

Uncertainty Prevails Over China's Proposed Aircraft Tariff

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The G650ER is one of three Gulfstream business-jet types that could be affected by China's proposed 25 percent tariff on U.S.-manufactured aircraft with empty weights from 15,000 kg to 45,000 kg.

China's proposed 25 percent tariff on U.S.-manufactured aircraft with empty weights ranging from 15,000 kg (33,069 pounds) to 45,000 kg (99,208 pounds) will be a key topic for discussion at the ABACE show in Shanghai—but much of the discussion will focus on what the business aviation industry doesn't yet know about China's potential plans for imposing the tariff, rather than what it does know.

Most industry observers think that in specifying that particular empty-weight range when announcing its proposed aircraft tariff on April 4, the Chinese government was mainly targeting Boeing—and more specifically its high-selling 737 family—rather than U.S.-based business-jet manufacturers.

“I feel that Boeing's airliners were the main target of China's proposed tariffs and that business jets were collateral damage,” said Brian Foley, principal of business aviation consultancy Brian Foley Associates. “China was careful when setting its aircraft weight limits to exclude the most popular Boeing aircraft. To me it's really a message from China saying that they could expand the weight limits to include more Boeing aircraft at any time.”

However, in addition to Boeing's 737-700-based BBJ, the tariff, if implemented, would also apply to the G550, G650, and G650ER, Gulfstream's three largest and longest-range business jets. Accordingly, the 25 percent tariff—which Jeffrey Lowe, managing director of Hong Kong-based Asian Sky Group, said would be additional to China's existing 5 percent import duty and 17 percent value-added tax on business jets registered to Mainland China's B-prefix aircraft registry—could present a sizable problem for Gulfstream in particular.

According to Rolland Vincent, creator of the JetNet iQ market-intelligence service, of 181 Gulfstream Aerospace business jets based in China (whose total based business jet fleet now numbers 431 aircraft), 112 are of the three potentially tariff-affected models. Additionally, 20 of the 95 new G550s, G650s, and G650ERs delivered worldwide by Gulfstream in the 15 months from January 1, 2017, to March 31, 2018, went to Chinese customers—21 percent of Gulfstream’s total market for those types during the period. Should all future deliveries of the three models to Chinese customers have what effectively would be a 47 percent import tax imposed on them, this could impact Gulfstream’s sales strongly.

However, an important talking point at ABACE will be whether—as industry insiders such as Lowe and Vincent believe—China’s proposed tariff would apply only to aircraft imported for placement on China’s registry and not to aircraft purchased by Chinese customers but registered in other jurisdictions such as the United States, Bermuda, the Cayman Islands, and the Isle of Man. Of the 20 large Gulfstream business jets delivered to Chinese customers in 2017 and the first quarter of 2018, only 10 were placed on the Chinese registry while the other 10 were registered offshore, according to Vincent.

Should China levy the proposed tariff only on aircraft placed on its own registry, “Any additional tariff would presumably eliminate registration of affected business jets in mainland China and increase offshore registrations elsewhere,” said Foley.

In advance of ABACE, most U.S. aircraft manufacturers and trade bodies declined to comment publicly on China’s tariff proposal. A few, such as Boeing, issued measured statements noting that the tariff dialogue between the U.S. and Chinese governments continues, and respective national leaders are saying those talks remain productive.

For the U.S. business-aircraft manufacturing industry, much may hinge on the outcome of a May 15 hearing held by the U.S. International Trade Commission on the Trump Administration’s own proposed tariffs targeting China. Those proposals are now out for six weeks of public comment from interested U.S. parties. “There may be some jockeying back and forth between China and the U.S. The industry’s alphabet-group [trade-association] lobbyists will likely coordinate a position in the interim to oppose any effect on business jets,” said Foley.

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