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Narrowbody jets: New entrants challenge big two in short-haul market

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The battle for position in the largest part of the civil airliner market – the narrowbody segment – is expected to hold much of the attention at this year's show at Le Bourget.

The duopoly enjoyed by Airbus and **Boeing** in large commercial jets since the late 1990s is coming under increasing pressure from new entrants and established aircraft makers targeting the shorthaul market between 100 and 200 seats.

The segment is dominated by Boeing's 737 and the Airbus A320 family. Harry Nourse, an analyst at HSBC, says the segment is "in a state of near-perfect equilibrium" as the backlog and production rates of the rival products are almost identical.

The two types account for about half of all commercial jets flying today. The 737 has a higher installed base of close to 60 per cent, according to data from the Ascend aerospace consultancy, largely due to its longer history. The first 737 entered service in 1967, while the A320, accounting for 36 per cent of narrowbodies today, first flew commercially in 1988.

The attraction of the narrowbody market to other manufacturers, such as Canada's **Bombardier** and China's Comac, is clear. With airline traffic forecast to grow at more than 4 per cent annually over the next 20 years, the segment is expected to see demand for close to 25,000 new aircraft, or 70 per cent of total deliveries. In value terms, this represents roughly half of the \$4,000bn worth of large commercial jets the big two aircraft makers are forecasting for delivery to 2030.

So after decades of relative stability the two incumbents in the market, so long reliant on the stable cash flows from their hugely popular narrowbody offerings, are having to think again. The pressure is not just coming from the threat of new entrants taking market share.

For years many in the industry expected both manufacturers to come up with all-new aircraft designs for the workhorses of the global airline industry. But Airbus and Boeing have had strong reminders recently of the risks of new aircraft programmes, encountering huge problems with the A380 and 787 respectively.

Even before cost overruns, a new aircraft programme comes with a price tag above \$10bn and consumes huge engineering resources. Both Airbus and Boeing already have a large number of engineers committed to widebody projects. Airbus moved first, at the end of last year, with its decision to offer an upgraded version of the A320, featuring a more efficient engine along with structural modifications to the wings and fuselage, and a promise to cut fuel-burn by 15 per cent. The manufacturer says the upgrade will cost €1bn (\$1.4bn).

The so-called A320 New Engine Option, or Neo for short, has already attracted a flurry of interest from airlines, securing just over 330 orders and commitments. The early selection on

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more than two-thirds of those aircraft of one of the two engines available – Pratt & Whitney’s revolutionary PW1100G – has allowed Airbus to bring forward the entry into service of the Neo by six months to October 2015. Airbus is expected to use the Paris air show, which executives at both the jet maker and its parent, **EADS**, regard as their home turf, to announce a number of further commitments.

Analysts will be watching closely to see how many customers sign up to the rival engine, the Leap-X built by CFM, a joint venture between France’s **Safran** and **General Electric** of the US, and based on existing engine technology. Most analysts suspect CFM will have trouble matching Pratt’s engine in fuel efficiency.

At the time of the launch, Airbus predicted it would have more than 500 commitments for the Neo by Paris and there is every expectation that number will be easily surpassed by the end of the show.

Boeing, in contrast, has sent out mixed signals since Airbus took the plunge and its response will come under intense scrutiny again in Paris.

While the US aircraft-maker had initially indicated very strongly that it was more likely to opt for a brand new jet rather than to re-engine the 737, it has in recent months emphasised that re-engining the popular aircraft remains a serious possibility.

Earlier in the year there were expectations that Boeing might announce its decision at Paris. But that has now been ruled that out. Nicole Piasecki, vice-president of business development and strategic integration at Boeing Commercial Airplanes, says the company might wait until next year.

Some analysts say Boeing could wait even longer. “The Neo is getting traction but Boeing still has an order book for the 737 equivalent to two to three years of production – so it is not seeing any impact of the Neo on revenue. That means there is no burning platform from which they have to make a decision,” says Damien Lasou, head of Accenture’s aerospace and defence group.

The two biggest 737 customers, **Southwest Airlines** of the US and Ireland’s **Ryanair**, have both voiced concern about a lack of response from Boeing, but Mr Lasou does not believe either would switch to Airbus. “I don’t think that is a danger for Boeing at this stage,” he says.

But whatever Airbus and Boeing do to try to maintain their position in the narrowbody segment, the days of the duopoly are numbered.

Rivals and some analysts have suggested that the relatively slow pace of orders for Bombardier’s C-series – a family of aircraft with a capacity of between 110 and 145 seats – suggests it will struggle to make an impact.

But Mr Nourse at HSBC argues that the success of the 787 and the Airbus A350 has “abnormally inflated” expectations of a successful launch.

Bombardier’s 103 firm orders and 103 options for the C-Series more than two years before first delivery “seem perfectly respectable to us in light of history”, Mr Nourse wrote in a recent note on the narrowbody market.

There is also another way the threat to the established duopoly could develop. The signing of a strategic agreement between China’s Comac and Bombardier in March this year has raised the possibility that the two could combine in the future to present Airbus and Boeing with an even more formidable competitor.

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