Follow the business news of Calgary, Canada based AvGlobe Consulting Inc

Calgary, Canada based outsourcing consulting firm, Global trading and aviation industry advisors

---

« Singapore Airlines Leading the Trend
Federal Support for Asia Gateway required! »

Airbus vs Boeing in China

The last thing Boeing needs now is a new China problem. Over the next two decades, Boeing (BA) expects China to spend $400 billion to purchase 3,770 planes from manufacturers, making China second in size only to the combined market of the U.S. and Canada. With airlines in other markets struggling—and Boeing still trying to recover from its much-delayed Dreamliner 787 project—the U.S. manufacturer could use a Chinese boost. One sign of China's importance: Boeing, the world's second-biggest aircraft manufacturer behind Airbus, is now sending a sales director to Beijing to become the company's first China-based sales executive. Jim Simon, former head of East Asia sales in Seattle, will arrive in Beijing soon, says company spokesman Yukui Wang.

Simon will have his hands full. While the Chinese market is growing fast, Airbus is poised to gain the greatest benefit. The unit of European Aeronautic Defence & Space (EADSY) is winning far more orders than Boeing, which now finds itself a target in a nasty war of words between Washington and Beijing that could put Boeing even further behind its larger rival. On Jan. 29, the Obama Administration informed Congress of plans to sell $6.4 billion in weapons to Taiwan, and the following day the Chinese government said it would punish U.S. companies involved in the sales. That could hurt Boeing, which makes the Harpoon missiles that Taiwan will be purchasing as part of the deal.

Boeing says the Chinese government should not be targeting the company. "Any arms sales to foreign countries or entities are decided by the U.S. government," says Wang, a Beijing-based spokesman for the company. "It's a government-to-government issue."

Boeing is also counting on some protection from its local ties. Any retaliation against the company by Beijing might end up hurting Chinese partners because Boeing buys parts from seven local manufacturers. Indeed, spokesman Wang says Boeing is the Chinese aviation industry's largest foreign customer. Xian Aircraft Industry, for example, last month delivered 1,500 vertical fins for 737 narrow bodies. Boeing has purchased a combined $1.5 billion in aircraft parts and services from China over the past 30 years, says Wang. That figure "will double in the next few years," he says. "Chinese suppliers now have a role in all Boeing airplanes."

Airbus leads in new China orders

By some measures, that effort is paying off for Boeing in China. The company has more planes than Airbus currently operating in the country: There are 736 Boeing planes and another 30 from McDonnell-Douglas (which Boeing acquired in 1997) now in service in China, according to data compiled by Ascend Worldwide, an aerospace industry market research firm based in London. Airbus has only 547. Moreover, Chinese airlines have 18 Boeing and McDonnell Douglas planes in storage, vs. 2 Airbus jets.

Still, the future looks much brighter for the European company than for the American company. Chinese airlines have placed orders for 358 Airbus planes and have options for another 14 more; they have ordered 244 new planes from Boeing and have placed no options for further units. Airbus has letters of intent for an additional 60 planes, compared to 40 for Boeing. For instance, China Southern, the country's largest airline, announced on Jan. 20 that it would buy 20 Airbus A320 aircraft, paying $76.9 million per plane. On Dec. 28, the country's second-largest carrier, China Eastern Airlines, announced a $2.6 billion agreement to purchase 16 Airbus A330s, to be delivered by 2014.

China "probably has the most potential of any significant market in the world," Airbus China President Laurence Barron told Bloomberg News on Feb. 2. He predicts that China will account for 20% of Airbus revenue this year. Boeing derived a mere 4% of its sales from China in 2008, according to data compiled by Bloomberg.

Beijing rewards with aircraft orders

As it competes for Chinese orders, Airbus enjoys an important advantage over Boeing because the European manufacturer has been more aggressive in helping transfer industry expertise to China. Last year, Airbus opened an assembly plant in the northeastern city of Tianjin. In China, "if you allow for more local production and information-sharing, the purchaser is going to be a lot more willing to accept your aircraft," says Peter Harbison, executive chairman of the Center for Asia Pacific Aviation in Sydney. That's a step that Boeing, which suffered through an eight-week strike in 2008, has not taken, adds Harbison, because the company's unions are concerned about the company shifting jobs overseas.

A local presence is important because decisions about aircraft orders are highly political in China. The three largest airlines—China Southern, China Eastern and Air China—are still controlled by the government, and Chinese leaders like to use big-ticket aircraft orders as carrots to reward foreign governments that treat Beijing well. "When top-level Chinese officials go to France or the U.S., they sometimes come back with big orders for planes," says Jim Wong, Nomura's regional transportation and infrastructure analyst in Hong Kong. Deciding between Airbus and Boeing therefore "may not necessarily be a pure business decision." That could hurt Boeing now if China follows through on its threats to punish U.S. companies for the Taiwan arms sales.

The Chinese government wants investments such as the one Airbus has made to help local efforts to build a viable aviation industry that can compete with the big players. For instance, state-backed Commercial Aircraft Corp. of China (Comac), is working on a midsized jet, the C919, with engines from General Electric (GE). That Chinese plane isn't scheduled to launch until 2014, though, and the major foreign companies won't have to worry about local competition until then.

By Bruce Einhorn , the Asia regional editor in *BusinessWeek*'s Hong Kong bureau.

Share and Enjoy: