

Trade war in the aerospace industry: Airbus takes over shares in Bombardier

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25 October 2017

At the beginning of last week, the heads of the aircraft manufacturers Airbus and Bombardier, Tom Enders and Alain Bellemare, announced a long-term cooperation between the two companies. The European Airbus Group will take control of a joint venture to produce the C-Series medium-haul aircraft of the Canadian Bombardier Group.

Airbus will take over 50.01 percent of Bombardier shares. At the same time, the previous owners of the C Series Aircraft Limited Partnership (CSALP), Bombardier and the Quebec government, will reduce their shares to 31 and 19 percent, respectively. Airbus has also been given an option to purchase the shares of the Quebec government two years after the end of the acquisition, and Bombardier's shares some time later. The result would be a 100 percent takeover of the company by Airbus.

On the same day as the announcement of the joint venture, shares in Airbus rose by 4.2 percent and Bombardier by 15 percent. The price of Boeing shares, however, fell by 2.4 percent and shares in the Brazilian Embraer company, a direct competitor, dropped by 5.4 percent. Financial experts estimate that the value of the joint venture will double in a short time from \$2 billion to \$4 billion, leading to large profits for shareholders.

The German business newspaper *Handelsblatt* greeted the takeover as “a masterstroke” by Airbus. According to the paper, when the deal goes through the European company will be the main beneficiary of the trade war measures imposed on Bombardier by the US Department of Commerce following pressure from its US competitor Boeing.

Boeing filed a complaint with the US Department of Commerce after Delta Airlines ordered 75 CS100 model aircraft (108-125 seats) from Bombardier. Global market leader Boeing did not participate in the

tender because it does not produce aircraft of this size. Nevertheless, Boeing accused its Canadian competitor of selling its aircraft below cost price. As justification for its lawsuit, Boeing stated that the province of Québec had invested \$1 billion in Bombardier in 2015 following delays and cost problems arising from the development of the new aircraft. Boeing declared the investment to be an unauthorised subsidy of development costs.

The Trump administration then issued a lawsuit and in mid-September announced penalties of 300 percent on the import of C-series aircraft. The measure hit Bombardier hard and Canadian Prime Minister Justin Trudeau tried (in vain) to negotiate with Trump. The penalties threatened the sale and production of the C series and thus thousands of jobs in a company already under financial pressure from high development costs of \$6 billion and fines for the late delivery of its first aircraft. Trudeau warned that Canada would not buy any further military aircraft from Boeing if forced to pay the penalties.

British Prime Minister Theresa May also threatened to curtail the further purchase of Boeing aircraft. Bombardier has a workforce of 1,000 in Belfast, Northern Ireland, and May also negotiated intensively with Trump on behalf of the company. Following the British parliamentary election in June, May has had to rely on the Democratic Unionist Party (DUP) from Northern Ireland to secure a parliamentary majority for her government, but Trump refused to back down.

For the past two years Bombardier has been pursuing cost-cutting programs that have already cost thousands of jobs in its air and rail sectors. Most recently, a joint venture planned with Siemens over rail vehicles collapsed in September after Siemens struck a deal with the French company Alstom. Now Bombardier has

abandoned its plan of competing on an equal footing with Airbus and Boeing, based on its C-Series. The company will retain only its private and luxury jet and train sectors.

From 2012 onwards Airbus public ownership by the French and German governments stood at around 11 percent respectively. Spanish ownership is about 4 percent. The company's latest intervention will have dramatic repercussions. The world's second biggest aerospace company has a production facility in Mobile, Alabama, which, according to plan, will assemble the C series after completion of the takeover process.

According to Patrick de Castelbajac, the Airbus board member responsible for corporate strategy, strong legal arguments confirm that this move makes the US penalties obsolete. Although Boeing claims that the import of components of the aircraft should be taxed, half of the parts are already manufactured by American companies.

The US government has not yet responded to the new development and a decision is not expected until the beginning of 2018. The conflict is, however, characteristic of the growing international trade war in which major corporations lobby their respective governments to gain market access and benefits.

Brigitte Zypries, the German economics minister, declared: "Airbus's participation in Bombardier's C-series program can provide important opportunities for Airbus and is a positive signal for the deepening of European-Canadian economic relations."

For years, Boeing and Airbus have been accusing each other of unfair competitive practices due to state funding. A number of complaints are currently being negotiated by the World Trade Organisation (WTO). The EU, as well as Germany, France, Spain and the United Kingdom, have all filed complaints with the WTO against US tax cuts to protect their own aviation industry, in particular Boeing. The Brazilian manufacturer Embraer SA has also lodged a complaint against Bombardier with the WTO.

In an interview with Bloomberg, Airbus manager de Castelbajac denied that the merger with Bombardier was taking place in order to head off a collaboration between Bombardier and the Chinese manufacturer Commercial Aircraft Corporation of China (COMAC). Instead, he argued, the merger was about expanding product lines to include a smaller medium-range

aircraft, since the world market for this size of aircraft was growing. The Airbus A320 is too big for this market segment. Modern design and the composite materials used make the CS100 and CS300 cost-effective with lower fuel consumption.

The long-term volume of the world market for this category of aircraft is estimated at almost 30,000 and Airbus expects a share of 6,000 aircraft over the next two decades. High investment and development costs, the stringent licensing procedures for air transport and fierce competition are leading to a growing concentration of manufacturers working closely with their respective governments to defend their position on the world market—a race that is also intensifying political tensions.

This process entails rationalisation and cost reductions, which threaten massive job cuts. Airbus has yet to explain how jobs at Bombardier in Canada can be retained when the final assembly of the aircraft is transferred to the US.



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