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Dubai Airshow 2017: Airbus deal means takeoff for CSeries, says Bombardier chief

President of Bombardier Commercial Aircraft Fred Cromer, speaks during the interview at the Dubai Air Show in Dubai, United Arab Emirates, November 12, 2017.
REUTERS/Satish Kumar

By Michael Fahy, ZAWYA

Commercial Aircraft chief Fred Cromer describes deal with European giant as “very exciting for the

programme”

Bombardier, the Canadian manufacturer of aeroplanes and trains, approached this year's **Dubai** Airshow with renewed vigour, fresh off the back of a deal agreed last month for **Airbus** to take a majority stake in the company's main commercial aircraft programme, the CSeries.

In an interview at Dubai Airshow on Sunday, **Fred Cromer**, the president of commercial aviation for **Bombardier**, told **Zawya** that the deal with **Airbus** was "an endorsement of the aeroplane and certainly an endorsement of the market we are talking about" for aircraft with 100-150 seats.

The CSeries has had a troubled history. The programme to build the planes was launched in 2007 and the smaller of the two planes, the CS100 (108-130 seats) was initially due to enter service in 2013, with the CS300 (130-160 seats) due a year later.

However, delays led to cancelled orders, and the government of **Quebec** stepped in to inject \$1 billion **Canadian dollars** (\$785,415,027) to prop up the programme two years ago.

The first plane entered into service last year with its first major customer, **Swissair**, and at this year's Dubai Airshow the manufacturer was showing off a CS300 in the livery of another customer, low-cost European carrier, **airBaltic**.

Sales thus far have been slow, with just 360 planes sold as of September 30 and 19 delivered, according to company records. Despite this, Cromer remains bullish about its prospects for future growth.

An \$820 billion opportunity

Bombardier in September published a research paper forecasting demand for commercial aeroplanes containing between 60 and 150 seats for the next 20 years. Worldwide, the firm predicted that the market would be worth \$820 billion between 2017-2036, based on current list prices for 12,550 aircraft.

The **Middle East** will require about 450 planes in this segment, it said, with a total value of about \$32.8 billion at current prices. This is 3.4 times the current market size, the firm said, and will be driven by growth in intra-regional travel.

"For [the] Cseries it's about 250 aeroplanes," Cromer told **Zawya**. He argued that it would suit shuttle flights to central hubs by flag carriers, as well as budget airlines.

"When you go on the CSeries it has a very different feel than your typical narrow body," said Cromer. "It's got a wide body feel to it, it's got a very open cabin, the windows are much larger than what you would see on today's single-aisle aircraft and larger even than some wide bodies."

During the Dubai Airshow, **the company signed a letter of intent** with Cairo-based **EgyptAir** to provide an initial 12 CS300

planes, with an option for 12 more. At current list prices, [Bombardier](#) said the firm order for the first 12 would be worth \$1.1 billion.

This follows an announcement earlier this month that the company signed another letter of intent with an unnamed European carrier for 31 aircraft, with an option for 30 more.

"We didn't disclose who the customer is because they're not ready to talk about who they are and their strategy, but we are making that progress," Cromer said. He added that the deal was "very exciting for the programme".

"With [Airbus](#) coming in, it will further the positive momentum, increase the number of conversations that will ultimately lead to the increased sales that we are looking for for the CSeries programme," he said.

The [Airbus](#) deal has another big advantage for Bombardier. The company agreed a deal last year with [Delta](#) Airlines for an initial 75 CS100 aircraft, worth \$5.6 billion at list prices, with an option to buy 50 more.

The deal has proved controversial, though, with rival [Boeing](#) accusing Bombardier of dumping the planes cheaply on the United States market, citing the investment by the Quebec government into Bombardier as a subsidy. It raised a complaint to the [United States International Trade Commission](#) (ITC), and in September the U.S. Commerce Department gave an initial ruling in [Boeing's](#) favour. Subject to another ruling on the issue by the ITC next year, tariffs of almost 300 percent are set to be imposed on planes imported from [Canada](#) once deliveries to Delta begin.

The Airbus deal, which has seen the European planemaker take a 50.01 percent share of the CSeries programme, with Bombardier holding 31 percent and state-owned Investissement Quebec the remaining 19 percent, offers a workaround. Airbus owns an aircraft manufacturing base in Mobile, Alabama, and planes destined for the US market can now be assembled there, theoretically allowing for import duties to be avoided. [Boeing](#) has disputed this, though, stating that any CSeries parts imported into the U.S. should be subject to the same duties.

Proving a point

During the interview, Cromer argued that it is "going to be challenging" for [Boeing](#) to prove its claims. "Part of this issue in the U.S. is Boeing has to prove damages, and we think that's going to be very difficult for them to do given the fact that they don't have a plane in the size category of the CS100. That's really what the issue is."

In an emailed statement to Zawya this week, a Boeing spokesperson said in response: "It's important that everyone plays by the same rules. Bombardier's dumping of the CSeries into the US and its illegal subsidies are the issues involved in this case."

The Airbus deal has had mixed reactions. In the week following the announcement, the company's shares climbed sharply, increasing its market capitalisation by \$1 billion. Ratings agencies Fitch and S&P were also in favour, with the latter stating that the deal "could prove critical to the success of the CSeries".

The other main ratings agency, Moody's, dissented, though, downgrading the company's bonds to 'junk' status. In a note published following the deal, it said Airbus is not paying anything upfront for the CSeries, but still has an option to buy it outright later.

"The structure of the partnership reflects the low value of the CSeries currently and calls into question Bombardier's future in the commercial aircraft space," it said, adding that Bombardier is still being expected to fund 100 percent of the cash commitment to the CSeries until it reaches breakeven cash flow, which is expected to be in 2020. The anticipated cost of this is \$700 million. Cromer said Moody's "misses some key points".

The note said demand was "unclear" for planes with 100-150 seats, but Cromer said that past programmes that had failed had done so because some were built as larger planes then remodeled for this market.

"They're ignoring the fact that the CS100 and CS300 were specifically designed to bring the best economics that even rival much larger airplanes in the 150-200 seat category," he said.

He also said the fact that Airbus was paying nothing was irrelevant, as it is bringing "synergies that create bigger value for all the partners".

"That's a worldwide customer service network, a worldwide sales and marketing team and a supply chain that spends annually about \$80-\$83 billion a year. It's incredibly powerful."

It isn't just the ratings agencies that are split on the deal, either. In a note published on the website of aviation consultancy firm AirInsight, analyst Ernest Arvai said the deal represented an endorsement of the CSeries as "an effective and sound aircraft".

"There is no question that the CSeries is an excellent aircraft that is state-of-the-art, but was held back by concerns over Bombardier's long-term fiscal stability. Those issues are now moot," Arvai said.

Yet Saj Ahmad, chief analyst at London-based Strategic Aero Research, told Zawya in an emailed response to questions this week that the CSeries programme "has no value and no long term future".

He said that Airbus could still walk away from the deal if the U.S. [Department of Commerce](#) concludes that the agreement has been structured to circumvent tariffs.

"If the Airbus deal collapses based on the Department of Commerce ruling, then the CSeries is finished. But even if the deal goes through, Airbus is saddled with a costly orphan that it will be reluctant to sell instead of its own A320neo. Bombardier (and to a lesser extent Airbus) have their heads in the sand over this issue," Ahmad said.

Yet Richard Aboulafia, vice-president of analysis at the U.S.-based Teal Group Corporation, argued that Boeing's complaint to the Commerce Department "was highly politicised".

"But Alabama is pro-CSeries, and Alabama is at the heart of the [Trump administration's](#) economic nationalism," he told Zawya via email. "Since they'll back Airbus, the political support this complaint needs vanishes."

A ruling is expected early next year.

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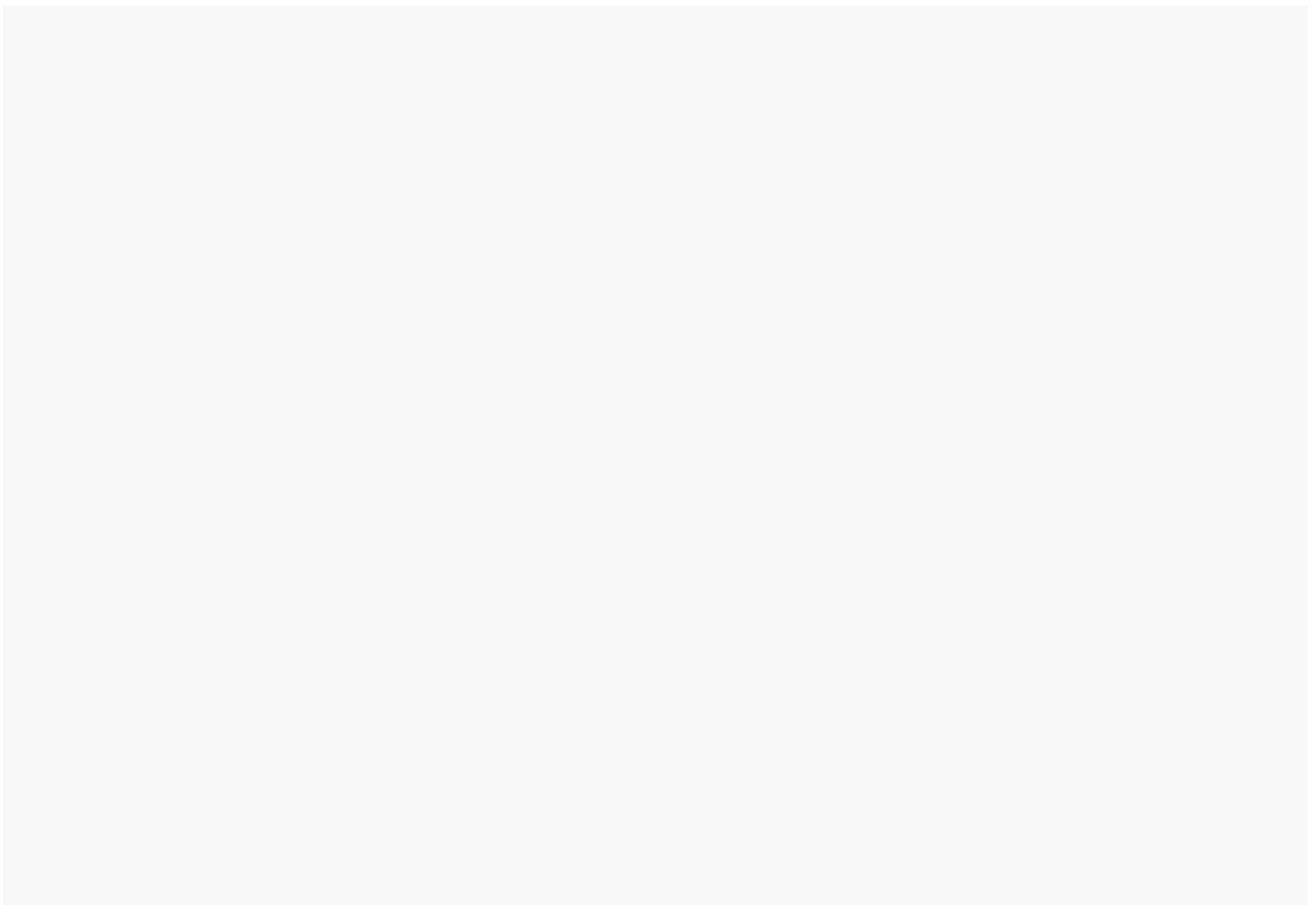
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