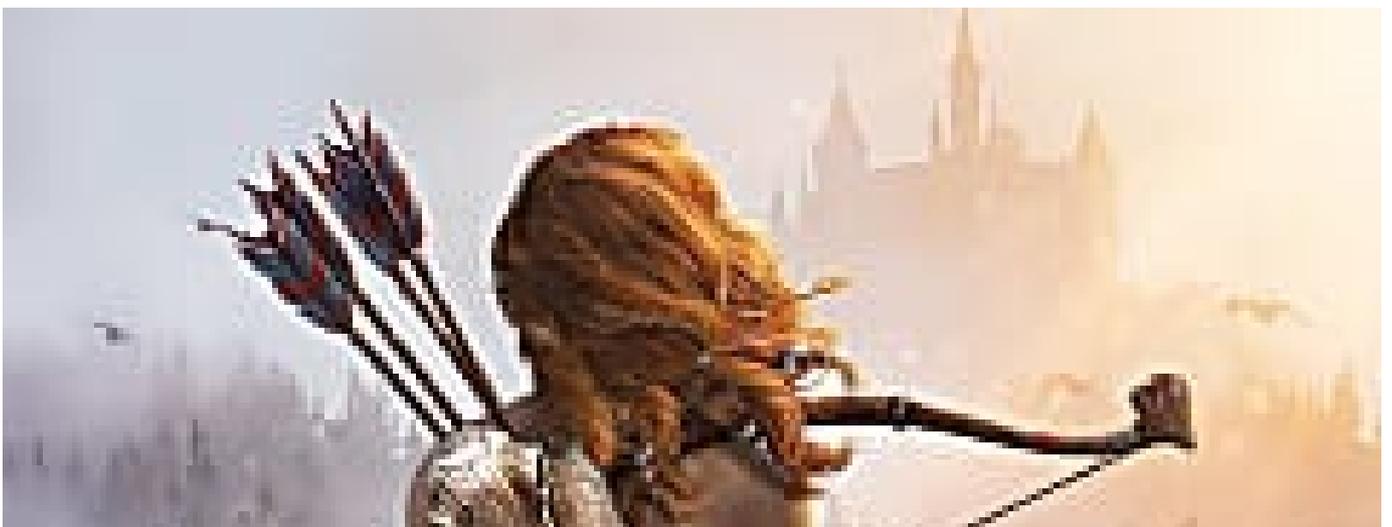
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