

Signs point to China OK soon for Boeing deliveries and orders

Chinese government appears on path authorizing Boeing to resume deliveries to airlines by or early in the 4th quarter, China watchers tell Leeham News.



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Leeham News: The Chinese

government appears on a path toward authorizing Boeing to resume deliveries to airlines by or early in the fourth quarter, China watchers tell Leeham News and Analysis (LNA).

China hasn't placed new orders for Boeing aircraft, with few exceptions, since then-President Donald Trump initiated a trade war with China shortly after taking office in 2017.

Nor has China taken delivery of more than single-digit numbers since 2019, following the grounding of the 737 MAX in March that year. China's regulator, CAAC, was the first to ground the domestic MAX fleet following the second accident of the type in March 2019, five months after the first accident.

China was the last major regulator to recertify the MAX, in December 2021, following the FAA's recertification in November 2020. But CAAC has not authorized deliveries. It appeared on the cusp of doing so when last May a China Eastern Airlines 737-800 nose-dived from cruising altitude into the ground, killing all aboard. CAAC ordered China Eastern and its affiliated airlines to ground all 737-800s, a move widely believed to be unwarranted given the circumstances of the crash that tentatively pointed to a cockpit-controlled dive. Later investigation largely confirmed this, though no accident report has been released yet.

Because of the crash, CAAC withheld authorization for Boeing to resume deliveries of the MAX. Geopolitical considerations also are believed to have played a role as tensions between the Washington and Beijing continued over the unresolved trade war, China's straddling sides in the Russian-Ukraine War, and visits by members of the US Congress visited Taiwan. China regards Taiwan as a renegade province and objects to political visits by other countries.

Signs that authorization may come soon

China watchers point LNA to several events that suggest government approval for Boeing to resume deliveries isn't far off.

- Despite the Chinese government's refusal to approve the delivery of Boeing aircraft to airlines, deliveries to lessors are allowed. However, none of these aircraft were delivered to Chinese airlines.

There have been limited order cancellations by lessors when during the grounding and pandemic some Chinese airlines notified them that they no longer wanted the MAX. The lessors canceled some orders when, during the same period, replacement lessees couldn't be found. These airplanes reverted to Boeing. Aircraft were resold and, in some cases, interiors were removed and installed on new production aircraft. These airplanes were then reconfigured into the new customer's interior layout.

- Xiamen, China Southern and Hainan airlines each ferried one of their MAXes which were in operation when the CAAC grounded the fleet in March 2019, to implement the improvements required by the FAA. Each was ferried shortly after CAAC's recertification and has remained parked since the ferries.
- Boeing's China president, Sherry Carbary, said on Boeing's China WeChat page that the Zhoushan 737 Completion and Delivery Center is "ready for the resumption of the 737 MAX delivery in China". Boeing is cautious about saying things that get ahead of the government. In December, Boeing celebrates 50 years of doing business in China.
- The next G20 Summit is November 15-16 in Indonesia. China President Xi Jinping plans to attend, his first foreign outing since the COVID pandemic began in March 2020.
- The Chinese New Year comes in January.

787 Deliveries

China's international traffic is a fraction of pre-pandemic levels. But there are "good signs" emerging that international travel will be opened soon, perhaps beginning with Xi's trip to Indonesia for the G20 Summit. "He hasn't traveled at all since the start of COVID," the China watcher said. He added that if Xi meets with US President Joe Biden outside the G20 structure, this could signal a softening in US-China tensions.

Deliveries of the 787 to all customers were suspended by Boeing in October 2020 due to production flaws. Only a couple of 787s were delivered to customers since then. The Federal Aviation Administration authorized Boeing to resume deliveries this month. Deliveries of 767 and 777 Classic freighters continued. But China received only three 777Fs since 2017. This may change before the end of the year as well.

Fleet renewal

China historically required early retirement of aircraft, usually after 12 years of service, with a few exceptions, such as conversions to freighters.

One China aviation expert says that this policy stemmed in part from CAAC's concern about the quality of aircraft maintenance when the rule was adopted decades ago. Since then, joint ventures with foreign MRO centers mitigated the subpar maintenance.

Boeing pointed to geopolitical tensions between the US and China after the big, 292 aircraft order between Airbus and China was announced on July 1. If Biden and Xi reduce tensions in November, Boeing could benefit from new orders in the following months.'

China has been slow to authorize a return to service. "Part of it is political. Part of it was China wanted to see the MAX in service with other airlines for a period of time to make sure there are no issues. There was an element of extra delay for the China Eastern crash. In reality, that shouldn't have affected it, but it did. I'm hopeful that by the end of the year, we'll get results," said one China watcher.

Another consideration: load factors domestically remain low due to the zero COVID policies imposed by Beijing. But this China watcher said the load factors should begin improving by the end of the third quarter and the start of the fourth quarter.

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