

# [The not have to be replaced, changed](https://assignbuster.com/the-not-have-to-be-replaced-changed/)

The moreOPEC cuts the supple of oil, which is needed for airplane fuel, airlinecompanies have to depend more and more on hedging. In an ideal case, thecompany has a flexible policy regarding hedging that matches to tries to matchthe fluctuations. If “ OPEC” decides to produce more or increase supply then thecompanies will be left with extra output.

If the company is considering relyingon Shell instead of the bigger OPEC then this is will be an advantage becausethis will be a natural hedge against any OPEC decision to cut or increaseproduction, providing the company with more stability in that field. However, the choices are still narrow and changes affect the entire market1One majorshift will be the use of certain flowers, or natural herbs (algae, flax, coconut husks or even from used cooking-oil) to produce airplane fuel( Bio Fuel), this is a huge advantage because the airplanes engines will not have to bereplaced, changed or even renewed because of the newly produced fuel. We aretalking about a fuel that is eco-friendly and “ green” because the plants fromwhich they are derived absorb CO2 from the atmosphere as they grow and releaseit when they burn, and this fuel is renewable unlike the classic fossil fuel. Since the number of passengers and relatively the number of flights is likelyto double as we go into 2030, having such a replacement is good news in a” Win-Win” situation. 2One examplewould be Airbus; they also say the technology, in which it and the Bavariangovernment are investing more than 10 million euros ($11 million) between them.

3Secondly, aircrafts areconsidered one of the most important and highest expense in theairline industry. The mainsuppliers within the airline industry are the manufacturers of aircrafts likeAirbus and Boeing, Two major determinants in terms of aircrafts and theirmanufacturers are sale or lease basis, which means that it mostly depends onthe companies and whether they want to have the aircrafts as assets on theirbalance sheet or would prefer a higher ROA by applying the lease basis. Moreover, at the current stage, aircrafts for longdistance travel cannot be substituted by any other product, which strengthensthe bargaining power of the suppliers even more.

In this industry, the inputs are extremely standardized allowing for only minor changer. Airlinecompanies only seem to differentiate with amenities. The planes are verysimilar. Bulky aircraft purchases are also very common. 4