ANALYSIS: BOEING AND AIRBUS UP THE ANTE IN CHINA

News / Manufacturer

Apart from the centre, **Boeing** will also broaden collaboration with supplier and potential rival AVIC and launch an initiative to develop biofuel from Chinese agricultural waste. All three initiatives were announced as part of Chinese president Xi Jinping's visit on 23 September to Boeing's widebody assembly complex in Everett, Washington.

Boeing's new facility in China will be operated jointly with Comac, the maker of the C919 narrowbody. Workers there will install interiors, paint liveries and deliver 737 aircraft to Chinese customers. The completion and delivery centre stops short of opening a fourth final assembly line for the 737, in addition to three active lines in Renton, Washington. But the commitment to open the facility at a location and time to be announced later should "enhance" Boeing's access to the fast-growing Chinese aviation market, company officials say.

Boeing's two largest unions, predictably, immediately protested that management was using union

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jobs as “bargaining chips” in sales discussions with customers. But Boeing executives say the new Chinese facility will enable an increase in production rates for the 737, creating more demand for labour on the three final assembly lines in Renton. Boeing is already raising 737 monthly deliveries from 42 to 52 by 2018.

China has become Boeing’s largest commercial customer, taking delivery of 155 aircraft already this year. China Aviation Supplies Holding, meanwhile, announced on 23 September a commitment to purchase up to 300 aircraft, including 190 737s and 50 unspecified widebody aircraft for Chinese airlines. Another 60 737s will be purchased for leasing companies ICBC and CDB Leasing.

"The 737 will be a cornerstone of the Chinese fleet for years to come, and we look forward to delivering 737s to Chinese customers in China,” said Boeing Commercial Airplanes chief executive Ray Conner.

At the same time, Boeing also pledged to expand its industrial partnership with AVIC. Chinese suppliers already hold major positions in Boeing’s supply chain, building horizontal stabilisers, vertical fins and wing panels for the 737, rudders for the 787 and control surfaces for the 747-8. A new framework agreement commits the partners to add major component assembly work for Boeing commercial aircraft by AVIC.

Finally, Boeing also will help China develop processes to convert waste, such as corn cobs and wheat stalks, into jet fuel under a memorandum of understanding signed with the National Development and Reform Commission.

Airbus keen for more China work

Just days before Xi’s visit to Washington state, however, Airbus stressed its desire to continue investing in China production capability.

“Our recent widebody co-operation for the A330 completion and delivery centre was quite a breakthrough,” said Airbus China president Eric Chen. “The A330 completion and delivery centre is proof about how we never stop expanding co-operation with China. Our next target is to build on Tianjin based on these two projects, and make it our Asia centre.”

Chen made the remarks to journalists at the China Aviation Expo event in Beijing. His comments follow news in early September that Airbus will add an A330 completion and delivery centre in Tianjin, which will eventually also do work on the A350.

In response to a journalist’s question about the emergence of the indigenous C919 as a local competitor, Chen admitted that this has made the relationship with Chinese partners “a little bit complicated.”

“Still, we have a lot of confidence about being open to our Chinese partners,” he says. “We embrace competition and we think the market is big enough to accommodate more than two competitors.”

Chen stressed Airbus’s progress in China since entering the market in 1985 with an A310 operated by China General Aviation, which later becameChina Eastern Airlines. In 1995 Airbus had just 6% of the market, but this has grown to 50%. The company now employs around 1,300 staff in the country. It has partnerships with a number of local companies. Aerostructures for various Airbus aircraft are produced by Chengdu Aircraft Corporation; Shenyang Aircraft

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Corporation; Xi'an Aircraft Company; Shanghai Aircraft Manufacturing; Hong Yuan Aviation Forging & Casting; and Hafei Aviation Industry.

Widebodies to be key battleground

Although China's narrowbody market will remain a key battleground for the two airframers, it is abundantly clear that China's widebody market is crucial for both companies. The 2015 Flightglobal Fleet Forecast predicts that the country will take delivery of 1,130 new widebody aircraft over the next 20 years, with the in-service fleet to swell to over 1,200 by the end of 2034.

Chris Seymour, head of market analysis at Flightglobal's Ascend consultancy, says that this is being driven by a growing affinity in China for long haul travel.

"With the growing wealth of China and a more affluent middle class, the desire to travel both for business and leisure is increasing," he says. "The market is also seeing an increase in links from secondary cities to points in Asia, Europe and North America, and also more of the smaller carriers adding widebody capacity."

Presently, Boeing trails Airbus in the widebody market, with Flightglobal's Fleets Analyzer database showing that the European manufacturer has around a 65% share of the market of in-service passenger widebodies. Furthermore, the average age of the Airbus fleet is much younger than the Boeing one, with the latter likely to see a number of retirements in coming years.

Prior to September's 300 aircraft deal, Boeing held the advantage in the firm order backlog for widebody passenger aircraft – 33 units compared to 23. The 300 aircraft deal announced in Seattle includes 50 widebodies, but the types were not specified and this number could include aircraft the market was already aware of.

To maintain that advantage, Boeing needs to boost sales of its 787 and 777.Hainan Airlines and Xiamen Airlines have indicated that they plan to order additional 787s, and further 777 orders could be likely for the big three carriers: Air China, China Southern Airlines and China Eastern.

More immediately, it appears that the Airbus A330 could be the short-term beneficiary of Chinese carriers' desire to further expand their international services.

"It has proved especially popular in domestic and regional operations and the [Airbus] A330neo is forecast to gain sales, too," says Ascend's Seymour.

Compared to the 787, Airbus A330ceos are available with shorter lead times, and it would appear that Airbus is open to offering aggressive discounts. As for the re-engined neo variant, the type's additional range and lower operating cost could be a major positive for carriers looking to add new city pairs on longer routes, but without the range capability of a 787 or the capacity of a 777.

Nevertheless, not all has gone Toulouse's way in China. Airbus's proposed A330 Regional – a high-density and lower-weight certificated A330 that would be optimised for use on domestic flights – has yet to garner any orders despite being targeted strongly at Chinese carriers. Airbus's flagship, the A380, has also secured just five orders, from China Southern.

Given time, though, Seymour says that the focus will shift to the 787-9 and A350-900, with 75% of future deliveries in the country predicted to be in the 250-300 seat range.

Indeed, at the Beijing event Chen stressed confidence in the A350's prospects in China. For now, Air China is the only customer with an order, for 10 of the -900 variant. Chen says that Chinese

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interest will grow following the aircraft’s successful entry into service this year, and that the aircraft is well suited to long-haul sectors. He specifically mentions Guangzhou-New York as a possible routing pair for the type.

“In terms of economics and technology, the A350 is very suitable for Chinese airlines' international routes,” says Chen. “My concern is not demand, but production capability. How much can we produce to satisfy the market?”

Longer-term, Boeing and Airbus may face a degree of competition from Beijing’s plans to jointly develop a widebody aircraft with Russia. Seymour says however that this will only start taking share in the later 2020s, leaving the two western airframers to battle it out in the meantime.

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