



[Home](#) » [Opinion](#) » [Opinions](#)

What significance is there in this week's CS300 and Embraer 175 orders?

[Email](#) 4 | [in Share](#) 0 | [Tweet](#) 0 | [Share](#) 0 | [sharethis](#) 5

Submitted by *Anonymous (not verified)* on Fri, 2016-04-15 10:19



Chris Kjelgaard looks at the significance of two airline orders placed this week for the Bombardier CS300 and the Embraer 175.

At face – not to mention list-price – value, Horizon Air's decision on April 12 to order 30 Embraer 175s and option 33 more is a much more significant deal for the manufacturer and the airline concerned than airBaltic's action the same day to firm its remaining seven options on Bombardier CS300 jets.

One could even argue that because Alaska Air Group subsidiary Horizon Air said some of the Embraer 175s would replace 15 leased Bombardier Q400 turboprops now in the Portland, Oregon-based carrier's all-Q400 existing fleet, the airline deciding to hand those 15 aircraft back in 2018 when their leases expire, its Embraer deal could impact Bombardier negatively.

But to assess purely from the perspective of the numbers of aircraft ordered and optioned the significance of the two deals for the market prospects of the respective aircraft types they involve would be simplistic.

It is no coincidence that US regional airlines have ordered Embraer 175s in large numbers and look set to continue doing so. Since January 2013, Embraer has sold 332 Embraer 175s to North American carriers, far more than any of its other three E-Jet models.

US carriers' love for the Embraer 175 is partly because the aircraft has an attractive two-by-two seat row configuration, allowing every passenger to sit either on the aisle or by a window. Moreover, it retains a mainline-aircraft cabin feel which is reassuring to passengers.

But US carriers love the Embraer 175 most because in two-class or three-class configuration it seats 76 passengers, at comfortable seat pitches. Just as important, the Embraer 175 – but not Embraer's second-generation 175-E2 – has a maximum gross take-off weight which is below 86,000lb (39,009kg).

These two facts are crucial. Together they allow the Embraer 175 to come in at the maximum 76-seat capacity and below the 86,000lb aircraft-weight limit above which the 'scope clauses' in the labour contracts of the US airline pilot union branches at most major US airlines require that mainline pilots must operate an aircraft.

In other words, this means US major airlines such as Alaska Airlines, American Airlines, Delta Air Lines and United Airlines can have regional-airline partners operate Embraer 175s on their behalf – on relatively long, thin routes suitable more for regional jets than turboprops, or on trunk routes at off-peak times at which mainline-narrowbody seat capacity isn't required.

Because regional airlines pay their pilots less than mainline carriers do and because their operating costs are much lower (mainly because all the route marketing and ticket-selling is handled by the mainline carriers), it suits major carriers to have regional partners operate as many regional jets for them as the majors' pilot scope clauses allow.

Nowadays, the standard form of agreement by which a US major airline lets a regional carrier operate flights on the major's network is the capacity-purchase agreement (CPA). A CPA specifies a fixed flight-hour rate – sometimes adjustable depending on fuel-price fluctuations – at which the major carrier will pay the regional airline for operating a specific aircraft type on its network.

Since this guarantees the regional airline a rate which includes the regional's actual operating cost for the aircraft plus an agreed margin, the regional airline's business is theoretically low-risk and in theory it knows it will make a profit. It has no marketing, booking and ticket-distribution overheads: all those activities are handled by the major airline.

However, it also means the major airline receives all of the upside there might be from fare and passenger-yield increases on the routes the regional partner is operating. The regional carrier receives none. And increasingly regionals have experienced an unexpected downside.

Although the US Department of Transportation's actions to allow rampant consolidation in the US airline industry means the major US airlines now usually have carte blanche in charging passengers whatever the airlines like, resulting in them making the largest profits ever seen in the global airline industry, the majors have become greedier.

In part this greed has manifested itself in the US majors forcing their regional partners to accept lower margins in their CPAs, as those contracts come up for renewal and renegotiation. Because of its refusal to accept cuts in its CPA margins and the dearth of regional-airline pilots in the USA due to low wages, the big regional-airline holding company Republic Airways Holdings was forced to file for Chapter 11 bankruptcy in February.

However, CPA margin erosion isn't likely to affect Horizon Air much in operating its Embraer 175s, all of which will fly under the Alaska Airlines name. Although Horizon Air will operate the aircraft for Alaska Airlines under a capacity-purchase agreement, both carriers are owned by Alaska Air Group, so Alaska Airlines has no incentive to

put Horizon Air to the sword.

In fact, Horizon Air has said it will use its Embraer 175s to open a sizeable number of new routes and service frequencies on Alaska Airlines' already-strong networks from its Seattle and Portland hubs.

The only definite piece of bad news for Bombardier arising from Horizon Air's Embraer 175 order is that it chose the Embraer aircraft over Bombardier's competing CRJ900, which also meets the 76-seat, 86,000lb US pilot union scope clause limits.

But that really isn't much of a surprise: as a major stretch of Bombardier's original 50-seat CRJ100/200, the CRJ900 has a long, thin fuselage and its cabin, which has a two-by-one seat-row configuration, feels more cramped than that of the Embraer 175. That probably is the factor most behind Embraer's boast that the 175 has won an 80 per cent market share of all 76-seat aircraft orders by US airlines since January 2013.

Bombardier's good news on April 12 certainly involved far fewer aircraft than did Embraer's windfall. But airBaltic's third CS300 order increases its total firm purchases of the type to 20 aircraft, following as it does the airline's original order for 10 and a subsequent action to firm up three options.

It also means that by the time all 20 are delivered the Latvian carrier will have an all-Bombardier fleet of 20 CS300s and 12 Q400 turboprops, because airBaltic will use 12 of its CS300s to replace seven Boeing 737-300s and five 737-500s it now has in service.

Also, it is worthwhile remembering that airBaltic – which later this year will become the first customer to receive a CS300, directly after the CS300 receive type certification – decided in March 2013 to become the launch customer for the Extra-Capacity Seating (ECS) option Bombardier developed for the CS300.

While the ECS option potentially allows the CS300 to seat 160 passengers in a single-class cabin layout, airBaltic will operate its CS300s in a 148-seat configuration. This probably means it will operate them with two-class cabins.

But the real significance of airBaltic's latest CS300 order is – as aviation consulting firm AirInsight has noted – that, because the deal means the Latvian carrier now has converted all the options it took along with its initial 10-aircraft order, well before it receives its first example, it shows airBaltic has great confidence in the CS300's performance and likely passenger appeal. Offering a 3,300nm (6,112km) range with full payload, the CS300 definitely will revolutionise airBaltic's network reach.

Recent speculation that Delta Air Lines might be about to place a significant order for C Series jets has not proved accurate – and Delta might never do so. Also, United's decision in the past few months to order 65 more Boeing 737-700s – reportedly at giveaway prices of around \$22 million-\$24 million per aircraft – may prevent Bombardier ever achieving a C Series order breakthrough with the US "Big Four".

However, even if an element of political motivation might have prompted it, Air Canada's February 17 decision to commit to taking up to 75 CS300s represents validation of the type by a blue-chip carrier. Taken together, the Air Canada and latest airBaltic CS300 decisions only eight weeks apart are significant: they show the CS300 is gaining order momentum outside the USA. There, the Embraer 175 will continue to rule the roost for regional carriers.

Like 2

Tagged [Bombardier CS300](#), [Embraer 175](#)

[Log in](#) or [register](#) to post comments

Comments (1)

CRJ900

Submitted by [scott.davis@woo...](#) on Fri, 2016-04-15 14:06

While I agree that the E175 has a much nicer and more 'mainline' feel than the CRJ900, the standard seat layout of the CRJs is 2 by 2, not one by two as stated in the opinion piece. (ref. <http://www.expressjet.com/about/our-fleet/>) The preferred Embraer design owes to having been an answer to the CRJs, which were development-cost-efficiently stretched from the Challenger business jet to 'launch' the RJ revolution, but which suffer for not being a point design once stretched so far.

Only the ERJ 145 series had the 1 by 2 seating.

+ 0 – [log in](#) [register](#) or to post comments

Search Search



Sign Up

[Sign up to the daily newsletter](#) and keep up to date with latest industry news, opinions and events!

Blogs



[ARSA Symposium – not lost in translation](#)

Following the conclusion of this year's ARSA Symposium, *Brett Levanto*, vice-president of operations at... [read more](#)



A320neo: a big decision?

With 2016 marking the year when Airbus' A320neo entered commercial service, *Kane Ray*, a senior analyst for... [read more](#)



ap&m Europe's 'Meet the Buyers' sets sights on connecting the best in the business

Life's all about making connections.



Brexit: A buffet for the lawyers?

With the referendum deciding on the UK's future in the EU drawing ever closer, *Richard Mumford*, partner at law firm... [read more](#)



Today's challenges in creating an aircraft maintenance facility

Franco Eleuteri of FE&A Aviation, was responsible for developing the concepts for the new Qantas A380... [read more](#)

26-27 APRIL 2016
ABU DHABI, UAE

MRO network

**AIRLINE
E&M:
MIDDLE
EAST**

EXPLORING MRO GROWTH
AT THE CROSSROADS OF
THE WORLD

ABOUT MRO NETWORK

The MRO Network is a media outlet which gives a voice to the global MRO community: people working within commercial aviation engineering and maintenance at airlines, MROs, OEMs, lessors and financiers, suppliers and others allied to the field....[read more](#)

CONTACT US

[Contact the MRO Network team](#)

SOMETHING TO TELL US?

[Click here](#)

ADVERTISING

Learn more about advertising with the MRO Network, contact our sales team

OTHER MRO NETWORK SECTIONS

- [Travel Blog](#)
- [Guest Blog](#)
- [Polls](#)

[Privacy Policy](#) | [Cookie Policy](#) | [Terms of Service](#)

Copyright © 2015 Penton

Powered by **Penton**