

The Bombardier-Boeing dispute goes to the heart of the debate over what constitutes state aid and price dumping



In recent weeks the US Department of Commerce has threatened to slap a 220 percent tariff on to sales of C-series jets manufactured by the Canadian company, Bombardier. Boeing has alleged that Bombardier – which also employs thousands in Northern Ireland – has received generous state aid from the Canadian government, and is selling its jets below cost. [Hervé Morvan](#) writes that this dispute is the latest iteration of a long-running fight between US aerospace manufacturers – which often receive indirect state support in the form of defence contracts – and others such as Airbus which receive more state direct subsidies.

So, Bombardier, a Canadian company, have just been hit by the prospect of a 220 percent tax on the sale of their C-Series jet in the US, which is creating significant turmoil between Canada and the USA but also, across the pond, in Great Britain, where Bombardier employ 4,200 in Northern Ireland. This tariff reflects what the US Department of Commerce (DoC) have judged to be the amount of state aid involved in the sale price of aircraft by Bombardier to Delta Airlines. In parallel, 'material injury' to Boeing is also considered by the US International Trade Commission.

What is the story behind this, now diplomatic, incident?

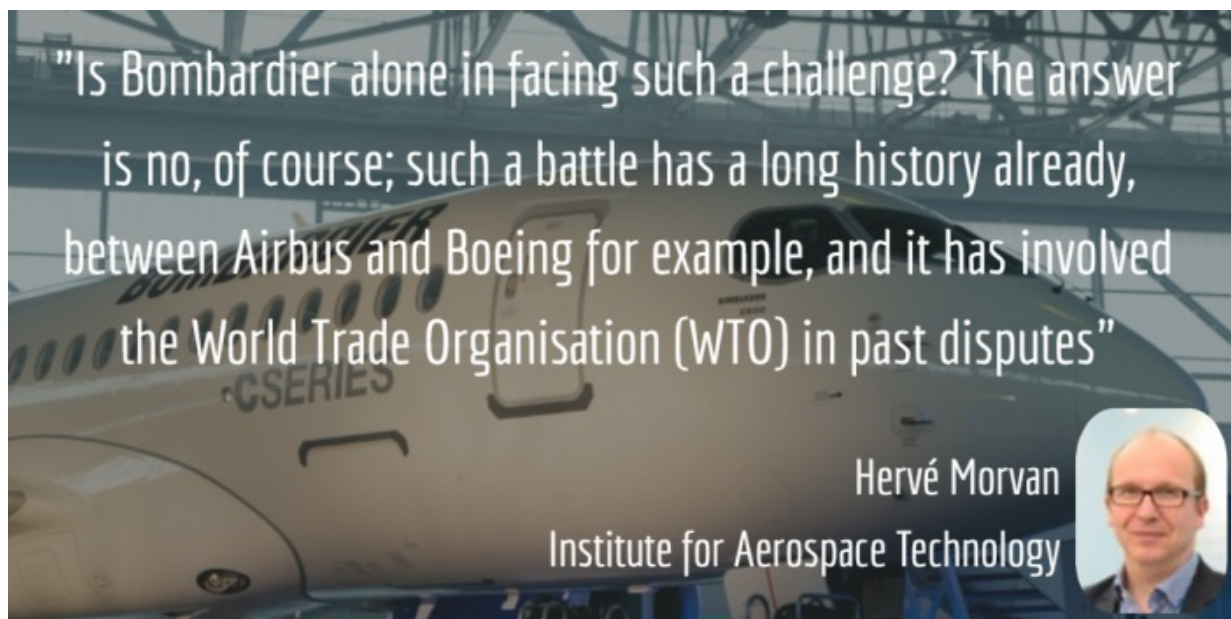
First, it is fair to say that the story of the C-Series has been a protracted one; the programme will be 20 years old next year and the developmental journey for the CS100 and CS300 aircraft has been financially, commercially and technically complex. Financially, as it cost Bombardier some \$6 billion to develop the C-Series, requiring governmental interventions (to be repaid as royalties or paid against equity in the company; more on this later) to support both the business and the C-Series programme. Commercially, because as a new entrant on this sector, breaking the Airbus-Boeing 'duopoly' is proving challenging, e.g. when large airlines benefit from a scale and operational advantage for already owning large fleets of Boeing or Airbus aircraft (this is not a simply technological performance argument). And technically, because, though the aircraft is using the best of current technology, with carbon fibre composites materials and geared fan engine, making it significantly more cost effective to operate compared to the existing 'competition' (e.g. due to aerodynamic, weight reduction and fuel burn gains), it has faced significant challenges, notably with its Pratt and Whitney PW1500G engines, which have slowed its development down and introduced confidence issues among some potential early customers.

Second, the Bombardier CS100 desired by Delta Airlines is a state-of-the-art) aircraft able to carry 108 to 130 passengers in a seating arrangement that does not compete with Boeing's similar planes. The C-Series is also operationally well thought through, with a design that allows great luggage stowage capacity on board and rapid boarding and de-planing, a significant advantage for a type due to manage a high number of flight rotations per day. Interestingly, its direct competitor is not a Boeing aircraft, but the Embraer [E195-E2](#). However, Bombardier was/is on the verge of entering Boeing's backyard if it concludes its sale to Delta Airlines, and that has prompted the Seattle-based giant to step into action, though [some question the validity of this position](#) in this case.

Third, is the action taken by Boeing warranted? When it filed its dumping petition in April, reaction from the sector and market was rather cool. The petition was seen as a grumpy over reaction from Boeing by many; it was cited as a compliment to Bombardier by some even; and, quite importantly, it was dismissed by Delta Airlines and many analysts who were prompt to note that [Boeing had simply not competed](#) on par with Bombardier. Its 717 model, a direct competitor to the CS100, was cancelled 10 years ago, and the offer made by Boeing, of a mix of second-hand 717 and Embraer, simply did not suit Delta Airlines, specifically on the delivery timeline for example. Others have also noted that considering its order books for the 737, it is arguable that Boeing could not have accommodated Delta Airlines, had it wanted an aircraft to operate in the same sector as its 737.

So what is the issue?

It is clear that the CS100 were offered at a price well below the reported production costs: clear evidence of dumping. The aircraft were sold at a unit price of \$19.6 million when their production costs were noted at \$33.2 million in the Boeing/DoD petition. Such variation in the unit *price* of aircraft is not uncommon in aerospace, as seen [here](#) among the largest two players; not least in the early days of a programme when it is clear that the early production costs would make a unit price too high to be competitive and these costs are therefore factored in over the duration of the predicted programme. The problem, as perceived by the Department of Commerce last week, goes deeper and links to subsidies and tax breaks received by Bombardier from the Canadian and UK governments. It is acknowledged by [observers and analysts](#) that Bombardier did leave themselves open to such an action when needing financial assistance, notably in recent times (\$1.3 billion from the Canadian and Québec governments alone in 2017). Consequently, Boeing asked for tariffs of 79 percent for the subsidies and injury complaints, and for an additional 147 percent penalty to reflect the alleged lack of cooperation by Bombardier since April, following the news of a deal with Delta Airlines.



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Is Bombardier alone in facing such a challenge? The answer is no, of course; such a battle has a long history already, between Airbus and Boeing for example, and it has involved the World Trade Organisation (WTO) in past disputes. [Global News](#), a Canadian news outfit, reported last week that Boeing had received \$457 million in federal grants over (roughly) the development life of the C-Series programme and up to \$64 billion in federal loans and loan guarantees. And there is more: it appears that Boeing also received up to \$13 billion in state and local subsidies, notably in Washington State where it is based. Beyond commercial aviation, Boeing is strongly present in the defence sector, with up to a third of its 2016 revenue for example attributed to the US Department of Defence (DoD) contracts alone. It has long been perceived that such contracts were indirect help from the US government to one of its flagship companies, including in past disputes with Europe. Aerospace is one sector where defence programmes (R&T and R&D) have a direct overspill in the commercial space –this is clear on a range of technologies e.g. advanced materials, processes and design, or propulsion. Bombardier on the other hand has only a very modest presence on the defence sector.

Invoking WTO rules

So what is the issue, may we ask again? It relates to the application of World Trade Organisation (WTO) rules in this *specific* incident. Yes, it is a fact that most countries and regions (e.g. Europe) do support such sectors as aerospace, to maintain sovereign capability and support local industry and employment, and this does not generally create much of an issue; until it is perceived by other nations as supporting the introduction of competition onto their own territories or against their own national industry. This is the point of view adopted by Boeing and the DoC in the current Bombardier affair. In its proceedings, the DoC is reported to have considered launch aid, subsidies and tax breaks received by the Canadian manufacturer going back nearly 10 years. It also studied the credit and equity standing of Bombardier and the C-Series programme over its development period. In such instance, WTO rules allow for the imposition of import tariffs meant to correct the effect of the subsidies and general state aid received. It is worth noting that ‘history’ does not enter consideration here and that each case is considered on its own merits. In other words, the figures collected by Global News count for nothing in the specific argument; other than to illustrate how common a practise it is in aerospace and defence.

How much of the support received by Bombardier does constitute state aid? The devil is in the detail, in particular in the definitions adopted. Some in Ottawa and in Québec are already noting that Bombardier is committed to repaying the support received by the Canadian Government through royalties and that the Government of Québec took an equity stake of 49.5 percent in the C-series programme against its \$1 billion *investment*. It is unlikely that such monies would have been invested by national governments, including in the UK, and accepted by Bombardier, without careful consideration of its impact further down the line. With a new US administration having adopted the slogan ‘Make America Great Again’, there is perhaps another dimension to the dispute as well, with harder lines and greater scrutiny being taken in Washington, at a time when Canada, Mexico and the United States are renegotiating the North American Free Trade Agreement (NAFTA).

At present, the recommendations of the DoC would raise the price for the CS100 to short of \$63 million. Delta Airlines, who were expecting their aircraft in April 2018, have said that the 220 per cent tariff would make the aircraft unaffordable to them. The loss of such a contract for 75 aircraft would be a terrible blow to Bombardier, but also to supply chains in Canada, the UK and the US (there are 22,000 people involved in total). Such a decision weakens the airlines too, in reducing choice on the supply side (it has been argued that Lufthansa’s decision in supporting the early purchase of C-Series was motivated by supporting the introduction of competition). Finally, both Canada and the UK are Boeing customers in the defence sector and Canadian Prime Minister Trudeau has already pointed that the Boeing Super Hornet would not be considered as part of its fighter fleet replacement, if Boeing persevered; this is a tender for 88 aircraft. Here, Canada could turn to French manufacturer Dassault Aviation. A final decision by the DoC is [due](#) in December 2017.

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Note: This article gives the views of the author, and not the position of USAPP– American Politics and Policy, nor of the London School of Economics.

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