BOMBARDIER SEEKING BAILOUT BECAUSE OF PAST 'MISTAKES,' BRAZILIAN RIVAL SAYS

News / Manufacturer

Bombardier Inc. is seeking government money because of “mistakes” it has made in the past, the newly named chief executive officer of rival Embraer SA said as he warned that Brazil might fight Canada over taxpayer aid offered to the Quebec-based plane maker.

“We are competing against the government; we are not competing any more against a private company,” Paulo Cesar de Souza e Silva said in an interview with The Globe and Mail this week. He spoke in his role as head of Embraer’s commercial aviation business, three days before the company named him its next CEO. He’ll replace long-time CEO Frederico Curado in July.

“What is more shocking is that the industry is doing very well on a global basis,” Mr. Silva said. “There’s no crisis in the commercial aviation industry. So why is big support from the government necessary to a private company? There is only one answer: It’s because of the mistakes Bombardier made in the past. And now there’s a huge gap. And Bombardier is asking for the government, to Canadian citizens, to cover this gap.”

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Embraer, a Brazil-based plane maker that's been Bombardier's biggest competitor for years in the regional jet market, said last month that it might ask the World Trade Organization to probe whether government subsidies allowed Bombardier to offer its new C Series planes to Delta Air Lines Inc. at below production cost. Embraer was also vying for that contract with its E-Jet E2 planes.

Some international trade experts believe Embraer is simply sabre-rattling as a way to try to cast doubt about its rival's product, and that Brazil would have difficulty making a case that any eventual Quebec or Canadian investment in Bombardier would meet the definition of an illegal subsidy. The two plane makers, and their respective national governments, spent much of the late 1990s locked in a trade war over aerospace aid that ended in a truce in 2003.

"I think it's a hollow threat," said Lawrence Herman, a Toronto-based international trade lawyer. "Threats of trade actions of one sort or another are used commonly as commercial strategy. Whether those actions ever come to actual fruition is another matter. And whether they have an impact on the market is doubtful."

Bombardier on April 28 announced that Delta would buy 75 of its CS100 airliners and take options on 50 more. It is the biggest aircraft order in Bombardier's history and the landmark deal it needed to establish the legitimacy of the C Series program after a series of setbacks and strategic overstretching over the past two years raised questions about the viability of the company.

When Bombardier was facing uncertainty about its liquidity position last summer, and the future of the company was called into question by rivals to scare away potential customers, it turned to the Quebec government for help. Quebec obliged with a $1-billion (U.S.) equity stake investment in the C Series program, reassuring the market that it would not let Bombardier fail. Discussions with the Canadian government for a matching investment have proved difficult but the lines of communication are still open, sources say.

"It's because we were there that this transaction [the Delta deal] happened," Quebec Premier Philippe Couillard would later say.

Bombardier and Quebec have yet to finalize their agreement but that's expected by the end of the month.

Bombardier has acknowledged it made a significant concession on pricing to win the Delta order, without saying how much. It has characterized the deal as a transformative one with an airline that has significant influence over the decisions of other carriers. In its latest quarterly results, the plane maker disclosed it would take a $500-million non-cash "onerous contract provision" related to its past three C Series orders, including Delta's.

Questions abound now about how Bombardier will handle demands from other customers for steep discounts, even if the price reductions aren't on the same level as those offered Delta.

"I think they're going to be under a lot of pressure for several years," said Rolland Vincent, a former Bombardier executive who now runs consultancy Rolland Vincent Associates in Plano, Tex. He said if oil prices firm up higher, that will help the plane maker in negotiations because the state-of-the-art C Series offers a 20-per-cent fuel burn advantage over competing aircraft.

Mr. Silva says Bombardier has distorted the market with its government-backed pricing.

"Our government is very concerned about the situation," Mr. Silva said. "The dynamics of the

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competition in the market have changed after Bombardier introduced this new strategy of more likely offering the C Series below cost.”

Bombardier dismissed Mr. Silva’s comments as supposition with no basis in fact.

“The competition’s conjectures are just that,” company spokeswoman Marianella de la Barrera said. “We’re not concerned.”

She said the company is seeking investment in the C Series not because of any past errors but to increase the liquidity and long-term success of the program. The company is “fully within its business case” on C Series pricing and fully compliant with WTO trade rules, Ms. de la Barrera said.

“The real reason customers are selecting the C Series is because it’s a highly competitive and sophisticated aircraft for which there is no other in this market segment that is on par,” she said. “And it’s not just us saying that. Customers who flew the aircraft last week were all in consensus.”

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