

No Longer Idle, Bombardier's Small Jets Find New Homes

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By Monica Gutschi

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TORONTO (Dow Jones)--Rumors of the death of Bombardier Inc.'s (BBD.SV.B.T) 50-seat regional jet appear to have been greatly exaggerated.

Until recently, about 100 used aircraft, mainly CRJ200s, were sitting idle - many jettisoned by struggling U.S. airlines - prompting speculation that the glory days of the legendary aircraft were over.

The few U.S. airlines that were buying regional jets were opting for the larger 70- or 90-seat versions, and in October Bombardier ceased producing its yeoman 50-seater. That also sparked concerns a glut of used aircraft could knock down the value of new airplanes, while some analysts worried Bombardier would be on the hook for millions in residual-value guarantees if the CRJs' value collapsed.

But in the past few months, used 50-seaters have been snapped up like Tickle Me Elmo dolls at Christmas.

Some are finding new life as cargo freighters, others are being refitted as corporate jets. And some are opening new markets in new regions - much as they did in the U.S. a decade or so ago.

Virtually all of the idled CRJ200s are on their way to new homes, says Rod Sheridan, vice-president of asset management at Bombardier. "It's exactly the same story that sold it in the U.S. that sells it elsewhere," he says.

Mexican start-up airline ALMA, for example, has leased four used CRJ200s from General Electric Co.'s (GE) commercial aviation service, or GECAS, and hopes to lease four more by year-end.

Chief Executive Guillermo Heredia says he plans to use the 50-seaters to open routes between mid-sized Mexican cities that have no air links.

"There is a pent-up demand based on the fact that air travel to these cities is either non-existent, inconvenient based on one or two stops, or is very high-cost, or a combination of these," he said in an interview.

Heredia, who was chief executive of Mexican flag carrier Aeromexico between 1989 and 1992, says ALMA will initially offer point-to-point service between regional business centers like Guadalajara and Puebla, which are now connected only through Mexico City.

"These are thinner markets that cannot be served with 150- or 170-seat aircraft that the other airlines fly," he says.

The 50-seat CRJ200s are ideal for the routes, he says.

Although used, the aircraft have at least 15 more years of useful life, he noted, since they were manufactured between 2001 and 2003 and were only briefly used by Independence Air before it ceased operations in January.

ALMA expects to begin flying June 12.

Secondary Market Developing Outside North America Most of the demand for the used CRJs is coming from markets outside North America, that Bombardier is only now beginning to tap.

When the regional jet was introduced in North America in the early 1990s, pilot scope clauses limited their size to 50 seats or fewer. That fueled strong demand for the CRJ200 and its variants. To date, Bombardier has sold more than 1,300 of the iconic aircraft.

Sheridan says both Bombardier and Brazilian rival Embraer S.A. (ERJ) couldn't build 50-seat jets "fast enough" to meet the burgeoning demand back then, so there was little need to look at markets outside Canada and the U.S.

"That's the other thing we should have been doing - marketing elsewhere," he says.

Emerging economies like Mexico, India, Eastern Europe, Russia and China are now developing their domestic air industries and are poised to become strong secondary markets for the regional jet, observers say.

"We are seeing a migration from the new to the used market; it's a natural transition," says Doug Abbey, an industry analyst with the Velocity Group in Washington. "Mexico is a booming new global market, as is India, as is China. That's where old airplanes go. The technology becomes more accessible for these customers when the price comes down."

According to Aircraft Value News, while lease rates of newer aircraft are rising, those of the 50-seat regional jets have fallen significantly. "Availability has greatly increased and this will take time to dissipate," it noted in its February issue. "As such, lease rentals, and indeed values, have experienced a marked fall, both in terms of current and short-term rentals."

In fact, Heredia says ALMA was able to pick up the CRJ200s at an attractive rate given it is a start-up venture outside the U.S., factors that normally "raise the bar."

"I think we did very well," he says.

Although the lease rates have fallen, Aircraft Value News suggests they could rise again in the long term. And for Bombardier, seeing the renewed demand is a "validation" of the aircraft's economic and operational attributes, company officials say.

Now, Sheridan says, members of his team are "running around all over the world. The real focus is to get new operators on board, and new operators outside the U.S. That will take time to do it properly."

Besides ALMA, some European carriers have leased used CRJ200s, and Sheridan says there are active marketing campaigns in Russia and Africa.

According to Versant Partners analyst Cameron Doerksen, Nigerian start-up airline Arik Air will take three used CRJ200s as well as two larger 90-seat CRJ900s.

"Initial fears of a collapse in values for used 50-seater RJs, therefore, appear to have been exaggerated," he said in a research note.

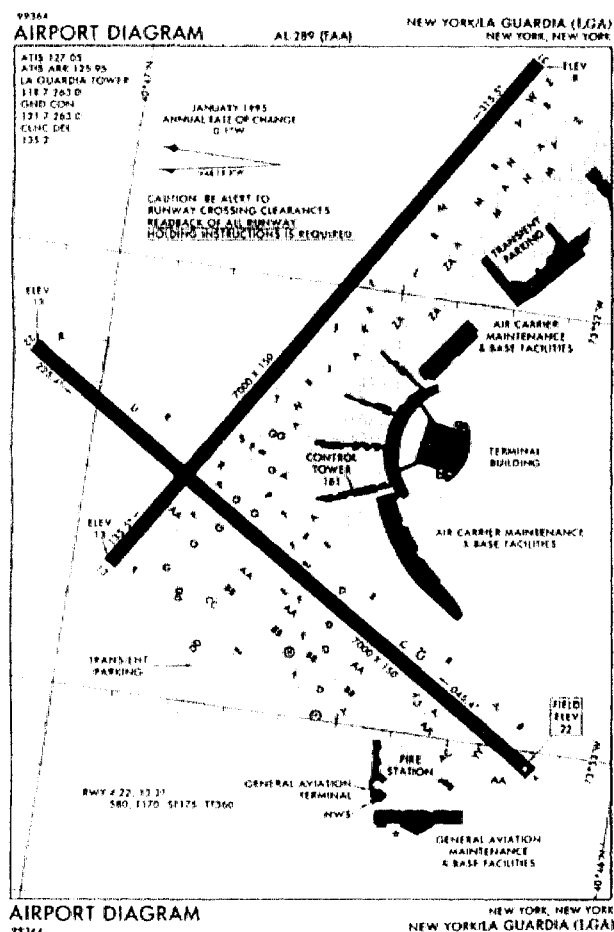
Existing operators have also found uses for the idled aircraft. Mesa Air Group (MESA) is operating used CRJ200s for its new Hawaii subsidiary. ACE Aviation Holdings Inc.'s(ACE.B.T) Air Canada picked up eight used CRJ200s last year, now being used by sister airline, regional carrier Jazz.

"The notion that there are going to be 200 or 300 of these things parked in the desert, that's just not reality," says GECAS spokesman Eric Jones.

LGA: Demand Management Alternatives OMB-OIRA Briefing

Presenters:

David Lloyd, GECAS Exec. V.P. & General Counsel
Todd Freeman, GECAS Senior V.P., Regional Jet Programs
Ian Gurekian, GECAS V.P. Marketing Operations
Eric Pelletier, General Electric, Senior Manager, Corporate
Government Relations
Ken Quinn, Partner, Pillsbury Winthrop Shaw Pittman
Nicolas P. Stable, GECAS, V.P. & Counsel

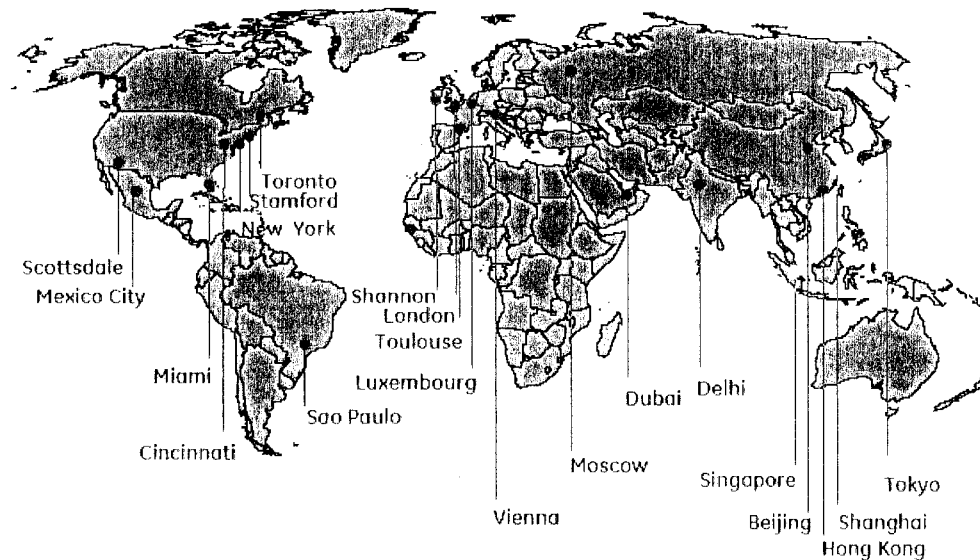


imagination at work

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GECAS Overview

- GE Commercial Aviation Services (GECAS) is a preeminent aircraft asset manager and lessor providing a wide range of fleet, financing and productivity solutions to the aviation industry.
 - 1400+ owned and 300 managed aircraft
 - Wide Global Presence:
 - 225 customers in 60 countries
 - 21 offices worldwide
 - Deep experience and domain knowledge
 - 400 owned or managed 50 seat aircraft
 - 20 customers



LGA Is One of the Most Congested U.S. Airports



- Physical constraints.
 - LGA has the smallest land area and lowest capacity of top 25 airports.
- As of April 2006, LGA ranks 29 out of the top 31 major airports in percentage of on-time arrivals.
- YTD through April 2006, LGA's airline on-time performance was 67.36%, well below the national average of 77.18%.
- FAA forecasts that demand on LGA will grow by 17% in the next 10 years.
- Delays increasing, see Appendix A.

GECAS Recognizes Public Policy Considerations in Managing LGA Delays

- **Efficiency**

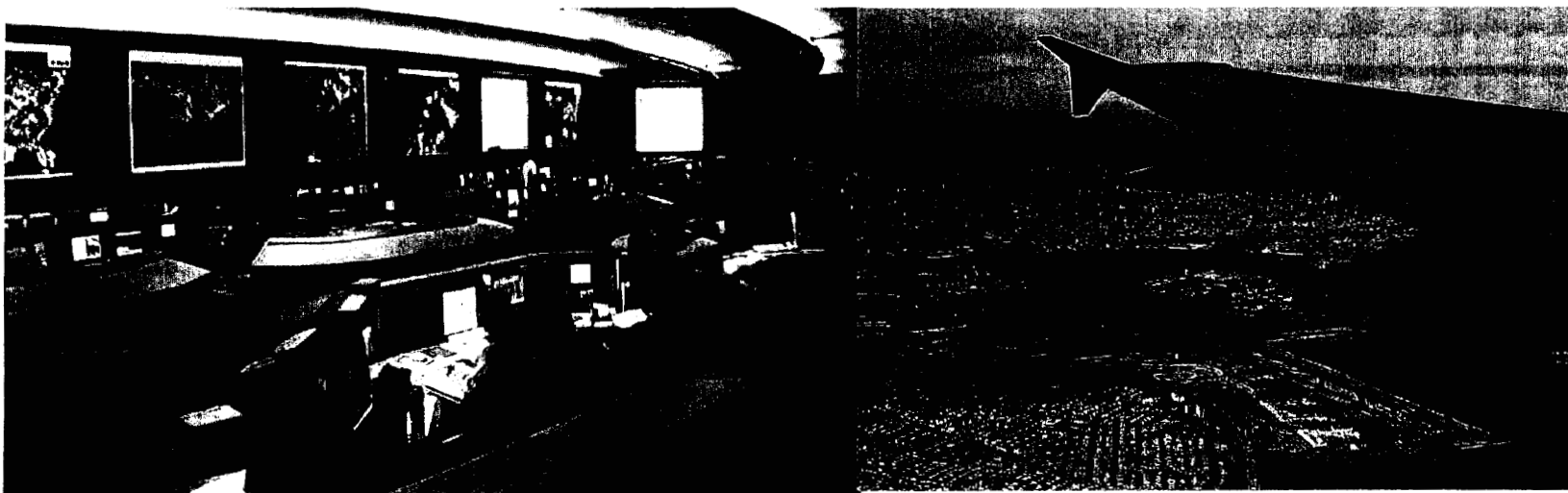
- AIR-21 slot exemptions produced an unacceptable increase in ops (>200/day) and delays (27% of ops).
- FAA slot exemption cap (159/day) and 9/11 stabilized delays.
- Removal of HDR limitations in 2007 raises legitimate air traffic management issues.
- Small footprint and lack of runway/taxiway options limit options for capacity (supply) enhancement.
- Huge O&D market of time-sensitive business travelers put premium on frequencies in high-yield environment.



GECAS Recognizes Public Policy Considerations in Managing LGA Delays (Cont'd)

- Fairness

- Provide maximum access for small, regional service.
- Ensure opportunities for new entrants and maximize competition.
- Prevent slot baby-sitting/gaming/hoarding.
- Lower barriers to entry.



Getting to YES – Yield, Efficiency & Size

• YIELD

- Airport and airline profits are driven by landside and airside margins.
- Premium airline traffic is driven by point-to-point and frequency.
- RJs produce the highest per-seat yields, which translate into higher landside yields.

• EFFICIENCY

- Physical constraints of LGA require maximum utilization and yield.
- Frequency distribution becomes key, and smaller aircraft allow for more off-peak frequencies.

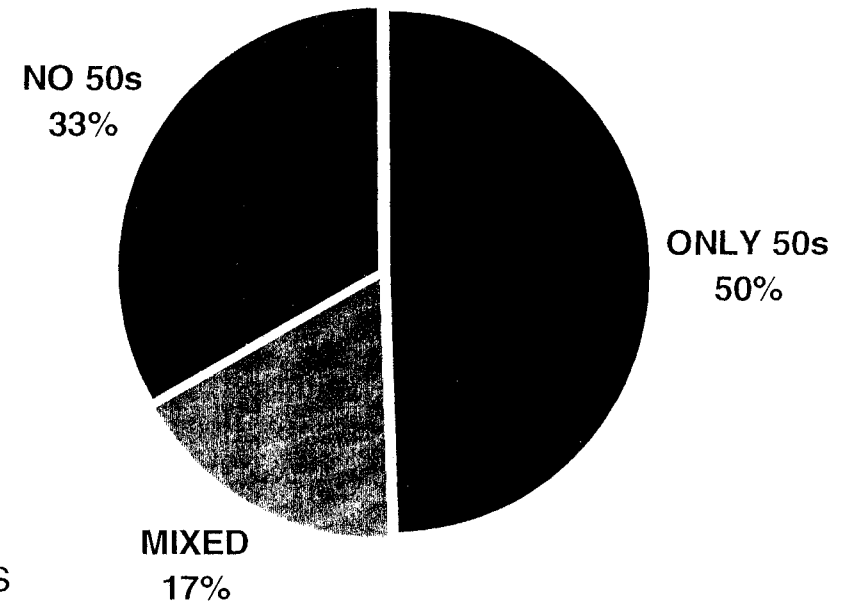
• SIZE

- Regional carrier yields are ~60% higher than major and low cost carriers.
- Larger aircraft with lower yields, exacerbate the problem
- Larger aircraft have greater turn-times, noise, handling & security concerns.

Restrictions on Aircraft Size Will Not Optimize LGA's Physical Constraints.

- **50-Seaters Are Integral to LGA.**
 - 2/3 of airports served by 50s.
 - 40 of 81 airports served by LGA are exclusively served by 50s
- **Demand = Price x Volume**
 - Volume alone will not deliver maximum revenue
 - Aircraft size is dictated by airline's demand equation (price x volume)
 - Quality of passenger throughput drives yields
- **Forcing Larger-Gauge Aircraft Would...**
 - Reduce frequencies to smaller destinations
 - Create landside congestion & delays
 - Re-distribute demand around peak hours

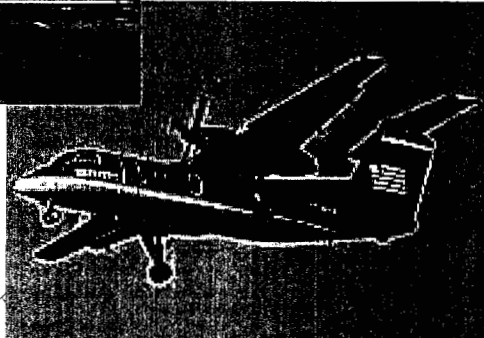
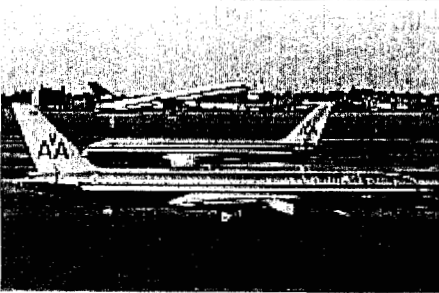
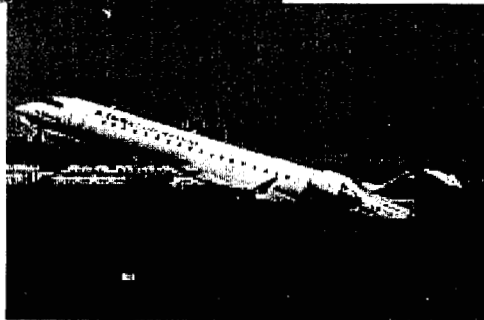
Airports Served From LGA



The Marketplace Is Addressing 50s RJ Market.


- Both DL and NW—large operators of 50s RJs, have culled 45 CRJs them from their fleets in bankruptcy.
- December 2005 collapse of Independence Air removed large number (>40) of CRJs.
- The two manufacturers, Bombardier and Embraer, have halted production of 50s RJs.
- The secondary market for 50s aircraft is emerging, with GECAS and others remarketing CRJs to non-U.S. markets, including Africa, Asia, Russia, Eastern Europe, India, and Latin America.
- No need exists for command/control regulations dictating or influencing aircraft size.
- Relaxed scope clauses are driving increased seat size.

Restrictions on Aircraft Size May Unjustly Discriminate Against 50s.



- Grant Assurance 22 requires the Port Authority to keep the airport available on fair and reasonable terms and without unjust discrimination.
- Restrictions or congestion-based pricing based on aircraft size may:
 - unjustly discriminate against 50s and deny fair and reasonable access; and
 - subject the FAA or Port Authority to claims that the rule or program is unjustly discriminatory.

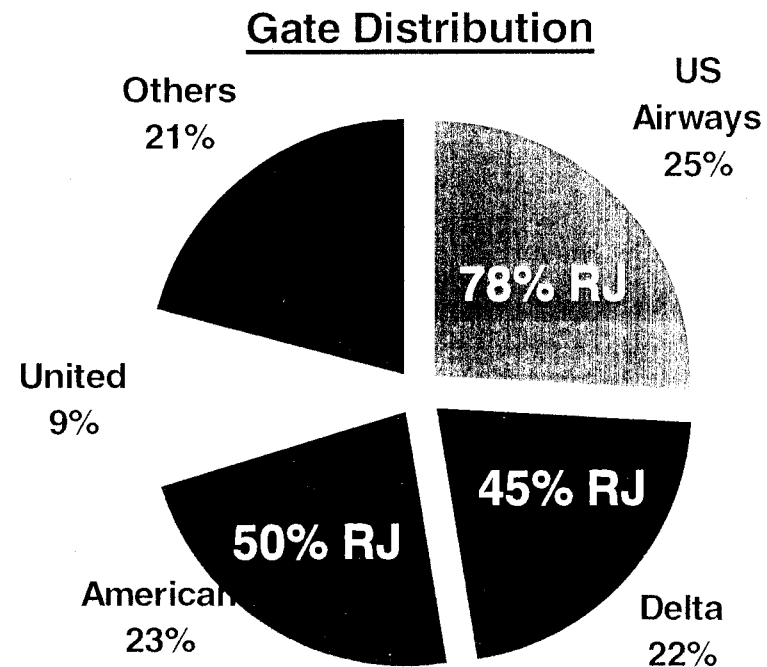
Minimum Size Requirements Would Encourage Gaming and Economically Inefficient Operations.

- As noted by DOJ's Antitrust Division, minimum aircraft size proposals:  “[E]ncourage carriers to “game” the system to acquire valuable LGA slots . . . carriers would be encouraged to “up size” their equipment beyond what is economically efficient in order to obtain preference in the slot assignments.”

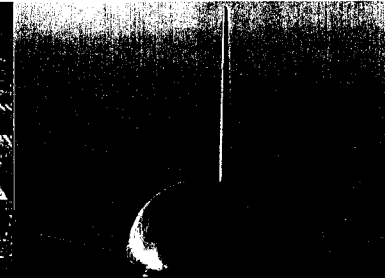
- Disproportionately effects new entrants/limited incumbent, which tend to operate smaller aircraft size of aircraft and have less flexibility than legacy carriers to reallocate larger aircraft to LGA.

Alternatives Provide Congestion Relief without Discriminating Against 50s.

- Near term, continuation of existing administrative mechanism appears sound, giving FAA/stakeholders more time to fashion effective ATM approach.
- Long term, market-based mechanisms like slot auctions, which remain sensitive to prior investment-backed expectations (slots/gates), new entrants, and regional service, are preferable to administrative allocation.
- Congestion-based pricing appears neither economically desirable nor ATM effective.

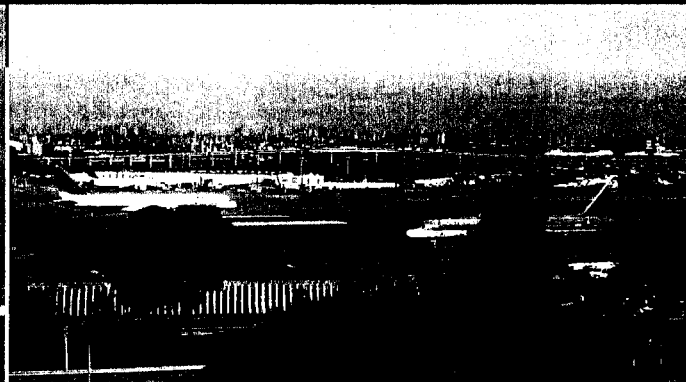


Conclusion



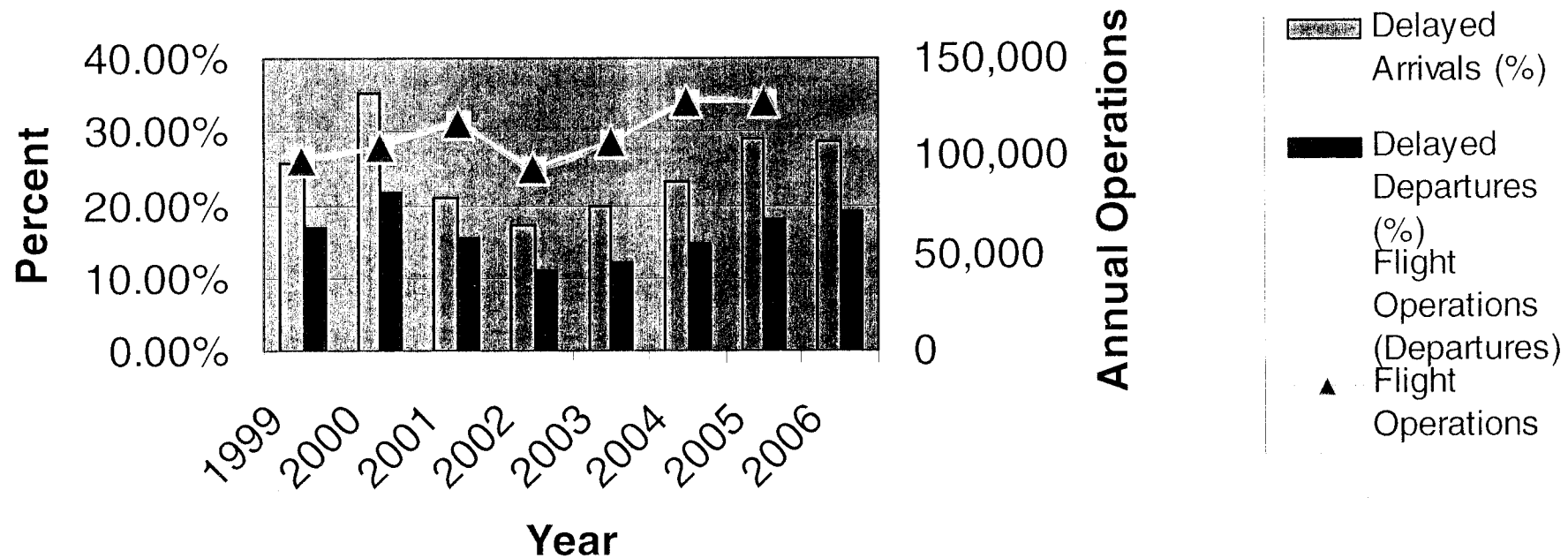
Any solution should:

- **Maintain LGA open to public use on fair and reasonable terms without unjust discrimination based on aircraft type;**
- **Exhaust airport and airways capacity-enhancements before attempting to interfere with marketplace demand/aircraft fleet mix;**
- **Long term: Favor market-based rules over administrative mechanisms;**
- **Recognize the market forces and natural evolution of the U.S. marketplace toward larger aircraft;**
- **Not impose any further costs on a struggling U.S. airline industry (*i.e.*, be revenue neutral); and most importantly**
- **Improve efficiency/reduce congestion.**



Appendix A: Delays Are Increasing

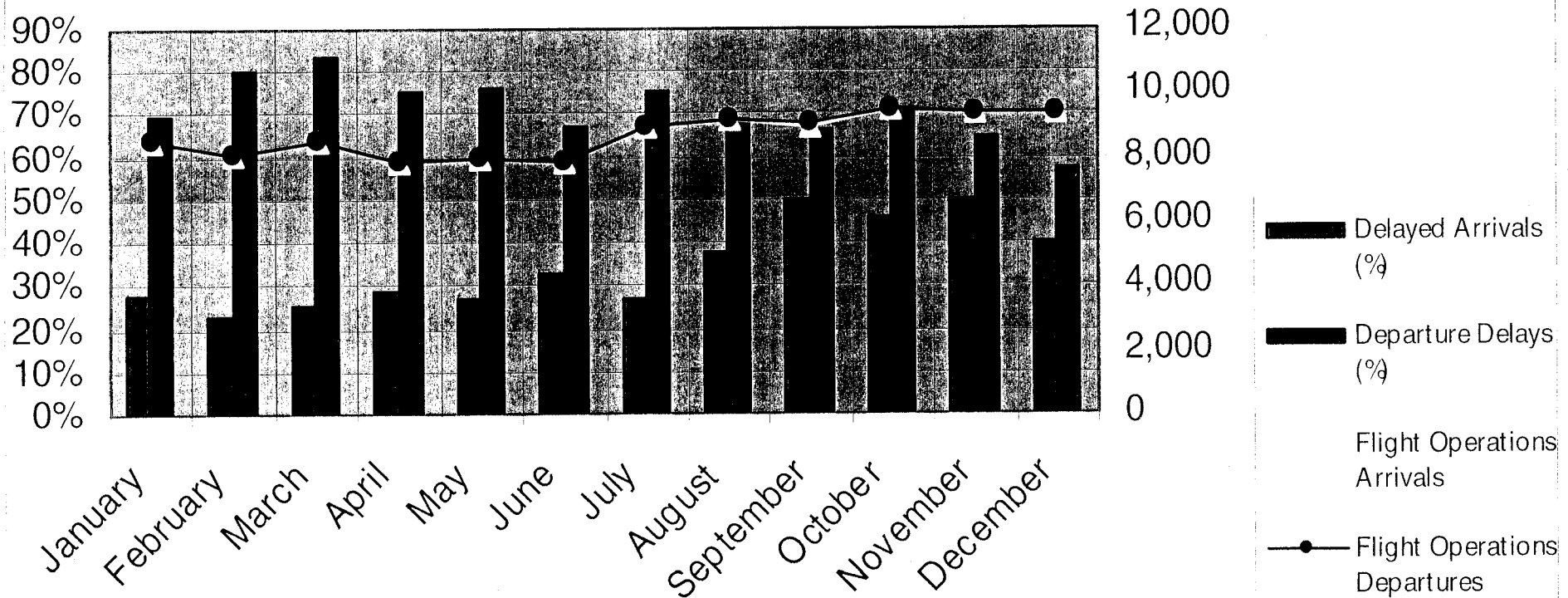
LGA Operations



- 1968-2000 – HDR in place.
- April-December 2000 – AIR-21 granted slot exemptions
- December 2000 – Slottery and new limits at LGA.

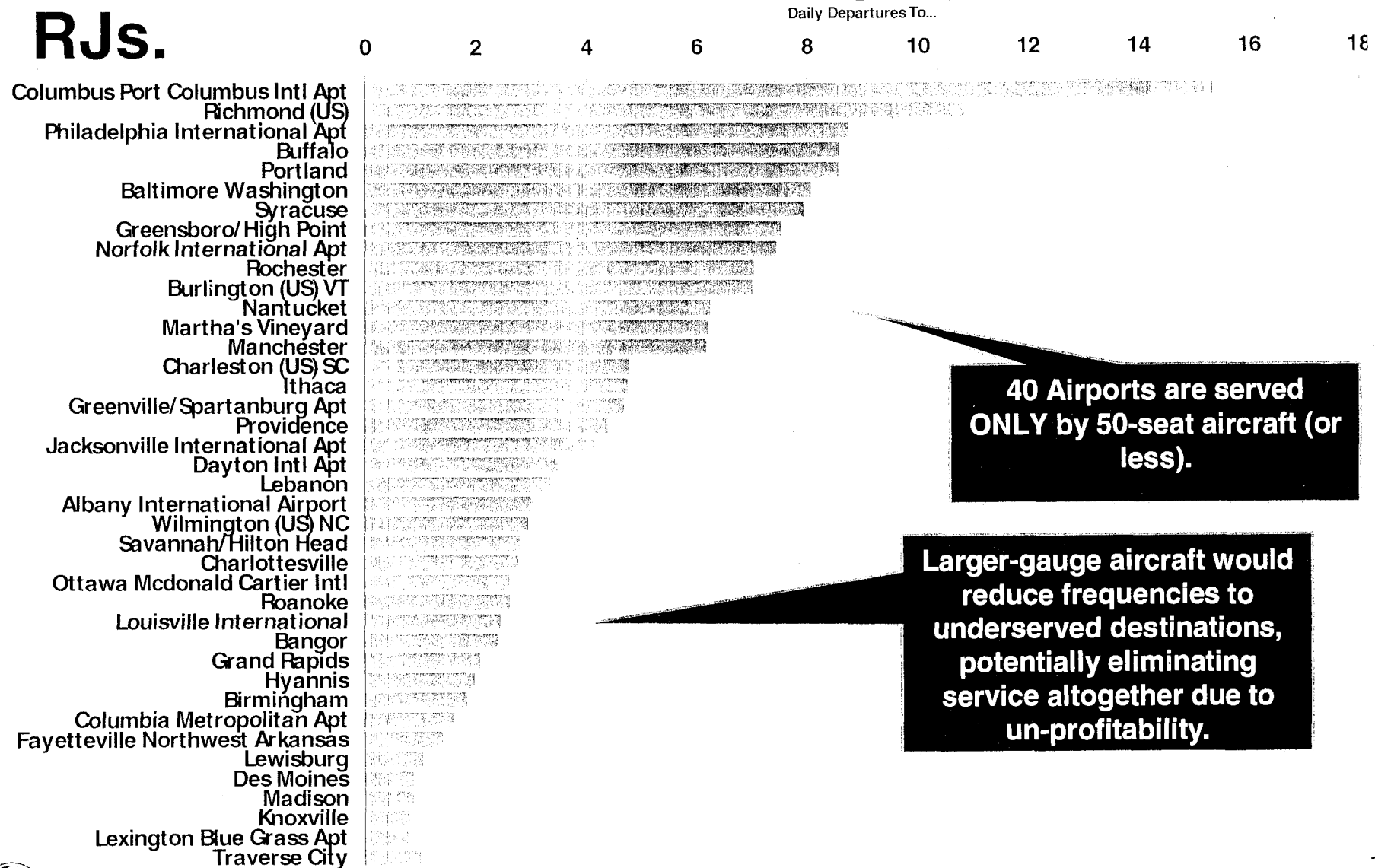
Appendix A: LGA Delays - 2000

2000 Operations and Delays



Source: Bureau of Transportation Statistics

Appendix B: 50% of Airports Served by LGA are Served Exclusively by 50 Seat RJs.



40 Airports are served ONLY by 50-seat aircraft (or less).

Larger-gauge aircraft would reduce frequencies to underserved destinations, potentially eliminating service altogether due to un-profitability.