

Russia's VSMPO Says Airbus to Face Fines If Quits \$4Bln Titanium Contract

By [The Moscow Times](#)

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Titanium producer VSMPO-Avisma said to Airbus there will be consequences for exiting a \$4 billion contract.

VSMPO-Avisma, the world's largest titanium producer, has warned Airbus it would be forced to pay penalties if the European aircraft manufacturer terminated a \$4 billion contract with its Russian supplier.

VSMPO is 25 percent owned by state defense conglomerate Rostec, whose CEO Sergei Chemezov was made the subject of Western sanctions in late April for Russia's role in the Ukraine crisis.

"Contracts remain valid and cannot be canceled for no reason. Otherwise, penalties come into force," VSMPO CEO and co-owner Mikhail Voevodin said in an interview with Reuters published Friday.

"A contract until 2020 was signed with us. And it is difficult to assume that the largest European aircraft maker would neglect the terms of the existing partnership," Voevodin said.

He declined to comment on the size of the potential penalties.

Airbus chief operating officer Gunther Butschek said this month there were no short-term impacts from the crisis in Ukraine but that the firm was looking to safeguard supplies of titanium, which is used in its A350 jet.

The West has threatened to tighten sanctions should Russia dramatically ramp up aggression against Ukraine by recognizing the separatist referendums that took place in eastern Ukraine earlier this month.

VSMPO and Airbus/EADS struck the \$4 billion deal five years ago under which the titanium giant would supply the planemaker with rolled titanium alloys until 2020.

"The advantage of a long-term contract is stable conditions. We always strictly fulfill the terms of the contract, so do our partners. ... Politics is politics and business is business: all of our contracts are mutually beneficial," said Voevodin.

VSMPO meets 60 percent of titanium products demand at Airbus and 40 percent of demand at its U.S. rival Boeing.

Last year, VSMPO, which exports 70 percent of its output, raised production to 28,855 tons from 26,242 tons in 2012.

Voevodin said that should Airbus quit the contract, it would take the company two to three years to find new buyers for its titanium, which is also used in the energy, chemical engineering and medicine industries.

He also said that it is impossible to find an adequate replacement for VSMPO products in less than three to five years.

Besides VSMPO, U.S.'s Timet, Alleghany Technologies, Japan's Toho Titanium, and China's Zunyi Titanium and Pangang and Jinchuan groups are large titanium suppliers.

Gazprombank analyst Maxim Khudalov said Airbus was unlikely to find alternative titanium suppliers anytime soon.

"Despite the increase of titanium production in China, domestic demand is also high there," he said.

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