THE TIMES

Payout gives Airbus a soft landing

BUSINESS COMMENTARY

By Alistair Osborne
Wednesday January 29 2020, 12.01am

How time flies at Airbus. It wasn't so long ago that it had to bribe people to buy its planes — allegedly, anyway. Why do that nowadays? It can rely on a nice persuasive sales pitch from the staff. Yes, those at rival Boeing: the go-to place, apparently, for aircraft "designed by clowns who are in turn supervised by monkeys".

Naturally, Boeing's horrors with the grounded 737 Max have added a bit of thrust to Airbus. Last year, it retook the top spot for aircraft deliveries for the first time in eight years: 863 versus 380 for Boeing, the US business reeling from two deadly Max crashes killing 346 people. But that doesn't mean it's all been cruise control for Airbus, as proved by its jumbo deal with three fraudbusters.

Airbus has agreed to settle with the Serious Fraud Office, its French counterpart and US regulators after "investigations into allegations of bribery and corruption" that began in 2016. There's no admission of guilt, but a 3.6 billion bill is a handy guide to the wide-bodied charge sheet that the European plane maker has opted not to fight.

True, it's hardly the first aerospace outfit to get nicked for alleged kickbacks to iffy middlemen. BAE Systems and Rolls-Royce have been here before. Rolls was one of the first to cough up under the SFO's deferred prosecution agreement regime, paying £497 million in 2017. It'll also be a DPA for Airbus: probably a record one, too, and all the more painful for having tipped off the SFO in the first place.

The company, which employs 13,500 people in Britain, 'fessed up to dodgy dealings spotted by UK Export Finance. Airbus had been in the habit of getting credit lines and loan guarantees from the agency: a body that had backed £11 billion of funding spanning 220 deals to sell Airbus aircraft between 2006 and 2015. But it froze its support in April 2016, alarmed at missing paperwork and discrepancies over consultants' fees in Airbus applications — even if the freeze has since ended.

It proved the cue for the SFO and others to start poking around. And for Airbus to clean up the corporate hangar. It disbanded the marketing wing embroiled in the inquiry, parting ways with about 100 staff. Moreover, at the top of the group there's been a complete change of crew. Strategy chief Marwan Lahoud, chief operating officer Fabrice Brégier, finance chief Harald Wilhelm and chief executive Tom Enders have all gone. And while there is no suggestion of any wrongdoing by that quartet, their exit probably made it easier for new boss Guillaume Faury to settle.

The upshot? A deal welcomed by analysts for removing an "overhang" on the shares, even if Jefferies found the bill "towards the upper end of what we thought probable". It's odd, too, that the SFO is still digging around Airbus's $3.3 billion Saudi communications deal: a case alive since 2012. But Airbus shares rose 1 per cent to 134.24 and it can now focus on the future, such as hybrid-electric aircraft. If only Boeing could write a cheque to make its problems go away.

Branson's slot luck

As the Flybe saga proves, soft loans for billionaires looks the central plank of BoJo's "levelling up" malarkey. And all the more exciting, too, given the owning trio's disparate reasons for buying the airline: a potential flip or asset strip for New York hedge fund Cyrus Capital; Virgin Atlantic's chance to land more lucrative slots at Heathrow; or Stobart lucking out with a deal valuing its aviation assets at £40 million-plus. Or about five times what they're worth.

Still, as government ministers discuss a £100 million taxpayer loan for a trio plenty wealthy enough to put in the money themselves, they shouldn't lose sight of one thing. That, from the end of March, Flybe will get "grandfather" rights to nine pairs of money-spinning Heathrow slots: the reward for operating flights to Edinburgh and Aberdeen for the requisite three years.

Add in the four Heathrow slots the trio have gained by legging over Cornwall county council and switching the Newquay service under the taxpayer-funded "public service obligation" regime to Gatwick and things should be looking up. That wheeze unlocked an estimated £60 million of value, as Virgin might swiftly prove.

The freed-up, short-haul Heathrow slots meant for Newquay could instead be used for the Edinburgh or Aberdeen flights, so liberating the newly "grandfathered" slots for services to European bases, such as Paris and Amsterdam, used by Skyteam: the airline alliance starring Virgin Atlantic's 49 per cent owner Delta Air Lines. Skyteam airlines could then cut frequencies to Heathrow, so freeing up slots that Delta could use for highly prized flights across the Atlantic.

In short, by the end of March, the duo behind Virgin Atlantic — Sir Richard Branson and Delta — could have used Flybe to monetise some highly lucrative slots at Heathrow. And they can't even wait until then without demanding a tax holiday and a government loan. They really have got a nerve.

The cost of vanity

Roll on the government's £100 billion "infrastructure revolution". The latest from Barbour ABI, the "construction intelligence services" outfit, shows contract awards fell 10.3 per cent last year to £10.4 billion. To boot, 2019 was the second fall on the trot, with awards' value losing 50 per cent between 2017 and 2019. Barbour says the previous two-year period was boosted by mega contracts, such as "enabling works for HS2".

Naturally, it highlights the risk to the sector of big projects "being delayed, descoped or cancelled" — pushing the case for HS2. But don't the figures also show something else: an industry too dependent on big vanity projects? Building smaller stuff that's deliverable might do more for the revolution.

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