



Aircraft Purchase Contracts
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Aircraft Purchase Contracts

- * Introduction of speakers

- * Introduction of companies and recent involvement in aircraft purchase order

Aircraft Purchase Contracts

- * Sale and purchase of aircraft is a long term process

- ** From development to sales

- ** Market risks

- *** Fuel Price

- *** Market perception of aircraft

- *** Residual value

- ** Recouping investment

- ** Competitive products developed by other manufacturers

- ** Engines from development to sales

Aircraft Purchase Contracts

- * Securing orders

 - ** Engine manufacturer

 - *** Price economically

 - *** Performance guarantees

 - *** After sale services and parts

Aircraft Purchase Contracts

- * Securing orders

 - ** Airframe manufacturer

 - *** What do airlines want

 - *** Trade studies

 - *** Marketing the aircraft: what airlines can do with the product

Aircraft Purchase Contracts

- * Securing orders

- ** Airline

- *** Talking to manufacturers; try to get in on the product

- *** Risk factor: don't want cutting edge

- *** Perfect decision at perfect time

- *** Suitability of aircraft for route

- *** New routes

- *** Rfp process

Aircraft Purchase Contracts

- * Securing orders

- ** Lessor

- *** Speculative

- *** Trying to figure out what customers are looking for

- *** New technology vs old technology

- *** Spotting right product at right time

- *** Trying to read whole industry

Aircraft Purchase Contracts

- * Customizing the aircraft

- ** Airframe manufacturer

- *** Standard customization

- *** Enough options offered by manufacturer to satisfy airlines

- *** Products not offered by manufacturer

Aircraft Purchase Contracts

- * Customizing the aircraft

 - ** Lessor

 - *** Based on customers

 - *** Challenges on timing

 - **** Engine selection 12 months out

 - **** Need to know 18 months out

 - **** Need to line up customers to meet milestones

Aircraft Purchase Contracts

- * Options vs firm orders

- ** Option: certainty on slot

- ** Purchase right: certainty on pricing only, not slot

- ** Engine manufacturer

- *** Flexibility for customer

- *** Managing process

Aircraft Purchase Contracts

- * Option vs firm orders

- ** Airline's perspective

- *** Firm: network replacement

- *** Options: room to grow

- *** Want flexibility as long as possible

- ** Airframe manufacturer

- *** Prefers selling firm

- *** Options reduce ability to sell to others

Aircraft Purchase Contracts

- * Options vs firm orders

- ** Lessor

- *** In middle between airlines and manufacturer

- *** Wants to place aircraft as soon as possible

Aircraft Purchase Contracts

- * Timing from order to delivery

 - ** Manufacturer pipeline

 - ** Backlog

 - ** Critical introduction into business cycle/plan

 - ** From airframe manufacturer's perspective

 - ** From engine manufacturer's perspective

 - ** From airline's perspective

Aircraft Purchase Contracts

- * Timing from order to delivery

- ** Lessor

- *** Timing critical because orders are speculative

- *** Lining up customers

- *** Timing of engine selection

Aircraft Purchase Contracts

- * Pre Delivery Payments (PDP)

- ** Manufacturer wants as much as possible to reduce risk/exposure

- ** Give and take in negotiation

Aircraft Purchase Contracts

- * PDP Financing

- ** Collateral: only delivery position, no airplane

- ** Is financing party willing to commit to buy airplane?

- ** Does manufacturer want option to buy back delivery position (step back rights)?

- ** Lessor:

- *** Whether to finance depends on size of order

Aircraft Purchase Contracts

- * Retirement of older aircraft

- ** Find potential customers for older aircraft

- ** Manufacturer agrees to trade in

- ** Airline

- *** When will new deliveries occur

- *** Is the aircraft owned?

- *** If leased, will lease be extended

Aircraft Purchase Contracts

- * Retirement of older aircraft

 - ** Lessor

 - *** Realization of lessor value: make or break investment

 - *** Cost evaluation: pay for engine overhaul, major maintenance?

 - *** Make airline pay or financial settlement

 - *** Part out option

Aircraft Purchase Contracts

- * Maintenance of aircraft following delivery

- ** Need for certainty in costs

- ** Power by the hour for engines

- ** Airframe manufacturer programs

- ** Lessor

- *** No major maintenance costs for new aircraft

- *** Desirability for certainty with lesser credit airlines

- *** Lessor contributions to maintenance costs

- *** Maintenance reserves

Aircraft Purchase Contracts

- * Customer support
 - ** Warranties and warranty claims
 - ** Training
 - ** Field support
 - ** Provide spare engines

Aircraft Purchase Contracts

- * Customer support

- ** Airline

- *** Wants same package whether buy from manufacturer or leasing company

- ** Lessor

- *** Wants industry standard package to pass on to customer

Aircraft Purchase Contracts

- * Sale of parts following delivery

 - ** On shelf

 - ** Inventories

 - ** Pricing

 - ** Economics of engine sale and parts sales

Aircraft Purchase Contracts

- * Digital services

- ** Computerized monitoring

- ** Big data

- ** Complexity of managing huge amount of data

- ** Manuals have become digital because depend on digital input

Aircraft Purchase Contracts

- * Digital services

- ** Manufacturer

- *** Wants to sell services

- *** Wants to use to optimize product

- *** Wants no operational liability

Aircraft Purchase Contracts

- * Digital services

- ** Airline

- *** Responsible for maintaining aircraft

- *** Manufacturer more capable of analyzing some data

- *** Need to commit resources to analyze

Aircraft Purchase Contracts

- * Changes in purchase orders
 - ** Customizing the aircraft
 - ** Reducing price
 - ** Changing paint livery
 - ** Regulatory changes
 - ** Adding a feature