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Airbus Bets on a Stretched A220 Jet to Beat Boeing's 737

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By Julie Johnsson and Siddharth Philip

(Bloomberg Businessweek) -- The Airbus A320 set its manufacturer on the path to becoming the world's largest aircraft producer. Crisscrossing continents since the late 1980s, the single-aisle jet boasts advanced aviation controls such as joystick steering and a choice of engines from competing manufacturers that have made it an industry favorite alongside the Boeing 737, bringing in the bulk of orders and profit at the European aerospace giant.

Now, Airbus SE is studying a new airliner that could eclipse the three-decade-old A320. A stretched version of its smaller A220 jet, the model would accommodate about the same number of passengers as the 170-capacity A320, but with better fuel economy and more modern design specifications, while allowing the company to sidestep the huge investments needed for an all-new aircraft.

Pushing into the niche occupied by the A320 and the 737, the A220-500 would give Airbus an opportunity to take market share at a time when Boeing Co. has said it won't come out with an all-new jet model for the rest of this decade. Boeing will wait until there's a "generational leap" in technology that would provide fuel savings of 20% to 30% versus current narrowbody jets, Chief Executive Officer Dave Calhoun said at its April 18 annual meeting. That timeline might give Airbus a chance to build sales momentum for a stretched A220 version in the next few years. "Whereas Boeing may be forced to develop something new, Airbus can keep harvesting its current offering," says Addison Schonland, an analyst at aviation consultant AirInsight. "They lose nothing."

Airlines already flying the existing A220 variants—including Air France-KLM, Air Baltic, Delta and JetBlue—are interested in the European planemaker building a larger version, say people close to the discussions, who asked not to be named speaking about private deliberations. Other potential buyers include Air Canada, British Airways parent IAG SA and even Lufthansa, Boeing's first customer for the 737, one of the people says.

Airbus has said it's not a question of if, but when, it will start making the A220-500. The Paris Air Show in June will provide a chance for it to gauge interest from customers and seek their input. "They need to talk to airline customers and aircraft-leasing companies to get the exact specifications," says Michael Weiss, chief commercial officer at aircraft financier ABL Aviation.

Airbus and Boeing have focused in recent years on tweaking existing aircraft rather than designing brand-new models, whose development costs can reach \$15 billion. But the cheaper route of stretching a tried-and-tested plane still bears considerable financial and strategic risk. It could sap billions of dollars

of much-needed cash flow if Airbus leaders are wrong about airlines' appetite for a possible successor to the 737 and the A320, today's workhorses of the skies. Number of seats a stretched A220 is expected to have, about 50 more than its smallest model: 170 To be commercially viable, the larger A220 would need the range to fly cross-country in the US, meaning it would probably need a more powerful engine than the two current versions. The turbofan that powers Boeing's 737 Max, built by the CFM joint venture between General Electric Co. and France's Safran SA, would be a good fit—if Airbus could modify the current deal that makes Raytheon Technologies Corp.'s Pratt & Whitney unit the exclusive engine maker for the A220.

But that would also necessitate a redesign of the wing and the pylons from which the turbines hang—investments that could quickly run into the billions of dollars for Airbus and its suppliers. And the company needs to increase A220 production to start earning a profit on the jet. It churns out about 50 A320-type aircraft each month, compared with only about half a dozen A220s.

As Airbus studies the stretched A220, management is weighing a series of complex trade-offs. There's the risk of cannibalizing its biggest cash cow, the A320, with a lower-priced plane that's costlier to make. "They're absolutely under no compulsion to do it, because the A320 competes well with the Max 8," George Dimitroff, head of valuations for consultant Ascend by Cirium said of the stretched A220. "Yes, it would boost sales, but it would eat into the A320 market." Executives must also figure out their engine strategy after technical issues on the Pratt engine grounded a substantial part of the current A220 fleet in recent years. Pratt won't be in a position to invest in an upgraded version until it sorts out its own supply chain strains, which could take a year or two, says one of the people close to the discussions. Raytheon Chief Financial Officer Neil Mitchell declined to comment on whether the company is in talks about the A220-500 with Airbus. "I don't want to get ahead of our customer," he says.

Rival CFM might be tempted to develop an engine for Airbus's new plane, but only if it could provide them for all three A220 models and not just the stretched version, giving it enough potential sales to justify the investment, says ABL Aviation's Weiss. A second engine option could also create a commercial complication by reducing the new plane's commonality with the smaller A220 models. Airlines typically prefer maintaining as much interchangeability as possible within their fleets, making it easier to handle spare parts and employee training. Otherwise "it's a standalone product, and that's not attractive," says Dimitroff.

Airbus inherited the engineering studies for a third A220 model when it took control of the jetliner family from cash-strapped Bombardier Inc. in 2018. Bombardier designed the aircraft then called the C-Series but struggled to build sufficient sales. Executives have become increasingly intrigued as they study the market for a roomier aircraft offering seating similar to that of the 737 Max 8—Boeing's only hot seller in the single-aisle category—but with a newer design and better fuel economy.

With the A220-500, Airbus could divide its narrowbody lineup into six models across two families. The three A220 models would span the lower end of the narrowbody market to complement the three versions of the company's larger A321—its stretch version of the original A320 that's become its bestselling single-aisle model.

Airbus CEO Guillaume Faury says he can afford to take some time before pulling the trigger on a stretched A220. "We don't need the plane today, but we believe it will make a lot of sense

when the A320 family have gone more to the A321,” Faury said in an interview in November, days after Boeing’s Calhoun had ruled out designing a new midsize plane.

Still, Airbus risks its window of opportunity. If the new jet doesn’t begin flying commercially until the early 2030s, it would chance being leapfrogged by Boeing’s next narrowbody. Some even think launching the plane now might be too late. “Frankly, today is when the A220-500 should have been entering service to have a shot at good market penetration,” says Scott Hamilton, a consultant with Leeham Co.

—With Ryan Beene and Mary Schlangenstein