

AGP SUPPLY CHAIN - CONTRACT TERMS OVERVIEW

Liquidated Damages (LD)

- The sector is increasingly moving toward 'just-in-time' production which removes the need for inventory buffers.
- Claims are often for late and or systematic late delivery. Primes will seek to recover their costs and may apply penalties where applicable.
- Suppliers may be invoiced separately for liquidated damages.
- The contract may specify a maximum or cap level for LD's.
- Recurrent claims for LD's may be identified and acted upon in Supplier evaluation assessments.

Technical Costs Recovery

- This is a feature of supply contracts that tends to address the cost of rectifying quality issues. Most parts are manufactured on a 'make to print basis' and due to the highly regulated nature of the sector, have to conform to a variety of standards.
- Any deviation from approved design will require an investigation/analysis of the part by the Prime to establish liability. The costs of this work may be passed on to the Supplier.
- If a Supplier fails to inform the Prime of a defect/deviation the Supplier may be liable to further costs which may include product recall.
- It is typical that a Supplier will hold insurance policies to cover larger claims.

Warranties

- All products and parts have warranties from Suppliers. These warranties will give recourse back to Suppliers in the event of manufacturing defect.
- Warranties can cover a variety of criteria e.g. No. of Years, flying hours, flying cycles (take off and landing = 1 cycle)
- Liability for manufacturing faults typically rest with the Suppliers whereas liability for design faults rests with the Primes.
- Primes will expect Suppliers to have adequate insurance to cover the cost of claims etc.
- Warranty claims can be as simple as repair/ replacement through to complete suspension of supply and recall.

Free Materials / Free issue parts

- Tooling may be owned by the Supplier or Prime.
- Free issue parts and material are increasingly less common. However where they exist these should be appropriately identified e.g. stock label, equipment tag.

Continuity of Supply

- Contract terms tend to be: 2-3 years, 5 years, 10 years or Lifetime of the part / programme
- The Prime may reserve the right to cancel a longer term agreement on the grounds of late delivery, poor quality performance or uncompetitive pricing.
- The complexity of Aerospace parts and the regulation surrounding these parts will typically mean Suppliers will have notice of termination of supply (excluding safety critical issues).

Escalators

- Escalators provide parameters for Suppliers to pass on cost inflation E.g. energy prices, raw materials and labour. Escalators can be linked to RPI.
- Where a contract has no escalators, this then falls to the Prime and Supplier to negotiate.

Volume Uncertainty

- It is common for Primes not to provide volume commitment in contracts.
- The lifecycle of specific aircraft/platforms will often dictate anticipated volumes.

Performance Monitoring

- Most Prime contracts will have a means of measuring performance e.g. Supplier scorecard. Typical performance measures include: Management, Quality, Delivery, Technology and Cost.
- Continued poor performance may impact a Supplier agreement.
- Suppliers are expected to maintain a high level of operational rigour in all areas including: business continuity & disaster recovery plans.