



Why the CSeries's Success Is What Boeing Co. Is Really Afraid of

Description

Over the course of the past few weeks, the aerospace sector has been quietly watching the ongoing battle escalate between **Bombardier, Inc.** ([TSX:BBD.B](#)) and **Boeing Co.** ([NYSE:BA](#)).

At the core of the dispute between the two companies lies the CSeries, the revolutionary new jet that Bombardier built and brought to market after an extended period of development and testing that went billions over budget and nearly bankrupted the company.

Bombardier relied on a number of investments and loans to build the CSeries, and those government subsidies form part of the dispute with Boeing. Ironically, Boeing itself has received a greater amount of funding from various levels of government on more than one occasion for its own projects.

In terms of orders, the CSeries struggled to gain the 300 orders by launch that Bombardier had been hoping for, at least until both **Air Canada** and **Delta Air Lines Inc.** both offered Bombardier sizable contracts for the new aircraft that pushed total production to well over 300.

What is Boeing's complaint?

Boeing's primary complaint is that Bombardier was dumping the planes into the U.S. market at significantly reduced rates, which caused harm to Boeing's own sales.

That's going to be a really tough claim to substantiate, as the CSeries is firmly slated in the 100-120 passenger segment, which Boeing cannot currently compete in. The smallest modern plane that Boeing makes to rival the CSeries is the 737, and even the newest generation of that aircraft, in the smallest configuration, is still larger than the CSeries both in terms of passengers and overall size.

The CSeries is widely respected for being more fuel efficient and introducing new technologies that improve the experience for both flight crews and passengers. The smaller size of the jet also allows it to fly to smaller secondary towns and routes where larger jets, such as the 737, would be cost prohibitive, if not too large to land.

In a series of rulings as recently as last week, U.S. duties of nearly 300% were imposed on CSeries

jets, which cast doubt on the future of the Delta deal. Prior to the announcement, several U.S. airlines had sent strongly worded letters of concern to the Department of Commerce on the issue, urging the body to rule against the tariffs and encouraging a free market.

Delta threw its weight behind Bombardier further this week, commenting that it will move forward with the CSeries deal, with CEO Ed Bastian informing analysts during the earnings call this week that “we will take the planes,” and that “the decision from Commerce is not just disappointing. It doesn’t make a whole lot of sense.”

If that wasn’t direct enough, Mr. Bastian went further: “We think that the aircraft needs to come to market. We believe it will come to market and we believe that Delta will get it at the agreed contractual price. We’re not going to be forced to pay tariffs or do anything of the ilk so there should not be any concerns on our investors’ minds in that regard.”

Delta’s first CSeries delivery is currently scheduled next April, by which time a final decision from the International Trade Commission is likely to weigh in on the matter.

Is Bombardier a good investment?

Bombardier’s CSeries is an advanced jet that is disrupting the status quo. This has the bigger players like Boeing worried for obvious reasons. Just looking at that aspect, Bombardier as an investment option may raise some eyebrows.

Looking deeper, however, Bombardier has a string of issues that need to be resolved, including this recent spat with Boeing. If the CSeries were to be taxed significantly (if not prohibitively) from entering the U.S. market, that would be a severe blow, but not the death knell, for the CSeries.

Bombardier is already actively pursuing other markets for the CSeries, and Europe and Asia in particular may fit with the smaller commuter-style role the jet can play.

In my opinion, Bombardier may be too risky an investment for most, but the company has made a significant improvement over just a year ago. If Bombardier can weather the current storm and stick to the CSeries delivery schedule, the company may emerge as an intriguing investment opportunity.

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Date

2025/09/27

Date Created

2017/10/12

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dafxentiou

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