

# Bombardier's bonanza

Bombardier has had a boost to its fortunes with the largest regional aircraft order in history; accounted for by a massive CRJ order from Delta Connection carriers. It has also experienced a revival of the Dash 8 from Spain's Air Nostrum and finally will benefit following a ruling by the WTO that PROEX subsidies used by Embraer to aid financing of its products are illegal.

With the defection of Mesa Airlines to Embraer in January and the order from Continental Express for a further 75 ERJs in February, the Brazilian manufacturer appeared to be off to a commanding start to the new millennium.

Bombardier by comparison appeared to be losing its way, lacking a 30- to 40-seat regional jet to compete in the US, and sorely beaten by Embraer in Europe.

Three recent developments have put the Canadian manufacturer firmly back on track.

First, Delta Connection carriers Atlantic Southeast Airlines and Comair have between them signed letters of intent for up to 500 CRJs, including some configured with 40-44 seats.

Second, with its order from Air Nostrum Bombardier has won a decisive European victory against ATR. This has also highlighted Bombardier's advantage over Embraer in being able to offer a complete regional aircraft family.

Third, the World Trade Organisation (WTO) has ruled that Brazil has failed to withdraw its PROEX programme and that proposed modifications do not change the fundamental position that it remains an illegal export subsidy.

## Delta Connection

Delta Connection carriers Atlantic Southeast Airlines and Comair have signed letters of intent which provide for the delivery of 94 Canadair RJ series; 69 CRJ Series 200 and 25 CRJ Series 700, with a further 406 options.

Once confirmed these orders will constitute the largest order in regional aviation history. On confirmation Bombardier will increase the production rate of the CRJ Series 200 from the current 9.5 to 12.5 aircraft per month commencing in the fall of 2001.

Aside from its magnitude, the most interesting aspect of the order is that the 69 CRJ Series 200 are not all to be delivered in 50-seat configuration. The 24 aircraft allocated to ASA will be 50 seaters, but out of 45 aircraft for Comair, 25 will be in 40-seat configuration and 20 in 44-seat configuration.

Presumably Bombardier has provided these aircraft at a significant commercial discount relative to the 50-seat aircraft. In compensation they have avoided the cost of developing a new 40-44 seat regional

jet, and in return for a higher production rate their suppliers have agreed to reduce component pricing. A generous purchase discount would be necessary to make operating economics feasible.

Bombardier has made it clear that the 40-44 seat CRJ will not be available to all operators, but only those looking to acquire significant fleets of aircraft.

In spite of this, it ends Embraer's advantage of being able to offer a 37-50 seat jet family. The 40-44 seat CRJ protect's Bombardier's US market base, which had earlier appeared threatened by its lack of a competitor to the ERJ-135/140.

Bombardier's order also firmly puts paid to Fairchild's long held aspirations to sell its 328Jet/428Jet combination to Comair.

## Air Nostrum

One advantage that Bombardier has held over Embraer has been the ability to offer a family of turboprops as well as jets. This did not appear to be much of an advantage, but in recent months it has proven highly significant in the European market.

Air Nostrum and Bombardier have concluded an agreement for 29 Dash 8-300 turboprops and 15 Canadair RJ Series 200 aircraft. Deliveries of these firm aircraft will commence later this year and the airline has secured options on 40 additional aircraft which can be delivered as either Dash 8-200, -300 or -400 turboprops or Canadair RJ Series 200, 700 or 900 regional jets.

Bombardier had faced competition from a ATR/Embraer combination, but the ability to acquire aircraft from a single manufacturer swung the order.

In comparison with the Delta Connection announcement, Air Nostrum's order for 44 aircraft might be seen as less significant. In reality its ramifications for the future of ATR, the Fokker 50 and the used turboprop market in general could be more important.

- 1 It highlights Bombardier's advantage of being able to offer a complete fleet replacement solution.
- 1 It confirms the resurgence of interest in the conventional Dash 8 turboprop family. It is the largest ever order for the Dash 8-300.

*Not only has Bombardier won the largest regional jet order in history with an order for up to 500 CRJs, but it has also avoided the costly development of a new 40-44 seat regional jet by limiting seat numbers and selling aircraft with a purchase discount. Embraer launched a shortened version of the ERJ-145 in 1999 with 44 seats.*



*The ruling by the WTO that PROEX subsidies used by Embraer to aid financing of sales is illegal will be blow to the Brazilian manufacturer. Embraer has said that regardless of the ruling all commitments relating to all outstanding orders will be honoured.*



1 It places the future of the ATR42 and ATR72 in serious doubt.

1 It will result in a large number of used Fokker 50s entering the market over a short period.

The Air Nostrum decision should be seen as the second application of Bombardier's fleet replacement strategy after Jersey European's smaller deal in 1999 (three Dash 8-200s, four -300s, four -400s and four Canadair RJ Series 200).

In some ways these are similar to the sole supplier agreements that Boeing negotiated with American Airlines, Continental Airlines and Delta Air Lines. For operators that appreciate the merits of both jets and turboprops, Bombardier has been able to offer the option of a single source of supply. The turboprops that had previously been considered a burden are now being leveraged to great advantage.

The Dash 8-300 has never been a popular product, with sales of 191 compared to 359 ATR42s and 212 Fokker 50s.

The largest airline order previous to this announcement came from South African Express back in December 1993 for 12 aircraft.

The competition for the turboprop order would have come from the ATR42-500. In many ways the ATR42 and Dash 8-300 are similar, but the Dash 8-300 had an advantage with its size.

Compared with the Fokker 50s that it would replace, the Dash 8 could offer the same 50-seat capacity at 32 inch pitch. The ATR42 has 48 seats at 30 inch pitch. In order to match Air Nostrum's comfort standard the ATR42 would need to be

fitted with as few as 44 seats.

Since January 1999 Bombardier has placed 42 Dash 8-300s with Air Nippon (3), Air Nostrum (29), Augsburg Airways (3), Jersey European Airways (4), Palestinian Airlines (2) and Sunstate Airlines (1). The only repeat order was Augsburg Airways.

In comparison, recent orders for the ATR42-500 are limited to repeat orders for 11 aircraft; Aeromar (2), Air Dolomiti (2), Eurowings (5) and Tarom (2). The only new customer is Air Guyane, for a single aircraft.

In both the Air Nostrum and JEA competitions Bombardier was competing with ATR for the turboprop order. In both cases industry rumour suggested that ATR was confident of victory. Air Nostrum's earlier selection of the ATR72 was seen as the first step in a much larger order for a combined fleet of ATR42s and ATR72 aircraft.

With the combination of Bombardier's financial strength, the resurgence of interest in the Dash 8-300/-400 and the ability to provide an across the board product range, ATR must now be exposed.

Air Nostrum's success has been built on the Fokker 50. Since taking delivery of their first three aircraft in 1995, Air Nostrum has acquired a fleet of over 30 aircraft. These include the fleet from sister-company Denim Air. The constant expansion of Air Nostrum's fleet absorbed a large proportion of Denim Air's ex-fleet.

With the Dash 8 order not only has the biggest source of Fokker 50 demand been lost, but the world's largest Fokker 50 fleet will become available in a very

short space of time.

With the second largest operator, SAS, looking to dispose of its fleet over the same time scale, Fokker 50 owners are in for a tough time. There are a number of Fokker 50 lessors, including ALM, debis AirFinance, Finova and Pembroke. The result could be very good for airlines looking to upgrade from 30-seat equipment, since Fokker 50s will have attractive secondary values.

## WTO ruling

Advance notification suggests that the WTO's ruling in the latest round of the Brazil versus Canada aircraft subsidy dispute puts Embraer firmly on the defensive.

After some alteration following the earlier judgement, Canada's offender, the Technology Partnerships Canada program, has been given a clean bill of health. In contrast, the WTO panel has concluded that Brazil has failed to comply with the earlier ruling to remove the illegal PROEX subsidies by the deadline of last November. The panel also ruled that proposed amendments to PROEX, which reduced the level of interest rate equalisation payments, did not change the fundamental position that it was an illegal export subsidy.

Embraer has claimed that regardless of the ruling, all existing contracts (relating to 387 outstanding firm orders and 443 options) will be honoured. The WTO decision still opens the way for Canada to claim compensation from Brazil equivalent to its losses, which have been put at about C\$1.5 billion. 