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## Boeing's future plans threatened by Airbus-Bombardier pact



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*Airbus's surprise move to swallow Bombardier's CSeries airplane program gives it a new small-jet family on the cheap. (P.PIGEYRE/MASTERFILMS)*

**Airbus's surprise move to swallow Bombardier's CSeries airplane program gives it a new small-jet family on the cheap, threatening the Renton-built 737 and potentially forcing Boeing to redraw its road map of new airplane development.**



By [Dominic Gates](#)

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Airbus's surprise move to swallow Bombardier's CSeries airplane program gives it a new small-jet family without spending the billions of dollars it would take to develop one itself.

Besides the likely impact of the deal on the Boeing-instigated U.S. trade case against Bombardier, that leg up for Airbus could trigger a serious strategy shift for Boeing.

The deal Airbus announced Monday, giving it control of Bombardier's freshly introduced two-model family of small narrowbody jets — the 110-seat CS100 and the 130-seat CS300, — could ultimately force Boeing to redraw the road map of new airplane development that it had settled on.

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Boeing has said it doesn't expect to have to field a so-called "clean-sheet" new-technology design to replace the Renton-built 737 narrowbody until around 2030.

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Yet Ernie Arvai, president of AirInsight Group, an aviation industry consulting firm, said that if Airbus chooses to produce a stretched CSeries jet — a potential 150-seat CS500 — it would hurt sales of the 162-seat 737 MAX 8, the heart of Boeing’s narrowbody jet lineup and the narrowbody plane from which it expects to derive most revenue.

With such a threat, Boeing might need to spend billions on a 737 replacement sooner than expected.

“It probably pushes it two to three years earlier than Boeing had originally planned,” said Arvai. Conversely, with the CSeries in hand, “Airbus may not need a new-technology narrowbody jet just as desperately.”

Indeed, Airbus’s move to secure the small narrowbody market should free it to focus its money and resources on countering Boeing’s pending plan for a new 797 airplane that’s sized between its 737 and 787 jet families.

For that project, Airbus may find useful the innovative composites manufacturing technology that Bombardier developed for the CSeries in its [wing plant in Belfast](#), Northern Ireland.

There, in a [very different composites layup technique](#) from that used by Airbus and Boeing, employees make single-piece wing panels, with stiffening rods called stringers already attached, out of dry carbon fiber fabric, and then inject epoxy resin that will harden the material in a high-pressure oven or autoclave.

Richard Aboulafia, aviation analyst with the Teal Group, says the CSeries deal gives Airbus “incredible leverage.”

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“They are using other people’s investments to get something for almost nothing,” he said.

The leadership of Boeing Commercial Airplanes must now figure out how the Airbus CSeries play changes its strategic calculus.

### Trade case untenable?

Airbus has structured its [agreement with Bombardier](#) so that it takes control of the jet program as soon as the deal closes next year. Airbus will appoint four directors out of seven, while Bombardier will have two and the government of Quebec one.

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Yet the deal postpones any major Airbus investment until Bombardier spends the funding it’s already been provided by the governments of Canada, the U.K. and Quebec.

Bombardier has committed to invest \$700 million into the project over the next three years.

Airbus will buy out the Quebec government’s 19 percent share of the CSeries after that, and then by 2026 —

assuming the CSeries project prospers under Airbus's wings — will buy out the remaining 31 percent still owned by Bombardier, to become the sole owner.

While that seems like a poison pill for Bombardier, Aboulafia said that without Airbus support the CSeries project was in danger of failing and bringing Bombardier down with it.

“31 percent of a likely big winner sure beats majority ownership of an ulcer,” Aboulafia wrote Tuesday.

Rob Stallard, a financial analyst with Vertical Research Partners, said in a note to clients Tuesday that [Boeing's attempt to block the CSeries by petitioning for tariffs](#) to be applied to U.S. sales has produced “unintended negative outcomes.”

“As well as damaging relations with the Canadian and U.K. Governments and some major airline customers, it has now driven Bombardier into the arms of its arch competitor,” Stallard wrote.

Yet on Tuesday, Boeing stuck to its guns — choosing to fire them as tweets.

Phil Musser, Boeing senior vice president of communications, dismissing the deal's agreement to build CSeries jets for the U.S. market in Alabama, tweeted: “If Airbus and Bombardier think this deal will get them around the rules....think again.”

And a separate statement on Boeing's corporate Twitter account quoted the company's general counsel, Michael Luttig:

“The announced deal has no impact or effect on the pending proceedings at all,” he said. “Any duties finally levied against the C-Series (which are now expected to be 300 percent) will have to be paid on any imported C-Series airplane or part, or it will not be permitted into the country.”

The wording of the Commerce Department's ruling against Bombardier this month supports that legal interpretation.

The Airbus deal is therefore unlikely to immediately affect the trade case proceedings, which in February are expected to finalize the tariffs imposed on U.S. CSeries sales.

So with those [tariffs quadrupling the price](#), Delta Air Lines will have to delay delivery of its 75-plane CSeries order that was due to start in the spring.

However, soon after closing the deal, as early as 2019, Airbus will begin construction of a new secondary CSeries production line in Mobile, Ala., to assemble the jets destined for U.S. airlines.

Even before the Airbus deal, half the value of the CSeries components — including the avionics systems and engines — was already U.S.-built. So once that Mobile final assembly line is up and running, it may be untenable politically to maintain the tariffs against opposition from airlines, major aerospace suppliers and Congressional Republicans in Alabama.

George Ferguson, an aviation analyst with Bloomberg Intelligence, nevertheless said he doubts the Trump administration will back down.

“They'll see this deal as circumventing what they have put in place and will still pursue it,” Ferguson said.

But Aboulafia said “the new deal destroys Boeing's trade case.”

He predicted Tuesday that the U.S. government will eventually let the matter drop and allow President Trump to take credit for bringing Airbus factory jobs to Alabama.

## **Airbus has new options**

Bloomberg's Ferguson is also doubtful that Airbus will ever launch a larger CSeries CS500 model.

Airbus certainly won't do so anytime soon. It has its own similarly sized A320neo to sell, with a huge backlog of

Airbus certainly won't do so anytime soon. It has its own similarly sized A320neo to sell, with a huge backlog of more than 3,500 unfilled orders.

Although at currently planned production rates that backlog could be largely cleared by 2022, Ferguson still sees the CSeries as unsuitable for Airbus's next-generation narrowbody jet family.

He points to its fuselage barrel, which is smaller in diameter than the 737 and accommodates only five abreast seating.

That means 150 seats is near the limit of how much the airframe could stretched without becoming too long. A three-model jet family between 100 and 150 seats is the most Airbus can get from the CSeries.

So to cover the larger capacity narrowbody market — currently served by the A321neo, which is massively outselling Boeing's 737 MAX 9 and 10 models — Airbus would need a separate airframe from the CSeries.

That may not be a barrier, said AirInsight's Arvai.

Airbus executives have already publicly discussed the option of upgrading the A321 design — potentially with new engines or new wings, and variously referred to as an A321Plus or an A322 — as a counter to whatever Boeing comes up with for the 797.

In a teleconference with financial analysts Tuesday, Airbus chief executive Tom Enders said the jet maker plans to have two narrowbody families and to make the systems as common as possible.

“In the longer run, we also see a strong potential to develop the combined narrow-bodies range into a harmonized product family with a high level of commonality,” Enders said.

While aviation analyst Ferguson believes Airbus would be loathe to undermine its A320 model with a CS500, Arvai suggests the European jet maker could offer both options, with the CS500 for airlines with shorter range requirements and the A320 for those who need longer range.


“For short-range low cost carriers operating domestically, the CSeries is a perfect airplane,” he said. “And using the A321 long range for transatlantic hops would be very interesting.”

Airbus chief Enders on Tuesday made a similar point, saying that “the combined aircraft family will then offer our customers ... a full spectrum of state-of-the-art products and services.”

“It will allow us to compete more efficiently and successfully against future new products,” Enders added.

In the months ahead, Boeing's sales and business strategy teams must weigh the various competitive possibilities, try to imagine how Airbus will leverage this new asset that's fallen into its lap, and figure out a response.

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