

Interview with Airbus' John Leahy

Some lessors who have ordered the Airbus A330 freighter are considering changing at least some of these to the passenger model to take advantage of the delays in the Boeing 787 program, Airbus chief operating officer John Leahy told LeeHam.net in an interview Tuesday.¹ This is in addition to Aircastle, which revealed during its 1Q08 earnings conference call that it was in discussions to do so.

Leahy has promoted the A330 as a serious and viable competitor to the 787 since the latter program was launched in December 2003, capable of serving routes up to 5,000 or 6,000 miles with better revenue potential than the smaller 787. Leahy's advocacy was greeted with a fair amount of skepticism that has waned as sales of the A330 have been the strongest in years.

Now with the 787 deliveries delayed up to 30 months for some customers, there is a scramble for interim lift. Boeing is considering boosting production of its 767 line and Airbus has already decided to take the A330/A340 line to 11 a month by 2010/11—about the same time Boeing could boost 767 rates (though Boeing has yet to make this decision). Airbus may further boost the rate to 12 a month.

Aircastle's disclosure was the first that lessors are considering swapping orders for the passenger version. Aircastle has 15 A330Fs ordered with deliveries to start in 2010.

"I don't want to get into detail about what Aircastle said or not," Leahy told us. "It was more of an Aircastle idea than ours. We're not going to block partners willing to do that. It's not just them; this would be more in the leasing category than any place else."

Leahy declined to name other lessor-customers who are in discussions. Guggenheim Aviation Partners has six on order, Intrepid Aviation has 20, Avion Aircraft Trading has eight, BOC Aviation has five and MatlinPatterson has six. Other customers are airlines. BOC Aviation has already announced it has leases in place for its freighters.

Guggenheim is known for being opportunistic and is considering adding to its A330 order, with early positions swapped for passenger models and additional freighters added to the back end. Guggenheim's airplanes begin delivery in 2010. Intrepid has been a solid freighter player with no previous history of playing in the passenger market, but it is also looking at a similar scenario as described for Guggenheim. Intrepid has six A330s due for delivery in 2010, nine in 2011 and five in 2012. MatlinPatterson was an investor in the reconstituted Variglog cargo operation.

¹ May 20, 2008.

All Nippon Airlines, a 787 launch customer, and Japan Airlines, an early 787 buyer, have asked Boeing about leasing 767s. Leahy isn't worried about resurgence in the 767 line.

"I'm not overly concerned about 767s. It's pretty obvious the 330 pushed the 767 out of the market. I'm not sure that many customers will choose to take the 767 over the 330. Leasing companies aren't talking about 3-5 year leases for the A330, they're talking about 8-10 year leases.

"Regionally, it's real tough to beat the economics of the 330, especially 330-300, across the Atlantic [or intra-Asia]."

The A330 is sold out "in quantity" to 2012/13.

The A350 is sold out until 2017/18 and the gap between the A350-900 and the 787-900 has been reduced to one year, Leahy says. The A350-900, the first model to enter service, is slated for delivery in 2013 and the 787-900 under Boeing's delayed schedule now delivers in 2012. The gap between the A350-900 and the 787-800 has closed to about four years.

Leahy predicts about 450 firm order sales for the A350 by the end of this year, still as yet with a sole-source Rolls-Royce engine offering. GE Engines still have not given any indication of being willing to design a new engine for the A350 and Leahy says "a warmed over 787 engine is not acceptable for the A350."

Airbus is offering 10-abreast seating on the A350, which means seat width of 16.9 inches vs 17.1 or 17.2 on the Boeing 777, the prime competitor for the A350-900 and the -1000. The A350 would have a slightly narrower aisle as well.

The economics are "astounding," Leahy says.

On other topics:

- "We think whether it's them or us, you're looking at a 2020 period" for a replacement for the single-aisle A320 or Boeing 737. In the meantime, Airbus and Boeing are engaging in "enhancement" studies. Airbus is trying blended winglets this summer with Aviation Partners, which believes this will result in a fuel burn savings on the A320 of "quite a few percent." "We've got our own weight reduction plan and aerodynamic clean up," Leahy says, with a target of 5% if the winglets work out right.
- "I'm not a big proponent of Geared Turbo Fan right now," Leahy says. "There's a lot of work that has to be done. Having a third engine to offer would be strange. I don't see a lot of [airlines]" looking for the engine, preferring the commonality of the existing IAE and CFM offerings.
- Leahy predicts 20 A380 sales this year. He would like to get to 30, hoping activity in India would be farther along than it is. There was a lot of speculation that All Nippon Airlines is ready to sign for an order, but Leahy says ANA hasn't even sent a Request for Proposal yet.

- Leahy doesn't see any US legacy airlines placing any orders until after consolidation occurs, which may or may not include new bankruptcies and capacity reductions.

Northrop's second tanker flight-tested

The second KC-30/KC-45A airframe completed its test flight and is ready to undergo conversion to a tanker when the Boeing protest on the USAF award to Northrop Grumman is resolved. Northrop assumes the protest will be rejected, so it's ready to proceed when the stop-work order is rescinded.

In a press release, Northrop couldn't help but point out it's ready to go now while Boeing's proposed KC-767AT isn't. After all, the KC-767AT hasn't been built, tested or certified and the refueling boom hasn't been built, either. The KC-30, on the other hand, is based on the model being flight-tested for the Australian Air Force.

Although the first five KC-45As will be built on the Airbus assembly line in France and converted at the EADS facility in Germany, Northrop has already scheduled a groundbreaking of the facilities in Mobile (AL) where Northrop and EADS (Airbus' parent) previously committed to assemble the tanker. We thought it rather cheeky for Northrop to make the announcement before the protest was resolved and made a rather sarcastic note of this on our companion website:

<http://leehamnews.wordpress.com/2008/05/13/jumping-the-gun-perhaps/>.

We were told afterwards that the reason Northrop made the announcement was that US Rep. Norm Dicks (D-WA) was telling anybody who might listen that the plans to assemble the KC-45A in the US were a scam (our word).

Dicks, a hyper-active Boeing booster (his district includes a lot of Boeing constituents and jobs), doesn't let facts get in the way of his opinions (a not uncommon failing among Members of Congress, by the way). Among the most crucial facts is that Airbus said it will assemble the A330-200 freighter at Mobile if the tanker award stands. This will help Airbus in its struggles with the weakening dollar to the Euro. Airbus sells its planes in dollars but most costs are in Euros and for every 10 cent weakening in the dollar, it costs Airbus \$1 billion in profits. Airbus plans to build three freighters (or four) for every one tanker, and doing so in Mobile is contingent upon the tanker contract, so of course Northrop will assemble the airplane here.

Dicks ignores this major element of the controversy. He also is willing to totally ignore the outcome of the Boeing protest to the Government Accountability Office if the GAO rejects the protest and finds the USAF procurement process was valid.

http://comebackhometomobile.com/KOT_CLIPS/CLIP1/GOAclip.html

Northrop, in its press release touting the flight test of KC-45 #2, also pointed out that the USAF selection is the fifth in a row over the KC-767. This is a point worth noting and reminding critics about.

It's also worth remembering that one of the reasons the Air Force selected the KC-30 was for its greater troop and cargo carrying capability than offered by the KC-767. The

USAF Lockheed C-5 fleet is getting old—the average age is approaching 28 years. The Air Force also doesn't want any more Boeing C-17s when the current order book is filled. The KC-30 has the ability to supplement the aging, and increasingly unreliable, C-5s and the over-taxed C-17s, which now support two wars.

An element of the analysis largely overlooked in the controversy was that the Air Force identified concerns about supporting operations in the Pacific in the future. (*Aviation Week*, March 4, 2008, and March 8, 2008.)

http://www.aviationweek.com/aw/generic/story_channel.jsp?channel=defense&id=news/PAC03048.xml and
http://www.aviationweek.com/aw/generic/story_channel.jsp?channel=defense&id=news/aw031008p2.xml

The Air Force determined the KC-30 to be better for these potential missions across the vast reaches of the Pacific than the KC-767. With China increasingly becoming a Blue Water Navy for the Pacific and boosting development and production of its submarine fleet, the Air Force apparently sees China as a long-term threat.

We continue to believe that the best short-term outcome is for Congress to double the procurement and split the contract. The proposed production rate of 12-18 airplanes a year simply is too slow to replace the Boeing KC-135 fleet, which has an average age approaching 50 years. The KC-767 is closer to being “just” a tanker and we believe there will be many missions for which this is the capability needed. We also are convinced that the KC-30 is the more technologically advanced airplane (designed 12 years later than the KC-767) and it's clearly the more capable to supplement the C-5 and C-17 fleets. The Pacific operational capability also clearly favors the KC-30.

We also believe that if the GAO rejects the protest, Boeing ought to simply accept the decision and proceed full speed with development of a Blended Wing Body tanker. Boeing has scale models in testing (funded in part by NASA, one of those “illegal” subsidy sources Airbus complains about) and has previously said the BWB could be ready for production by 2015. This is just about the time the Air Force plans a KC-Y tanker competition.

A KC-BWB will be far more efficient (25%-30% or more) than anything flying today and also more capable. The BWB could also be adapted to commercial service and revolutionize the airline industry.

By Scott Hamilton, May 21, 2008