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Boeing's latest MAX problem creates more headache for airlines

By Rajesh Kumar Singh, Tim Hepher and Allison Lampert

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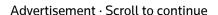
[1/2] The fuselage plug area of Alaska Airlines Flight 1282 Boeing 737-9 MAX, which was forced to make an emergency landing with a gap in the fuselage, is seen during its investigation by the National Transportation Safety Board (NTSB) in Portland, Oregon, U.S. January 7, 2024. NTSB/Handout via... <u>Acquire Licensing Rights</u>



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CHICAGO, Jan 10 (Reuters) - A cabin blowout at 16,000 feet and the grounding of more than 170 Boeing (BA.N) jets have rekindled frustration among airlines over the planemaker's struggle to contain a series of safety and supply crises, industry officials and experts said.

Alaska Airlines (ALK.N), which operated Friday's domestic U.S. flight, and United Airlines (UAL.O) together have 70% of the MAX 9 fleet and have canceled hundreds of flights.



And with provisional checks turning up loose bolts in some of the grounded planes, the return to service could be delayed, with implications for the earnings of both airlines.

Some analysts have already trimmed first-quarter profit estimates for both the carriers. However, the scale of impact depends on how long the planes remain grounded.

Boeing CEO Dave Calhoun on Tuesday acknowledged mistakes and told staff he and many customers had been "shaken to the bone." Boeing must work to earn their confidence, he said.

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"In the next couple of weeks, we will be under siege," Calhoun warned, according to people familiar with his remarks.

The siege may be felt in the media, investigation labs or the corridors of Congress - but also in boardrooms of some of the world's largest airlines, according to executives.

That could also increase pressure for further discounts to win new sales - though the market for new planes remains tight and long lead times additionally mean prices usually creep up again to cover inflation, airline and market sources said.

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"Enough is enough," said Dennis Tajer, a spokesman for American Airlines' (AAL.O) pilots union. "There's a deeper systemic problem at Boeing."

United, forced to ground 79 jets for which it had sold seats, is incensed with a supplier with which it shares corporate roots, people familiar with the matter said.

United declined to comment.

Boeing referred to Tuesday's comments by Calhoun, who expressed confidence that customers would again show their confidence, but that Boeing would have to demonstrate this by its actions.

Industry frustration with the planemaker had been building up long before a so-called door plug of a 737 MAX 9 aircraft fell off during the Alaska Airlines flight last Friday.

A series of production problems has delayed Boeing's aircraft deliveries, making it harder for airlines to capitalize on demand. It is not alone in facing supply struggles, however.

Airbus twice missed targets in 2022 but sprinted to a stronger-than-expected finish last year. Supply chains remain tight across the industry due to parts and labor shortages.

American Airlines CEO Robert Isom publicly asked Boeing's senior management team last year to "get their act together."

In private, some airlines have pondered direct approaches to the Boeing board or an industry-wide approach but have not gone ahead with any joint steps, industry sources said.

Southwest Airlines (<u>LUV.N</u>), one of Boeing's loyal customers, had to trim growth plans last year due to the delivery delays. It may again have to adjust plans if the latest accident slows certification of the smaller MAX 7.

The delay in certification has already forced Southwest to convert some MAX 7 orders into the larger MAX 8 variant.

'EGGS IN ONE BASKET'

While Southwest has been calling Boeing a "great partner," a senior pilot representative said the airline needs to look beyond the U.S. planemaker to reduce its business risk. Airbus has long tried to woo the airline with its smaller A220.

"Boeing has proven what happens if you put all your eggs in one basket," said Tom Nekouei, vice president of Southwest's pilot union.

Boeing and its MAX have been under scrutiny ever since crashes of the more widely-sold MAX 8 killed 346 people in 2018 and 2019. It led to worldwide groundings for 20 months.

Since returning to service, the MAX has faced a series of setbacks including loose or missing hardware, improperly drilled holes and incorrectly attached brackets.

Similarly, a fuselage issue led to a pause in deliveries of Boeing's larger 787 last year.

Industry officials say delays have made it harder to plan schedules. "Airlines want certainty," said one official, asking not to be named.

But airlines are in a bind as demand roars back from the pandemic. Airbus' (AIR.PA) order book is full through 2030.

Boeing this week reported its third-best annual aircraft sales as airlines scramble for capacity. Indian airlines Akasa has been fine-tuning an <u>order for 150 MAX</u>, sources have said.

Longer term, airlines want competition since the industry is dominated by two suppliers.

In 2019, as Boeing reeled from the wider MAX groundings, the then head of British Airways parent IAG, Willie Walsh, stunned the world's largest air show with a Paris order for 200 MAX.

The order was later downscaled to 50, but the influential airlines boss, who now runs industry association IATA sent out a signal that airlines prefer a choice of suppliers.

Patience is however wearing thin, analysts said.

Addison Schonland, partner at Airlnsight, said a strong and stable duopoly is the most desirable

outcome for commercial aviation.

"Each MAX event impacts that stability negatively," Schonland said.

Reporting by Rajesh Kumar Singh in Chicago, Tim Hepher in Paris and Allison Lampert in Montreal, Valerie Insinna in Washington, Joanna Plucinska in London Editing by Nick Zieminski

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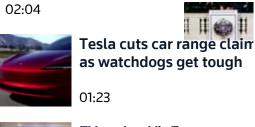
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