

Airbus faces financial impact from delivery shortfall

- A Monitor Desk Report

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Paris : Airbus (AIR.PA) is facing the financial consequences of last-minute concessions made to airlines in response to a series of minor quality issues, as it scrambled to deliver a provisional total of 123 jets in December, industry sources reported.

The year-end push brought the preliminary 2024 delivery total to 766 jets, a 4pc increase from 2023. However, this number is still subject to internal audits and may be adjusted by one or two jets before the final data is released on Thursday, according to the sources.

Despite this, Airbus is expected to declare success, having met its revised target of 750 deliveries, set after it previously guided "around 770" deliveries in an analyst briefing in October.

Airbus declined to comment on the situation. Reports on Friday indicated that the company had provisionally delivered more than 765

jets.

Airbus has been under pressure to meet targets and deliver on promises to investors after a profit warning in July. But unions and some airlines have raised concerns that the push to speed up deliveries has come at the expense of quality problems.

Malaysia Airlines last month blamed the grounding of a brand new A330neo on quality issues. Airbus said it was supporting the airline alongside engine maker Rolls-Royce (RR.L), opens new tab.

Hampered by weak supply chains, planemakers increasingly compensate airlines for cosmetic defects or pay for extra maintenance if they agree to take jets before deadlines, insiders say.

The potential stakes of such brinkmanship were exposed when Airbus agreed to pay \$200,000 per day per plane over flaws in the painted surface of A350 jets, in certain conditions, if Qatar Airways agreed to take a jet on the last day of 2020.

But right now the outlook for the South Korean giant isn't so bright - and chips are the problem.

The side-letter secured a much-needed end-year delivery but helped set the stage for a multibillion-dollar court battle before a settlement in 2023.

At one point during the dispute, Qatar had grounded 30 jets and sought to trigger the new clause over safety concerns, leaving Airbus with a ballooning exposure of \$2.1 billion a year. Airbus and regulators consistently denied any safety risk.

Two years on, sources say such colossal financial stakes have evaporated but the practice of hard bargaining under the pressure of end-year delivery targets is becoming more routine.

They said Airbus had been forced to make financial pledges or offer other commercial incentives to get several December deliveries over the line. There are no suggestions that any glitches involved in end-year delivery negotiations have safety implications.

Contained in so-called "concession letters", such delivery deals can involve tens of thousands of dollars, or in rarer cases up to one or two million for large jets, three people familiar with the Airbus handover

process said.

Airbus said it never comments on customer negotiations.

The practice of concessions is rarely discussed in the buzz surrounding whether the industry has met volume targets, but comes as Airbus is struggling to hold down costs.

The logic is to take a pragmatic view on minor niggles to keep deliveries moving and reassure airlines. For example, if a panel has to be replaced, Airbus might guarantee that repairs would not be any costlier than usual. Critics say that over-use can destroy value and affect credibility with airline buyers.

Airbus also faces pressure from unions over the impact on workers of the delivery scramble.

This month, by contrast, it faces a new slowdown.

It traditionally pushes out deliveries more aggressively in December followed by a breather in January. The contrast may be starker this year because of fluctuating engine supplies.

In November, Airbus averted the risk of a second downgrade in its targets by securing a deal with supplier CFM (GE.N), opens new tab, (SAF.PA), opens new tab to divert engines to its assembly lines that had previously been earmarked for CFM maintenance shops.

The head of CFM co-parent Safran has warned the deal will mean a corresponding drop in supplies to Airbus for January.

Airbus will also on Thursday (Jan 9) report orders for 2024. It does not publish order targets but sources have said it initially aimed for between 1,100 and 1,200 net orders after a record 2,094 in 2023. By end-November it had reached 742 net orders.

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