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## Airbus Set to Erode Boeing's Lead in China With 100-Jet Order

By Andrea Rothman - Nov 2, 2010

[Airbus SAS](#), for decades the also-ran behind Boeing Co. in China, is set to reap one of its largest orders yet from the country as a local factory attracts Chinese carriers and air travel in the region booms.

The company may secure a contract from China for at least 100 aircraft as early as tomorrow, when Chinese President [Hu Jintao](#) visits France, four people familiar with the talks said. The accord would have a value exceeding \$8 billion, the largest since French President [Nicolas Sarkozy](#) brought home a \$17 billion deal for 160 jets in 2007.

In a bid to reach parity with Boeing in 2013, Airbus has added an assembly line in China, its first outside Europe. While three years ago two-thirds of large airliners in Chinese fleets were made by [Boeing](#), Airbus will account for 45 percent of the total in mainland China by the end of this year, according to London-based aviation data company Ascend. Airbus entered the country in 1985, more than a decade after its U.S. rival.

“Boeing was in there early with a well-established, proven product,” said [Sandy Morris](#), an analyst at Royal Bank of Scotland in London. “Even for Airbus to get there by 2015 would be a hell of a catch-up.”

### Chinese Factory

The Chinese order will include both single-aisle and wide-body A330 jets, said two of the people, requesting anonymity before a public announcement. Airbus is owned by [European Aeronautic Defence & Space Co.](#), whose shares have advanced 41 percent this year. Boeing stock has gained 27 percent.

Airbus declined to comment on a possible order, saying the meeting between Hu Jintao and Sarkozy at the French presidential palace is a political event and not the forum for contract negotiations, according to spokesman [Stefan Schaffrath](#).

The assembly line in Tianjin, southeast of Beijing, is a \$600 million venture between Airbus and a Chinese group, and the plant is a replica of the single-aisle factory in Hamburg. Tianjin assembles

only A320 and A319 models, with all output going directly to local customers.

Since delivering the first plane to Sichuan Airlines in June 2009, a total of 32 planes have been handed to customers from the line with capacity now at two planes a month, set to double by 2012. In total, Airbus churns out 34 single-aisle jets at its factories in France, Germany and China each month.

China is the world's fastest-growing aviation market, as increases in personal wealth and urbanization drive up demand for air travel. Boeing yesterday raised its forecast for commercial aircraft demand in China over 20 years to \$480 billion from \$400 billion a year ago, estimating the nation will need 4,330 new planes in the period.

### Government Orders

[Air China Ltd.](#), the country's largest international carrier, and domestic competitors have ordered 50 planes from Boeing this year, according to the aircraft maker's website. Boeing hasn't gotten a large-scale order from the Chinese government since 2006, when it bought 150 planes. The manufacturer says it favors dealing directly with airlines.

In China, manufacturers can win orders either directly from individual carriers or through large government orders, coordinated by a central aircraft purchasing agency and then allocated to government-controlled carriers.

"This is the way things used to be done in communist economies, and it's a thing of the past," said [Richard Aboulafia](#), vice president of Teal Group, a Fairfax, Virginia-based consulting firm. "As countries grow up, their airlines order what they want and when they want, rather than having a big government supply organization place orders for them."

In 2009, 16 percent of all Airbus aircraft delivered went to China. This year, 22 percent of the planemaker's total production, or 112 planes, will go to Chinese airlines, according to Ascend. For Boeing, the figure is 71 aircraft, or 15 percent of the company's total production, Ascend said.

### Chinese Suppliers

As Airbus seeks to create more inroads into the Chinese market, the company has increased the level of work it hands to local partners. Chinese suppliers in October 2009 began fitting fuel and hydraulic systems, as well as electrical harnesses that support control surfaces to A320 wings last year. The first pair of wings fully equipped in China was fitted to a plane in March.

Already half the Airbus worldwide fleet has components produced in China by six Chinese manufacturers. The total value of industrial cooperation between Airbus and Chinese subcontractors has doubled to \$200 million within two years, and will more than double again by 2015, Airbus

estimates.

“Setting up the assembly line there was a logical arrangement,” said [Eddy Pieniazek](#), an analyst at Ascend. “It has helped Airbus cement its position in China.”

[Chris Tarry](#), a London-based independent analyst and 30-year veteran of the aviation industry, predicts China may have close to 1 billion domestic passenger journeys by 2035, based on the development of the U.S. domestic airline industry since the start of the jet age in 1958. The U.S. had 630 million domestic journeys for a population of 310 million last year, compared with 215 million trips for China’s population of 1.4 billion.

“We’re at an interesting stage,” said Tarry. “There’s this huge developing domestic market which is coming together and for now Airbus and Boeing are the source of supply.”

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