

Bombardier expected to double down on sales drive in China amid hefty U.S. duties



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MONTREAL -- Bombardier Inc. is expected to double down on its efforts to snag a CSeries order from China after the U.S. announced hefty duties that threaten to shut it out of the large American market.

"The CSeries business is probably not viable longer term without access to the U.S. market, but Bombardier may be able to find enough international customers to still ramp up production in the next few years," says analyst Cameron Doerksen of National Bank Financial.

He said uncertainty over the overbudget aircraft remains the biggest investor concern, but anxiety can be alleviated by a new order from a large airline outside the U.S.

Bombardier's (TSX:BBD.B) shares lost more than seven per cent to close at \$2.10 Wednesday on the Toronto Stock Exchange as investors weighed the prospect of a 220 per cent duty on U.S. sales of its flagship CSeries passenger jets and the European merger of two railway rivals.

Analysts say the U.S. Department of Commerce's preliminary duty decision, which was much harsher than expected, raises questions about the future of a key order for up to 125 CS100 jets by Delta Air Lines.

The department ruled in favour of Boeing, which alleged that Bombardier used unfair government subsidies to sell aircraft at artificially low prices. U.S.-based Delta Air Lines has argued that Boeing doesn't even make the 100-seat planes it needs.

Bombardier's last CSeries order for two aircraft came in December but the company has suggested it was confident of signing new deals by year-end.

The Montreal-based company has been targeting buyers in Europe, Asia, Africa and the Middle East. A published report suggested talks with Chinese airlines could lead to a deal that could be announced when Prime Minister Justin Trudeau is on a state visit to the country.

Bombardier didn't respond to requests for comment about the viability of the CSeries but late Tuesday called the size of the proposed duty "absurd."

Doerksen doesn't expect any U.S. airline will order the CSeries until the Boeing challenge is resolved. A final department ruling is expected in December, followed by a decision by the U.S. International Trade Commission on alleged injury to Boeing in February. Still, appeals could keep the CSeries out of the American market for years.

That would put pressure on Bombardier since the U.S. accounts for about 26 per cent of global sales for this size of plane. That still leaves three quarters of the world open to the CSeries, said Addison Schonland of aviation consultant AirInsight.

"I think the CSeries goes on," he said in an interview. "Is the U.S. important? Absolutely, but is it critical and a must have? Maybe not."

While the ruling may not be good news for Bombardier, it's no apocryphal, Schonland said.

Quebec Premier Philippe Couillard said Bombardier, in which the province has invested US\$1 billion, will continue to sell the aircraft around the world.

"Boeing may have won a battle but let me tell you, the war is far from over and that we shall win," he said in Quebec City.

Aerospace rival Embraer said a WTO dispute panel will be established on Friday to review the Brazilian government's complaint against the CSeries across the world.

Analyst Richard Aboulafia of the Teal Group said Bombardier has no choice but to stay the course and hope things get better.

He said Boeing may have won a hollow victory since it may have unleashed a political battle that could lead to lost military contracts in Canada and Britain and the ire of Delta, which could turn to Airbus or Embraer.

"The only way Boeing could help the CSeries in some markets is by doing this," he said. "It sends the message that they take the CSeries extremely seriously and that frankly elevates the jetliner's status."

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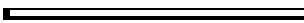
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