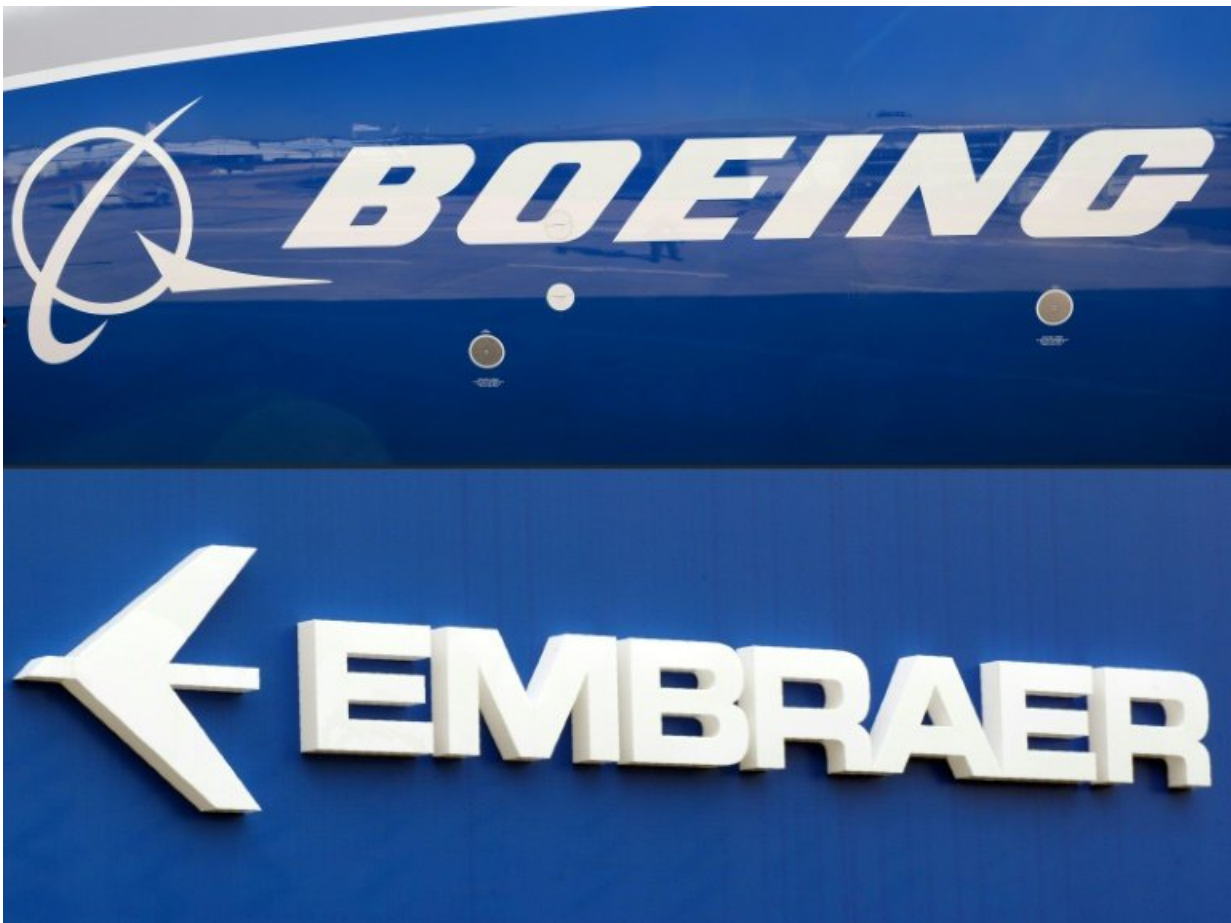


Boeing, Embraer near deal on commercial air business: source (Update)

February 6 2018, by Luc Olinga



Boeing and Brazil's Embraer are near a deal that would leave military business under Brazilian control and separated from a new commercial venture, that would be based in Chicago

US aerospace giant Boeing and Brazil's Embraer are close to an agreement to combine their commercial air operations into a new company, a person familiar with the talks told AFP Tuesday.

The deal is designed to address the main roadblock to a merger between the two aerospace companies: Brazilian government opposition.

Boeing would hold 80 to 90 percent of the new company, which would be based in Chicago, while Embraer's military operations would not be affected by the transaction and would remain under Brazilian control, the source said.

The companies in December confirmed they were in talks on a possible combination, a move seen as part of Boeing's strategy to counter archrival Airbus' ambitions in the smaller commercial aircraft category with a venture with Canadian company Bombardier.

However, the talk of a merger drew immediate objections from the government in Brazil, which holds a so-called golden share with veto power over Embraer transactions.

Boeing presented this structure to the government, and the discussions "are moving in the right direction," the source said, noting the announcement of an agreement could be made in the coming weeks.

'Golden share'

Brazil's Defense Ministry has referred to government control of Embraer as "a matter of national sovereignty." According to a report in Brazilian daily Valor Economico, the government would retain the "golden share" in Embraer.

Boeing declined to comment on the reports, but chief Dennis

Muilenburg told investors last week that the combination with Embraer would be "a great strategic fit," and that the company was working to address the Brazilian government's concerns.

"These discussions are productive and we're continuing to have active dialogue with the key stakeholders," Muilenburg said.

The takeover of Embraer's commercial airliners would enable Boeing to complete its portfolio by adding aircraft with a capacity of up to 150 seats and to regain ground in the medium-haul against Airbus.

Airbus announced in mid-October a strategic partnership with Canadian Bombardier on CSeries aircraft in that size range, which was the subject of a bitter trade complaint brought by Boeing, which failed.

The world's third-largest aircraft manufacturer with nearly \$6 billion in sales, Embraer was privatized in 1994 and is one of Brazil's success stories. It offers a range of civil and military aircraft as well as business jets.

In 2013, Embraer launched the E-Jets E2 family, a new generation of aircraft due to enter the market this year as a potential competitor of the CSeries.

Its defense branch includes models such as the A-29 Super Tucano for attack or training missions, and the KC-390 for military transport.

The reaction to the proposed deal was largely positive, given the potential to address the government's objections and put Boeing on surer footing in its battle with Airbus and Bombardier.

The agreement to keep Embraer's "military division in-house... would hopefully satisfy the Brazilian government," CFRA's Jim Corridore said

in a research note.

"We think that Boeing would benefit, gaining entry into a plane size they are not currently in."

Canaccord Genuity aviation analyst Ken Herbert said he is "not convinced of the strategic long-term benefit for Boeing," but noted that the combination "does position Boeing as a leader from the mid-size business jet market through regional aircraft on up."

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