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Airbus A380 Order Dearth Risks Double-Decker-Dud Fate (Update1)

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(Adds industry move to twin-engine jets in 19th paragraph.)

By Andrea Rothman

May 5 (Bloomberg) -- Five years after its first test flight, the Airbus SAS A380 superjumbo remains more than 200 units short of making the program profitable.

Only one new airline customer signed up for the 525-seat jet since commercial operations began in 2007. Deliveries slowed to 10 A380s in 2009, from 12 a year earlier, as Airbus struggled to ramp up production of the world's largest passenger plane.

The muted response for the Airbus flagship, with just 202 orders since the jet went on offer a decade ago, contrasts with a boom in global aircraft orders and sales that led airlines to sign up for more than 3,000 wide-body planes in the same period. Airbus says it is years from making money with the A380, which cost more than 18 billion euros (\$24 billion) to challenge Boeing Co.'s decades-long grip on the market for long-haul jets.

"There's only a handful of routes you can use the A380 on, and if traffic drops on that route you're stuck," said Richard Aboulafia, vice president of Teal Group, an aerospace analysis company. "The A380 is best regarded as a \$25 billion write-off and an act of industrial irresponsibility."

The superjumbo idea was championed in the 1990s by former Airbus Chief Executive Officer Jean Pierson. His successor, Noel Forgeard, pursued the plane with backing from Daimler AG and Lagardere SCA, the two largest shareholders of Airbus parent European Aeronautic, Defence and Space Co. Forgeard was fired in 2006 after a six-month delay on the A380 construction.

'Winner'

Louis Gallois, who leads EADS today, said the A380 is a "winner," and the more than 200 planes sold so far are a success, according to a May 4 interview with Bild-Zeitung.

"Its size is the only right answer to the congestion at the overflowing airports around the world," Gallois told the newspaper, according to comments confirmed by the company.

Building the plane cost 50 percent more than Airbus had originally earmarked, as software glitches led to production breakdowns. The delays later stretched to 2 1/2 years. This year, Airbus aims to double deliveries to 20 planes, a goal the manufacturer itself has called "aggressive."

Deutsche Lufthansa AG gets its first A380 this month, the second European airline after Air France to operate the jet. Singapore Airlines has ordered 25 A380s, and Emirates Airline signed for 58. The list price for an A380 is \$327 million, though early clients get discounts, and Airbus also owed penalties for late deliveries.

Fuel Efficient

The airplane manufacturer markets the A380 as more fuel-efficient per passenger mile than older and smaller jets, allowing airlines to alleviate congestion to major airports and on busy routes. Airlines operating the A380 say it's a crowd pleaser, attracting flyers with its double-decker layout, and on-board perks such as first-class cabins and cocktail bars.

"Our first-class suite optimizes beautifully on the main deck, and our business class suite optimizes perfectly for the upper deck and gives us both of these things that a single floor aircraft would have to compromise," said Lyell Strambi, group executive of operations at Sydney-based Qantas Airways Ltd., which has six A380s in service, with orders to increase its superjumbo fleet to 20.

The superjumbo's perks may prove less attractive in a market reeling from a global recession that wiped out six years of premium travel growth, according to the International Air Transport Association. Qantas is removing first-class cabins from some A380 planes, and shrinking business class to add premium-economy and coach seats on other A380s.

Lagging Indicator

Airlines stand to lose a collective \$2.8 billion this year, down from about \$9.4 billion in 2009, according to a forecast IATA made before travel disruptions caused by a volcanic ash cloud last month cost airlines billions in lost revenue.

The effects from rising or contracting air travel can take more than a year to feed through to manufacturers, as airlines take time to adapt their order patterns to demand. Manufacturers estimate that there's typically a six-month lag between the time airlines' profit rebounds and when they begin ordering new aircraft.

Even as the economy picks up steam, airlines may be no more inclined to order the jet than during the recession. Several A380 customers have sought deferrals, while maintaining deliveries of smaller, wide-body planes. Those postponing include Air France KLM group, Etihad, Qatar Airways Ltd. and Virgin Atlantic Airways.

Virgin Delays

Virgin deferred the first of six planes on order to 2013 from 2009. The carrier has since pushed the date out to as late as 2015 and is indefinite about taking delivery at all.

"We've left our options open to see where that plane is by 2015 and where the market is," Chief Executive Steve Ridgway said in a telephone interview April 28.

Virgin is now looking at Airbus's A350, which seats 300 to 350, and plans to take delivery of 15 Boeing 787s as soon as they're available, the CEO said. The 787, built in large parts from composite materials, seats 250 to 300 people.

The rise of the wide-body market has been helped by more reliable engines, opening up long routes to twin-engine planes such as the Boeing 777 and 787 and Airbus A350. Aviation regulators said in 2007 that jetliners with two engines are as safe as those with three or four, providing less reason for carriers to pick planes such as the A380 or competing 747-8.

Small in Japan

Before it even flew, Airbus predicted sales for the A380 of as many as 1,000. Today, Airbus's official prediction for the next 20 years is 1,300 plane sales in the jumbo category, including the Boeing 747-8. Boeing sees potential for 740 units.

Aviation analysts are less optimistic. Over the next 10 years, airlines worldwide will take deliveries of an estimated 100 very large planes and about 450 wide-body jets, according to a forecast released May 4 by Ascend Worldwide Ltd., a London-based aviation adviser and forecaster.

One market where Airbus has so far failed to sell the A380 is Japan, a country it had targeted as one of the biggest recipients because of its dense population. Japanese airlines have been the largest operators of Boeing's 747 jumbo plane, where the jet is used on domestic routes.

Airbus's market share has been less than 5 percent in Japan over the last decade, with no order backlog. That compares with Boeing's order backlog of 173 aircraft in the country.

Boeing's Boom

Occupancy rates on routes where the A380 flies are as much as 10 percent higher than on models by competitors, said Richard Carcaillet, Airbus's marketing director for the plane. That advantage means Japanese airlines will have no choice but to acquire the aircraft as carriers including Air France begin flying into Tokyo's Narita, he said.

"There is strong potential in Japan and the U.S.," he said. "Maybe not in two years, maybe in five years, or eight years, but these carriers will in my view end up deciding on the A380." Carcaillet predicts at least another 600 sales of A380s.

Even if Carcaillet were proven right, Airbus would sell less than half as many A380s than Boeing has delivered of its 747 jumbo jet since the model was launched in 1969. When the plane first flew, it was twice as large as anything else and offered more range than any other commercial transport, opening the door to inexpensive, mass transport.

Wide-Body Revolution

In the four decades that followed, wide-body models with long range and greater flexibility moved into the market for long-haul flights. Boeing's 787, entering service late this year, already has 866 orders and Airbus's A350, entering service in 2013, has 530 orders for the jet.

As wide-body jets made from composite materials flock to the market, Airbus may find that its A380, with a maximum takeoff weight of 569 tons, lacks the flexibility that airlines demand to address travelers' growing preference for direct flights instead of landing at major airports and then switching.

"The market for the plane is too limited to ever make any real money, and I don't think the end of the recession will change that," said Hans Weber, president of aerospace advisory firm Tecop International in San Diego. "It's been well-received by passengers and done pretty well as far as reliability but the market's probably limited to no more than another 200 planes."

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