

# No one wins a (trade) war



**THE LOOMING HOSTILITIES** between China, Europe and the United States on the trade front will benefit no one in the long run and has already been felt by companies like Boeing, which has seen its stock price drop from around US\$360 per share in May to just under US\$340 in the third week of June. The company is in the crosshairs of traders betting there's more volatility ahead for the plane maker as Donald Trump continues to threaten a trade war.

Aircraft are among the products targeted by China, although the new charges are limited to planes with take-off weights of 15,000 kilograms to 45,000 kilograms. Those tariffs would mainly affect the single-aisle Boeing 737, which is being phased out, and the smallest type of the replacement 737 Max, which has only a handful of orders from Chinese customers. That's the "good news."

The bad news is China could, if Trump continues his trade-sabre rattling, include other Boeing aircraft and put a real crimp on the American manufacturer and its thousands of employees. Airbus also could steal a march on Boeing with China turning to Europe for the popular A320 models, instead of trying to maintain its current rough equilibrium between the two. As we discuss in this issue, the aviation industry is waiting to see what happens. That's the problem when it comes to trade wars — it's not just the financial damage directly caused by higher costs, but the real killer of business is uncertainty. CEOs, CFOs, and sales chiefs find it difficult to move ahead with their plans when they don't know what the future holds when it comes to policies.

"For starters, it seems unclear at this point exactly what goods will be impacted by the tariffs," Jeffrey Lowe, managing director of Asian Sky Group told me. He said people are worried but added that "thus far the targeted Chinese tariff lines with any impact on aviation include only fuel and kerosene." Lowe also said when it comes to Chinese business aviation and possible knock-on effects from any trade war could be minimised by the way in which Chinese buyers register their jets. "Fewer and fewer Chinese buyers are importing their aircraft into China as it is. This will just push the rest to do so"

"Probably a bigger effect of the tariffs is this means a trade war, which benefits no one but hurts sentiment and optimism, which makes buyers more cautious and consequently think twice about buying aircraft in the first place," Lowe told me.

## Image trouble?

And speaking of business aviation, despite the good work of groups like the Asian Business Aviation Association (AsBAA), efforts to

market business aviation in Asia still suffer from a "rich man's game" image. This was more than evident at the latest Corporate Jet Investor conference in Singapore in mid-June where a majority of speakers and panel members kept referring to the newly minted billionaires in China and high net worth individuals. Few if any mentioned "corporate aviation" and its effect as a driver of economic progress in Asia. Perhaps the industry needs to look inward a bit more before continuing to blame outsiders for the sector's poor image among government bureaucrats, the media and others.

Attendees were however, nearly unanimous in their feelings that the industry was, if not looking up altogether, was at least not getting worse. Australia is a strong market, especially for pre-owned aircraft, Malaysia and Indonesia are showing signs of life thanks to stronger oil prices boosting the fortunes of buyers in those countries, and China of course remained the strongest market in Asia. Still, problems remain. Malaysia is being held back by the evolving political situation and in China, sellers sometimes are being forced to offer discounts because of the less-than-stellar condition of some aircraft and what some described as a "lack of taste" in interior design on some Chinese aircraft. As one attendee pointed out however, "bad taste is not just a Chinese problem" and another attendee said later, "just look at Donald Trump's apartment"

## Cloudy skies ahead?

The Carbon Offset and Reduction Scheme for International Aviation (CORSIA) was up for discussion at the recent International Air Transport Association (IATA) meeting in Sydney. IATA officials said the industry needs to speed up its game to finalise and adopt regulations since monitoring, reporting and verification (MRV) of aviation emissions will begin in January 2019. IATA officials said they were worried that more political negotiations at the International Civil Aviation Organisation (ICAO) could delay the adoption of MRV standards and jeopardise CORSIA's implementation. CORSIA's "voluntary stage" runs from 2021-2026 and 73 nations representing 88 percent of the world's international air traffic have signed up.

I was called "churlish" by an association official in Asia when I previously criticised CORSIA, but I still remain doubtful it will actually do what proponents hope. It remains too little and too late to have a meaningful impact on the climate crisis we all face.

*Matt Driskill* EDITOR  
matt.driskill@asianaviation.com

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