


ANALYSIS: Why China is the place to be for Airbus and Boeing

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When Airbus launched a lower weight variant of the A330 pitched at the Chinese market last year, Boeing scoffed that its competitor was introducing old technology to China, with one salesperson going as far as to say it was an “insulting” move.

The episode offers a telling glimpse into the fierce rivalry between the two aircraft manufacturers in the Chinese market. After all, China accounts for about one-quarter of the duopoly’s single-aisle aircraft deliveries annually, and is set to be their second-largest market outside the USA.

There are 1,085 Boeing and 1,063 Airbus aircraft in service in China, according to Flightglobal’s Ascend Fleets database. The majority of these jets are narrow bodies, comprising the Airbus A320 and Boeing 737 families. Of the 258 wide body aircraft, the A330 is the dominant type, with 140 in service.

Boeing is expecting the strong domestic market, airlines’ focus on international expansion and new market entrants to drive China’s demand for more than 6,020 new aircraft over the next 20 years, the majority of which will be for growth. Of these aircraft, 4,340 will be narrow bodies.

Airbus is forecasting that the Asia-Pacific will require 12,253 new aircraft over the next 20 years, and that China will be the key market from the region. In fact, Airbus sales chief John Leahy says China is poised to displace North America as the world’s largest domestic market in terms of passenger traffic within a decade.

The European airframer’s market share in China has risen steadily over the years, and Airbus believes its decision to set up an A320 final assembly line in Tianjin – its first outside Europe – has definitely accelerated its growth in the country. When Airbus first inked an agreement with the Chinese government for the final assembly line in 2005, it had a mere 240 aircraft flying in the country. Today, that figure has surpassed the 1,000 mark.

Airbus has since delivered 188 A320-family aircraft from Tianjin, with the 200th jet scheduled for delivery in December. The airframer also successfully extended the joint venture for another

10 years to 2025, during which time it will assemble the A320neo and possibly even the larger A321.

It has also signed a letter of intent to set up an A330 completion and delivery centre in Tianjin, surely a move aimed at winning more widebody orders from China.

However, Boeing is adamant that it will not follow its competitor with an assembly line in China. Boeing China president Ian Thomas says the airframer “obviously looked” at such a proposition, but has made a strategic decision against it.

“We’re comfortable with that decision, and we think the breadth and depth of our current and planned future partnerships in China will continue to convey, to our stakeholders both in airlines and the government, that we have not just a deep commitment, but also plans to deepen and broaden that,” Thomas says.

He also stresses that every Boeing aircraft has Chinese content, and that it is “important not to judge a partnership by one building”.

Rob Morris, head of consultancy at Ascend, a Flightglobal advisory service, points out that final assembly is a “relatively low value” part of the aircraft manufacturing process – albeit a high profile one.

“With only two OEMs in this sector at present, I think it was inevitable that market share in China would broadly equalise at 50% each, and I think this would have happened without the final assembly line,” he says. He notes that neither the former McDonnell Douglas MD80/90 nor Embraer’s ERJ-145 assembly lines drove any appreciable increase in the Chinese market share for these two airframers.

Nonetheless, Boeing and Airbus are acutely aware of the need to show they are committed to far more than just selling jets in China. Both have various partnerships with aviation players in the country, and Chinese firms have workshare on a large number of their aircraft programmes – from the A320 and 737 to new-generation jets such as the 787 and A350.

Even as Chinese economic growth slows, falling from double digits to a still enviable 7-8% annually, rising disposable income is driving an appetite for international travel. But it is not all smooth sailing.

Airport congestion, a shortage of pilots and byzantine airspace constraints imposed by the military continue to plague the air transport industry in China.

Amid these conditions, which mainly afflict major hub airports, Boeing (which pitches the 787 as a “hub buster”) has observed that Chinese airlines are looking to expand their international networks from secondary cities. This will drive growth in the long-haul segment, while easing congestion in the golden triangle between the cities of Shanghai, Beijing and Guangzhou.

“I think the trend is to open up new international markets more directly with airplanes like the 787. In doing that you take some pressure off the golden triangle in terms of traffic. This is a trend we’ve seen in the USA and Europe,” says Boeing Commercial Airplanes’ marketing vice-president Randy Tinseth. “If the hub is congested, what do you do? Fly around it and find a way that provides even better service to your passengers.”

Boeing foresees its 787 serving more point-to-point routes. There are currently 19 787s in service with China Southern Airlines, Hainan Airlines and most recently Xiamen Airlines.

Airbus’s solution to domestic constraints is getting airlines to upgauge to bigger jets. This inspired the airframer to launch the regional A330. The aircraft will have a lower maximum take-off weight of 200t and a reduced range of 3,000nm (5,560km). It has, however, yet to secure a launch customer for the type.

Chinese airlines are already using widebody aircraft on high traffic domestic routes because of a lack of airport slots. China Southern Airlines, unable to get the rights to use its 506-seat Airbus A380s on international routes out of Beijing, is even plying the superjumbos from Beijing to Guangzhou and Shenzhen.

One big opportunity for both airframers is the changing dynamic of the Chinese market. State-owned airlines have tended to divide the market between the two big airframers, but this could change with the government’s push to develop home-grown low-cost carriers. These budget operators tend to stick to one aircraft type to keep costs down.

A number of new entrants have already entered the budget segment, while some Chinese carriers have also jumped on the bandwagon, converting subsidiaries into low-cost operations so as to secure a slice of the pie. This new development has kept Airbus and Boeing’s sales teams busy.

Chinese low-cost incumbent Spring Airlines is an A320 operator. Airbus has also won commitments from two new Chinese carriers, Zhejiang Loong Airlines and Qingdao Airlines, for some 43 A320-family aircraft.

Boeing has secured three new Chinese start-ups: 9 Air, Donghai Airlines and Ruili Airlines, with a combined commitment for almost 90 aircraft.

Airbus’s view is that the LCC segment has huge potential in China, since such players only have a 5% share of the Chinese market, compared to a 26% world average.

While Boeing and Airbus look certain to enjoy strong, stable growth in China for years to come, there are clouds on the horizon. Eventually they will have to contend with the entrance of a third player into the Chinese market. Chinese airframer Comac is on the verge of getting its much-delayed ARJ21 regional jet certificated, and is targeting to have its in-development

narrowbody, the C919, enter service in 2018. China also hopes to collaborate with Russia on a next-generation widebody.

Flightglobal's Fleet Forecast predicts the delivery of around 5,400 new large commercial jets over the next 20 years to China. Of these, it expects Boeing and Airbus to each capture around 40% of the units, with the remainder to be taken by Comac and Bombardier.

Forecast International senior aerospace analyst Ray Jaworowski believes that even with the C919 in production, the Chinese market will absorb a significant number of Western narrowbodies for years to come.

Airlines tend to stick to proven products from established manufacturers. This is even more true for leasing companies. Comac thus has the task of proving itself and the C919 with Chinese airlines, which have gotten used to the reliability and support of Western airframers.

Airbus and Boeing concede that the duopoly will not last forever, but are confident in their strong track records and powerful support operations.

"If I were to bet on who's going to come out as the third big OEM in this business, I'll put my money on China," says Boeing's Thomas. "It takes national will, political will, deep financial resources and deep reserves of talent [to build an aircraft], and China has all of those in abundance."