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## Boeing-Airbus dogfight flares up again

By Mark Odell

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Aromas of fine cuisine will mingle with the stench of jet kerosene, and the tinkle of wine glasses will accompany the roar of aircraft engines as more than 100,000 aviation industry executives arrive at the Paris airshow, which starts on Monday.

As pilots put their high-performance combat aircraft and civil airliners through their paces and executives enjoy lunch and refreshments in pavilions bordering the runway, a long-standing corporate dogfight is flaring up again.

The battle between Airbus and **Boeing** is intensifying over the largest part of the civil airliner market – the short-haul segment dominated until now by a duopoly of Airbus's A320 family of jets and Boeing's 737 series.



Airbus, the French-based commercial aircraft maker and main subsidiary of **EADS**, has traditionally treated the industry's showcase event – **held at Le Bourget airport** every other year – as a chance to shine on home turf.

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For the uninitiated, one of the world's largest air shows – Paris vies for that label with Farnborough in the UK, which hosts the event in alternate years – can be a bizarre experience. With the noise of the daily acrobatic display of aircraft roaring overhead, temporary corporate dining rooms are transported to the side of a runway so that suppliers can lunch customers in elegant chalets.

While defence industry types tend to keep a more low-key presence – much of their equipment is after all being used in anger in the skies over Afghanistan or Libya – the commercial jet makers play by different rules.

Not least Airbus, which decided in December **to offer an upgraded version of its A320 family of aircraft**, featuring more fuel-efficient engines. This has left Boeing with less to shout about at the show as the US group works out how to respond.

The A320 New Engine Option, or neo for short, has attracted widespread interest from airlines. Airbus **looks to have secured commitments for 464 planes** even before a likely flurry of

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announcements at Le Bourget, which will lift it beyond its target of 500 commitments by the show.

The attraction for airlines is the promised 15 per cent cut in fuel burn compared with existing models at a time of high oil prices, which are up 40 per cent this year. Fuel accounts for more than a third of an airline's operating costs and many in the industry expect the oil price to stay above \$100 per barrel in the long term.

But there is more to Airbus's decision than just high fuel prices. The dominance of Airbus and Boeing in large commercial jets since the late 1990s faces a growing challenge. Both new entrants and established aircraft makers are targeting the lucrative market for short-haul planes with between 100 and 200 seats.

The 737 and A320 families of aircraft are the workhorses of the global airline industry, accounting for about half of all commercial jets flying today.

Despite the economic gloom in the western world, airline traffic is forecast to grow at more than 4 per cent annually over the next 20 years, with Asia-Pacific growing the fastest. This translates into demand for close to 25,000 new jets in the 100-200 seat range, equal to **70 per cent of jet deliveries over the next two decades**. In value terms, this represents half of the \$4,000bn worth of large commercial jets the big two aircraft makers are forecasting for delivery by 2030.

Indeed, the current models of the 737 and A320 have proven so popular in recent years that combined there are 4,300 of these two types of jet on order, compared with a backlog of 1,200 in 2002, according to data from Ascend, the research group.

The attraction of the narrow-body market is clear for other manufacturers, led by Canada's **Bombardier** and China's Comac, which are both working on jets to challenge the incumbents on fuel-efficiency and price.

Many in the industry had expected Airbus and Boeing to respond with all-new aircraft designs. But both are still painfully aware of **the risks of new aircraft programmes**, after encountering a string of problems with their respective A380 superjumbo and 787 Dreamliner programmes.

Even before cost overruns, a new aircraft programme comes with a price tag of more than \$10bn and consumes vast engineering resources. Airbus, which already has engineers committed to its new €10bn (\$14bn) A350 wide-body jet, says it will cost just €1bn to upgrade the A320.

Boeing continues to play its cards cautiously. Despite pleas from the world's two largest 737 operators – **Southwest Airlines** of the US and Ireland's **Ryanair** – for it to make up its mind, the expectation is that Boeing will not decide until the end of this year at the earliest.

### Rolls-Royce has plenty riding on 737

Executives at **Rolls-Royce**, one of the world's largest makers of engines for commercial aircraft, have more than most people riding on **Boeing's** decision about the future of the 737.

The UK engineering group did not offer an engine to power the **Airbus A320neo**, leaving airlines with a choice of power plants from either **Pratt & Whitney** of the US or **CFM International**, a joint venture between **General Electric** and France's **Safran**.

Rolls-Royce has signalled it will only consider committing to a new engine, which costs billions of dollars to develop, for an all-new aircraft. As a key supplier on a number of Boeing programmes, it is liaising closely with the US aerospace group as it debates its response to **the A320neo**.

"We are very well placed to offer technology that can be optimised for any new aircraft that Boeing decides to develop," the British company said.

Rolls-Royce executives will be hoping that Boeing takes the new aircraft route otherwise it faces the prospect of watching its current position in the short-haul market dwindle over the next two decades.

The engine maker has up to now been able to build a relatively strong position in the short-haul market through **International Aero Engines** consortium, a joint venture in which it and P&W are the biggest shareholders. IAE engines power 42 per cent of the existing A320 family of jets in service.

CFM powers the remainder and dominates the short-haul market with its engines as it has exclusivity on the current family of 737s. The focus in Paris, however, will be on the battle between **P&W's revolutionary PW1100G**, which uses gears to improve

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While the US aircraft maker had **initially indicated** that it was more likely to design a brand new jet rather than re-engine the 737, it has recently emphasised that re-working the popular aircraft remains a serious possibility.

This week, Jim Albaugh, head of Boeing's commercial jet business, again insisted that both options were open. But he hinted very strongly that a new jet was the preferred option.

Mr Albaugh said: "We have the technology to do an all-new airplane today." He predicted an all-new aircraft would prove to be 20 per cent more fuel-efficient than Airbus's A320neo and could be in service by the end of the decade.

performance, and CFM's Leap-X engine, based on existing technology, to power the A320neo.

P&W's engine had swept up hundreds of initial commitments from A320neo customers in the first half of the year, until this week when **CFM secured its first order for the Leap-X** from Virgin America, the low-cost US airline, part-owned by Sir Richard Branson.

Several influential industry figures expect Boeing to opt for a new design. "I think the culture would point you towards an all-new design," says Steven Udvar Házzy, a pioneer of aircraft leasing who runs Air Lease Corporation and has worked with Boeing for two years on defining the next-generation narrow-body aircraft.

Greg Hayes, chief financial officer of **United Technologies**, which owns jet engine maker Pratt & Whitney, agrees. "The pressure from customers is going to force Boeing to do something now rather than later and I think it's going to be a new aircraft," Mr Hayes told investors at a Deutsche Bank conference in New York, in remarks reported by Bloomberg.

With all the noise expected from rival aircraft makers in Paris over the next few days, the pressure on Boeing to make a decision will intensify. If it does go for an all-new model, it needs to not only win over customers with a cutting-edge design, but also be sure it can avoid the problems that have plagued previous programmes, such as the 787 Dreamliner.

*Additional reporting by Jeremy Lemer and Hal Weitzman*

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