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# The Airbus and Boeing Duopoly: Would More Aggressive Antitrust Enforcement Benefit the Commercial Aviation Industry?

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It is no secret that Airbus SE (“Airbus”) and The Boeing Company (“Boeing”) dominate the commercial aircraft manufacturing industry. According to the Teal Group, an aerospace market analysis company, Airbus and Boeing make up 99 percent of global large aircraft orders.<sup>2</sup> And large airplane orders comprise more than 90 percent of the total airplane market. As the numbers indicate, Airbus and Boeing do not have much, if any, competition other than between themselves. Further, in recent years, Airbus and Boeing have merged with their smaller competitors, namely, Canada’s Bombardier and Brazil’s Embraer. These mergers have not faced much, if any, resistance from global antitrust enforcement agencies despite the evident consolidation in an already under-competitive industry.

Boeing, founded in Seattle, Washington in 1916, has been one of the largest aviation companies for more than a century.<sup>3</sup> Airbus is a European aerospace manufacturing company founded in 1970, tracing its roots to an agreement entered among the French, German, and British governments. The governments agreed that their collaboration was necessary to create an aircraft manufacturing company that could rival Boeing. Today, these two companies dominate an industry which, fifty years ago, had a number of competitors. In the mid-twentieth century, global airlines could choose from companies including Douglas Aircraft Company, Lockheed, Sud-Aviation, and Boeing.<sup>4</sup>

Until recently, Bombardier and Embraer were growing rivals to Boeing and Airbus. However, Bombardier was unable to sustain its operations and its commercial division was essentially absorbed by Airbus through a joint-venture agreement in 2018.<sup>5</sup> The primary reason for Bombardier’s decision to enter into this agreement was its inability to meet financial obligations as its costs soared to \$2 billion above budget. “Bombardier of Canada had the best hope of getting in but they simply ran out of cash and this year their jetliner was basically absorbed by Airbus...” stated Richard Aboulafia, Vice President of Analysis, Teal Group, in a CNBC report regarding the Airbus and Boeing duopoly. As a result, Airbus and Bombardier made a deal that gave Airbus a slightly more than 50 percent stake in Bombardier’s C Series. Shortly after, Airbus announced it would discontinue production of its A319 – a competing aircraft to Bombardier’s C Series.

A year after the Airbus-Bombardier deal was announced, Boeing began negotiations to purchase Embraer’s commercial aviation business. The Brazilian government owns a large stake in Embraer and, despite initial reservations, Brazil’s President Jair Bolsonaro approved the deal in January 2019.<sup>6</sup> On February 25, Embraer’s shareholders voted to sell 80 percent of the company’s commercial plane division to Boeing for \$4.2 billion. Although the transaction must still be approved by regulators, it is expected that the deal will close by the end of 2019. Once finalized, Boeing will have total control of the new venture.

Other countries are trying to enter the aircraft manufacturing space, but so far have been unable to make a significant impact in the industry. The Commercial Aircraft Corporation of China (Comac), the leading Chinese aircraft manufacturer, was founded in 2008 and is sponsored by the government of China. In response to CNBC’s inquiry regarding competition in the industry, a spokesperson for Airbus stated, “The Airbus-Boeing duopoly isn’t likely to

last forever. In general, we see China as the next major competitor though in some 10 to 20 years from now.”<sup>7</sup> However, considering the immense investment and time required from the conception of a new plane model to delivery to a customer, competing with Airbus and Boeing will prove to be a great challenge for the Russian and Chinese manufacturers. As a result, it is more than likely that the Airbus and Boeing duopoly will continue, and even strengthen, in the near future.

Building airplanes is not cheap. A single airplane can cost millions of dollars in construction fees alone. Considering the additional costs of safety and regulatory compliance as well as maintenance, operations, etc., it is no surprise that competitors in this industry are few and far between. “The barriers to entry in this business are huge in terms of capital requirements, in terms of technology, experience, customer support, customer finance,” stated Aboulafia.<sup>8</sup> Such enormous overhead expenses make economies of scale critical to an aircraft manufacturer’s viability.

Because of their economies of scale, Airbus and Boeing today have tremendous advantages over potential new entrants to the market – even Comac, which is sponsored by the world’s second largest economy. Furthermore, Airbus and Boeing both have completed extensive research and development over the years, and have established production capability and network support.

Indeed, Airbus and Boeing report growth year after year. Airbus delivered 800 planes in 2018, an 11 percent increase from 2017. Boeing set a record of 806 planes in 2018, a 5.6 percent growth from the previous year. The consequences and implications of Airbus and Boeing’s dominance are vast and impactful. As the commercial aviation industry affects everyone from airline companies to passengers, such consolidation and market power could have long lasting effects on prices, quality, innovation, and choice. Boeing has already announced an increase for their commercial list prices by nearly 4 percent in 2019 compared to the previous year.<sup>9</sup>

Notwithstanding the evident market concentration that has led to the Boeing and Airbus duopoly, there is debate whether increased competition will ultimately benefit or harm airlines and passengers. On the one hand, competition is integral to any successful, productive market as it ensures lower prices for consumers and enhances quality and innovation. On the other hand, critics of stronger enforcement argue that while competition is preferable in most cases, the aviation industry is unique and basic economic and competition principles do not apply in this space as they would not only harm competition, but also harm airlines and passengers as well as entire countries’ economies.

One of the leading arguments against strict antitrust enforcement in the aircraft manufacturing industry is that, because Airbus and other aircraft manufacturers are either government-subsidized or state-owned, it is very difficult for private companies like Boeing to compete with wealthy governments. For instance, Robert D. Atkinson, President of the Information Technology and Innovation Foundation, a public policy think tank, discussed why

more competition in the aircraft industry would result in negative consequences.<sup>10</sup> He argued that increased competition by foreign companies will harm U.S. aerospace companies, U.S. consumers, and, ultimately, the U.S. economy.

According to Atkinson, those who view the Airbus and Boeing duopoly, including their recent mergers with Embraer and Bombardier, as anticompetitive are essentially following a simplistic approach to antitrust enforcement. He wrote, “When it comes to aviation, Economics 101 is a children’s fairy tale.” He explained that the aviation industry is unique, and that Boeing’s competitors are “deep-pocketed rivals backed by governments.”<sup>11</sup> It is true that Airbus was formed by the governments of France, England, and Germany, and has received many government subsidies since its inception. Additionally, many European airlines purchase most of their airplanes from Airbus. In fact, Atkinson points out that in the early 2010s, Air France operated a fleet that was 71 percent Airbus; Lufthansa’s fleet was 62 percent Airbus; Alitalia’s 71 percent; and Iberia’s 100 percent.<sup>12</sup> In comparison, the percentage of Airbus airplanes purchased by various non-European airlines was much lower – ranging from 13-29 percent.<sup>13</sup>

Another government-subsidized aircraft manufacturer is China’s Comac. Comac is a state-sponsored company that started with \$2.8 billion in capital from the central government of China. To date, the company has received various subsidies and other benefits from state and regional governments.<sup>14</sup> Financial and other assistance from the Chinese government will contribute greatly to the strength and growth of Comac. In his article, Atkinson states, “[t]he free market would never ever have funded the creation of Comac.”<sup>15</sup>

Those who oppose more competition in the aircraft manufacturing industry argue that Boeing will no longer be competitive in a market where its rivals are all supported by their respective governments. They further argue that consumers will be worse off because, as demand and therefore production decreases for Boeing, its prices will increase to compensate for the loss of economies of scale.<sup>16</sup>

Other opponents of more aggressive antitrust enforcement in the commercial aircraft manufacturing industry argue that consolidation is just simple economics. They claim that, because it requires enormous capital to design, plan, and build an airplane, and enormous scale to compete, the aircraft manufacturing industry is unique and antitrust enforcement agencies should not apply the same principles as are applied to other industries.<sup>17</sup>

The question thus remains the same: should antitrust enforcement agencies exercise more vigor in blocking mergers and in prosecuting other potentially anticompetitive conduct in the commercial aircraft manufacturing industry? Or will doing so leave domestic companies, consumers, and the economy worse off? One thing is for sure: Airbus and Boeing have strongholds in the market, at least for the foreseeable future. As discussed above, their duopoly has only strengthened in recent years as a result of their mergers with Bombardier and Embraer. As Aboulafia stated, the commercial aviation industry is “one of the most efficient duopolies ever in the history of manufacturing.”<sup>18</sup>

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