



BUSINESS

12 July 2010 Last updated at 00:21

Regional jet makers eye global growth

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Resembling a space rocket, with its pointed nose and the engines fixed to the back of the fuselage, the regional jet is perhaps the most beautiful airliner in the sky.

Regional jets became hugely popular during the late 1990s and early 2000s, especially in the US and Canada.

Initially, the market was dominated by rather small planes with no more than 50 seats.

These so-called "feeder planes" served one particular purpose: established airlines saw them as essential to bring bums into seats in their larger planes, which covered great distances between large airports.

"The whole point of the regional jet is the 'meat and potato' of getting people into the hub so they can fly elsewhere," explains Ben Boehm, vice president, programs, Bombardier Commercial Aircraft.

Since then, the regional jets have grown larger, so these days they tend to seat between 70 and 110 people.

And as their slim fuselages have been stretched ever further their appearance has become ever more elegant.

BASIC SERVICE

The same cannot be said about the casually dressed passengers who queue on the tarmac to board a regional jet flight from Seattle to Calgary.

As they wheel their bags through the puddles, their journey has more in common with coach travel by road than with the glamorous image of flight that airlines like to portray.

"It looks like its got duct tape wrapped around the tip of the wing," giggles one passenger as she drops her hand luggage on a small trolley. Apparently the overhead bins are too small so only tiny bags are allowed onboard.

The view from a cramped seat at the back of the barrel of a Bombardier CRJ is equally unimpressive.

From here, the windows appear small, the aisle seems too tight for the Air Canada flight attendants and the odour from the toilet is unpleasant.

Regional jets represent the ultimate in pragmatism in the world of flying. Airlines using these planes pioneered low-cost air travel long before the term "no-frills airlines" was coined.

COSTLY FUEL

Regional jets account for about one in five commercial aircraft currently in service, though as they are small they fly less than a tenth of the total passenger fleet, according to aerospace consultancy Ascend.

The Canadian aircraft maker Bombardier and Brazil's Embraer dominate, at least in North America, each controlling about 50% of the market.

It is a tough industry to be in, and it is not getting any easier.

Profit margins in this line of business were always low, so airlines are extremely sensitive to any movements in fuel prices.

Though still well below the \$150 a barrel peak seen in 2008, oil remains historically expensive and Bombardier expects oil prices to rise sharply yet again over the next couple of decades.

"Regional jet returns are plummeting," explains one major investor who owns shares in both Bombardier and Embraer.

"All of a sudden, what was a healthy narrow body return is being eroded."

BETTER PLANES

The regional jet makers are still optimistic about the future, however, largely because they expect the market for their planes to grow internationally.

The market is most mature in North America and Europe where most new sales will replace retired planes, explains Mr Boehm, but he predicts that "it will go to Asia and it will go to the Middle East".

China in particular is set to become a huge growth market, with lots of new airports being built, he reasons. India too is set to grow quickly in the years ahead, in line with economic growth.

But to facilitate the anticipated rise in demand for regional jets, Bombardier, which has delivered some 1,600 regional jets since 1992, realises that it must continue to improve its planes.

BIGGER PLANES

In Bombardier's CRJ plant in Mirabel outside Montreal the planes in progress are all relatively large, all in line with a trend where increasingly the regional jets are stretching towards 100 seats, Mr Boehm explains.

Enter a plane that has been built for Estonia Air, and it is also clear that the interior is being improved, with larger overhead bins, better lighting and consistent designs between large and small regional jets.

"Customers take comfort from consistency," Mr Boehm reasons.

Regional jets also have an advantage over larger planes in that their engines are at the back, thus making the cabin quieter and producing less ground noise as the engines are shielded by the wing.

This makes it easier for airlines to get permission to fly into urban airports or to fly late at night, Mr Boehm points out.

Business travellers in particular welcome this, he says, recounting his own experiences of being able to fly home late Friday night rather than early on Saturday morning thanks to regional jets connecting the hub in Toronto with Montreal.

As part of Bombardier's adjustment to the changes in aircraft demand, it is making a push into the market for aircraft with between 100 and 150 seats with its forthcoming Cseries aircraft.

In this segment, the plane maker predicts demand to reach 6,300 aircraft over the next two decades, compared with 5,800 planes in the 60-99 seat segment and just 300 in the 20-59 segment.

In total, "this segment of the overall industry is expected to generate \$588.6bn in total revenue", Bombardier forecasts, so there is still plenty left to fight for.

IMPROVED ECONOMICS

Bombardier is also working hard to improve the economics of its planes, building them so that pilots can switch between them with little additional training and extending the time the aircraft can fly between maintenance checks.

Regional jet flights also tend to be subsidised as "regional carriers are commonly compensated by their mainline partners through either a capacity purchase agreement or pro-rate revenue sharing", Bombardier observes in a report.

But do not expect airlines to stop cutting costs on the ground.

In remote airports the guy who checks the tickets may also be the one who puts your bag into the hold.



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