

Supply chain stresses may worsen: AFJ Dublin 2023

Laura Mueller

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Supply chain woes that have hampered production lines and left inventories unable to meet delivery schedules will not ease before 2025, lessors at *Airfinance Journal's* Dublin 2023 event have said.

"I think it's 2025, at least. These are not overnight issues that can be solved. They are longer-term systemic challenges that we see across the supply chain," says Steven Udvar-Hazy, senior vice-president and chief procurement officer of Aviation Capital Group.

He points to the "weakest" suppliers in the chain and their impact on "the tone" of secondary or tertiary suppliers.

"It's possible that the knock-on effects may trail longer given how critical the supply chain is in our business," he adds.

Maciej Dziudzik, director of fleet at LOT Polish Airlines, stresses the desperation airlines are experiencing due to the delays. "We are trying to be positive, but airlines cannot wait longer than 2025."

Still, there are other factors impacting aircraft deliveries, says Steve Mason, former head of OEM relations at Avolon.

He sees additional pressure from aircraft that "still need to be certified" and manufacturers operating under "heightened regulatory oversight".

For these reasons, he says it is "2025 and beyond" before delivery schedules improve.

"I think this year will be worse than last year, and maybe next year is like 2022"

Udvar-Hazy says the current situation makes production rate increases unachievable.

"The challenge with the ramp-up plans is that many suppliers are challenged as is. Many are already significantly stretched and trying to achieve the current output. Pushing even further would be stressing an already stressed situation."

Mason specifically dismisses Airbus' plans to increase narrowbody production rates to 75 a month from 2025.

"I don't think they will achieve this. I understand they have to deal with the balance between the investor relations and setting expectations with investors in the City, but ultimately you have to be more realistic on what's achievable."

He says an added stress is that the production rate discussion is "playing out in the press, not board rooms."

"Manufacturers are fighting back in public and that tells me that there is stress in the system. Raytheon said 'we're not going to get to 75... we're going to get 65 maybe by 2025' and that really upset Airbus," he says.

He believes the OEM needs to sense-check its production goals.

"Is rate 75 sustainable? That is a really important question. Because ramping back up and ramping down again, if you've overshot the range, is going to really hurt suppliers if you have to do those adjustments."

Mason calls for more rational production rates to protect asset values.

"Pre-Covid, we were dealing with many issues around very high rates of production, and that destroys the value of aircraft and causes too many people to be out in the marketplace with A320s...It's disruptive from an economic point of view. And it's ultimately going to force the lessors to go back, or not, for more orders, and if they do go back, it's going to be a worse economics field."

Does this lead to undeployed capital for lessors, and orderbooks that are not fulfilled in the original time horizon?

“A lot of that capital is tied up in forward orders that are delayed,” says Udvar-Hazy. “And so the timeframe in which these investors were hoping to start getting cash flow and returns is getting pushed out, because of these disruptions.

“So the interest in the sector, and the available capital is there. It's just that these issues create complexity.”

A positive aspect of production rate increases, even if they are realised, is that suppliers are being forced to invest in their capabilities and resources, he notes.

“Airbus, in particular, is pushing the supply chain to reach a very aspirational figure, that we've really never seen before in the industry, and in many ways, it is pushing the supply chain, the suppliers out of their comfort zones.”

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