

# The Coming Aerospace Squeeze

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## A review of Commercial Aerospace Programs in Brazil, Canada, China, Japan & Russia

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The commercial aerospace programs under development in Brazil, Canada, China, Japan and Russia (BCCJR) will soon challenge the dominance of Boeing and Airbus for commercial aircraft between 100 and 210 seats. Because this sector is forecast to include 16,977 new aircraft valued at over \$850 billion<sup>1</sup> over the next 20 years, a shift in production from the US and EU to new competitors will have a significant impact on the United States, France, Germany, Spain and the UK.

Any business opportunity of such magnitude is always attractive in terms of employment, jobs, and is a target for politicians. Consequently, government support of aerospace is commonplace, as demonstrated by the WTO cases against Airbus and Boeing. As politicians in Brazil, Canada, Japan, Russia and China examined the market for commercial aircraft, they have all sought to extend their national participation through financial support. And while the WTO may strip Airbus and Boeing of certain funding mechanisms, they will find other ways to take their place.

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<sup>1</sup> Airbus 2009 Global Market Forecast, published September 2009.

## Executive Summary

The commercial aerospace programs under development in Brazil, Canada, China, Japan and Russia (BCCJR) will soon challenge the dominance of Boeing and Airbus for commercial aircraft between 100 and 210 seats. Because this sector is forecast to include 16,977 new aircraft valued at over \$850 billion<sup>2</sup> over the next 20 years, a shift in production from the US and EU to new competitors will have a significant impact on the United States, France, Germany, Spain and the UK.

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The regional aircraft market, once dominated by the EU and US with Beechcraft, Fokker, BAe, Saab, ATR and others as the main suppliers has dramatically changed. Bombardier in Canada and Embraer in Brazil are now the dominant players. Could a similar transition occur for aircraft in the 100- to 200-seat category? We believe that answer is yes, and that new competitors will begin to seriously challenge Boeing and Airbus in the 2015-2020 timeframe unless the two current industry leaders leapfrog their emerging competitors through technological innovation.

The demise of the 70- to 100-seat regional jet market will impact that transition. The economic viability of regional jets, particularly in the low-yield US market, has changed dramatically. The 50-seat regional jet market is moribund, with virtually no orders in the last few years. Similarly, the economics of 70-90 seat regional jets are also changing. We believe the under 100-seat regional jet market, with high fuel prices and low yields, is rapidly ending, reaching the inflection point of economic viability, if it hasn't already. As a result, regional jets will begin to grow into the 100- to 130-seat segment.

The balance-of-trade and employment economic impacts of such changes are significant. Consider the forecasts of demand for 100-210 seat airliners developed by Airbus and Boeing, who share that market today as a virtual duopoly, with 88% market share. Bombardier in Canada, UAC in Russia and COMAC in China, project program volumes may siphon one-third of that demand. Add in Embraer and the Japanese, and either the pie must grow, or Airbus and Boeing face a potential 40% reduction in their cash cow share of the narrow-body market. Boeing and Airbus produce about 65 single-aisle aircraft per month. By 2028, this number could fall to 35, with hundreds of billions of dollars in revenue moving from the Big 2 to the Emerging 5.

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