



## Trump's Next Victim: Bombardier, Inc.

### Description

Canadian plane maker **Bombardier, Inc.** ([TSX:BBD.B](#)) has more than one fire to put out right now, and investors have recently steered clear of this stock which has declined more than 25% from its peak in early January. I'm going to look at one of the key battles Bombardier has been fighting of late — a dispute with **Boeing Co.** ([NYSE:BA](#)) and potentially the U.S. government over the company's discounting and pricing strategy in the U.S. market.

### Why the sticker price really doesn't matter

In the aerospace industry, firms typically bid for contracts from a select number of buyers and offer discounts to the existing "retail" price tags advertised publicly. Due to the nature of the industry (don't worry; I'm not going to do a Porter's Five Forces here), buyers simply have more power in the bargaining process than suppliers, forcing prices lower as plane makers bid for elusive contracts with buyers that have the ability to make large purchases.

Boeing has contested that its Canadian rival Bombardier has used government subsidies to unfairly outbid American plane producers that are forced to price their planes to achieve profitability at market prices without government subsidies. Boeing cited a contract with **Delta Air Lines Inc.** in which they assert that Bombardier sold the planes for "less than \$20 million" when the cost to produce such a plane was \$33.2 million.

Bombardier has responded to the allegations, stating that the price Boeing claimed Bombardier accepted was not the actual price, but that the sales price could not be disclosed due to confidentiality.

### Bottom line

It is true that Bombardier has received billions of dollars of subsidies from the Canadian government, and that the company did include an "onerous contract provision" in its 2016 financial statements, which Bombardier's chief financial officer reported was due to "anticipated negative margins." What is unclear is whether Bombardier would have made the same deal with Delta had the company not received government subsidies.

At the end of April, Boeing asked the U.S International Trade Commission and the U.S. Department of Commerce to end Bombardier's illegal pricing activities, citing the damage done to American aerospace workers and the industry itself.

With Trump already on the warpath, targeting the Canadian lumber and dairy industries in recent NAFTA-related squabbles, it appears that a potential countervailing or anti-dumping duty may also be in the works for Canada's aerospace industry.

The risk of any sort of trade retaliation against Bombardier is something investors simply should not ignore. In my view, the most likely outcome of this situation is that the Canadian government will finally cut financial ties with Bombardier and let the company run as a standalone business.

The question is, without government subsidies, or with a tariff on exports, can Bombardier survive long term?

Stay Foolish, my friends.

## CATEGORY

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1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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