CorporateJetInvestor

Strong ABACE shows China's return to growth

By **Alud Davies**
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When the ABACE (Asian Business Aviation Conference & Exhibition) show returned to Shanghai in the middle of April, it was against a backdrop of a changing business aviation market in China.

Back in 2017, there were tentative signs that the market was beginning turn. People were at the time seeing encouraging signs, but a full year later, things have changed for the better. In the intervening year China's executive jet market grew impressively, both in terms of the amount of charter flights completed as well as in the size of the business aircraft fleet

The charter market ha Chinese charter operators had long relied on government officials using their services to get between meetings, but this stopped almost overnight. During the Corporate Jet Investor Asia 2014 conference in Hong Kong we were told that over 90% of Chinese charter companies would lose money that year.

The government's measures also influenced aircraft coming into the country, both old and new. The fleet had grown by 21% during 2013 according to the Asian Sky Group (ASG) figures. But following the introduction of the anti-graft drive, growth dropped to 16% in 2014, and slid further in 2015 to just 4%.

One of the main themes of ABACE this year was the continued acceptance of pre-owned aircraft into the Chinese market.

China's adoption of business aviation had taken place several years previous with the introduction of midsize-cabin aircraft into the charter market. For years there was just a small fleet of Hawker 800s and Gulfstream G200s which were used primarily by Chinese government officials. These were joined in 1997 with the introduction of the first privately owned business jet in China, a Cessna Citation Jet owned by Guangzhou-based Broad Air Conditioning. Although this aircraft is still in China, it has since been replaced by a 2000-build Cessna Citation Excel.

The fleet grew especially in the early years of the new century with the introduction of mostly new large long-range business jets. According to ASG this had been given rise to a compound annual growth rate (CGAR) of 34%, which it says is much higher than the 5% global growth rate.

Although this growth was impressive, the balance between new and pre-owned aircraft entering the country was heavily weighted in favour of new aircraft. In 2017, this had swung in the favour of pre-owned aircraft for the first time. The swing was quite dramatic. In 2016, only 36% of the aircraft that joined the Chinese fleet were pre-owned, it jumped to 57% in 2017.

This was partly due to Chinese buyers seeking more value from their purchases. One aircraft manager at ABACE said that there were some great deals available six months ago, but these were quickly snapped up. This has influenced pre-owned aircraft values as well. With fewer aircraft available the prices of those still on the market moved ahead.

One thing that has not changed is how long decisions to purchase a pre-owned aircraft are taking Chinese buyers. This, according to several brokers familiar with the region, has led to frustration from both sides, as aircraft that were under consideration were sold to other buyers by the time the final decision has been taken.

acceptance of pre-owned aircraft." says David Dixon, president, Jetcraft Asia.

"In the last four to five years, its shifted significantly, its producing far more, and that's why its challenging Europe, because of the acceptance of preowned product." Adds Dixon. There were several reasons, including the increasing build-up of maintenance and support in the region.

For Global Jet Capital, China has become its second biggest market. This, says Vivek Kaushal, chief risk officer, Global Jet Capital, has grown especially over the course of the last 12 months.

"Aircraft size still matters, we'll see more in the next few years with a reality check. For China, there is a certain type of aircraft that you need, and a certain type of aircraft that can meet that range. From what we have been looking at, there is a certain amount of oversell on the capability of the aircraft for the region. As the market matures and people start looking closer at operating costs and what they really need, I think we will see more purpose-built aircraft specific for that region." Said Mr Kaushal.

Currently he sees two types of business aircraft owners in China. The first group includes those who need an aircraft with trans-Pacific range, whose businesses stretch from China internationally, and who want to be able to fly from Beijing, or Shenzhen, directly to Los Angeles, London or Paris.

For this group of owners, a large cabin, long-range jet is essential. But for the second group of owners who largely have business interests regionally, a large-cabin, long-range jet is only used to its full capability for a few times a year. So, for this group of owners, the acquisition of a smaller aircraft makes more sense.

Mr Kaushal says that we could see more of the smaller, but not small, cabin aircraft entering the Chinese market soon.

Looking outside in the ABACE aircraft static display you would be forgiven for thinking that Asia was only interested in large aircraft. Cessna brought two aircraft with for the show, a Citation XLS and a Citation Latitude. Embraer, in contrast, only had a Legacy 650 and Lineage 1000 on display.

Honda, on the other hand, did bring a Thailand-based HondaJet for display. Since the aircraft's ABACE debut in 2017, Honda has signed an agreement with Guangzhou-based Honsan General Aviation to market and sell the HondaJet in China.

During the show Honda announced that it is already expanding this agreement and will build a facility at Guangzhou's Baiyun Airport that can accommodate and service up to 20 HondaJets at a time. The company also signed an agreement with start-up charter operator Flightjoy Aviation, which will provide HondaJet management as well as charter services.

The HondaJet is one of the aircraft that would not be subject to the new import tariffs proposed by China in its ongoing trade war with the US, one of the hot topics at the show.

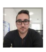
China had proposed increased import tariffs US-built aircraft weighing between 15,000kg and 45,000kg. Whilst this would largely affect aircraft in the Boeing 737 family, it would also have a significant impact on the large-cabin Gulfstream family.

Whilst this was one of the hot topics at ABACE, the overwhelming consensus is that these tariffs will not get past the proposal stage and will be dropped.

If they should go ahead, the US would stand to lose the most. Boeing has secured orders for over 200 737 MAX family aircraft, with only around 30 aircraft delivered so far. If the proposed tariffs do come into place it would affect all remaining deliveries, although to what extent is currently unclear. One lawyer said at ABACE that there could be ways around the tariffs, including the use of offshore registries.

Offshore registries have enjoyed increasing success in Asia, and particularly in Greater China, which includes Hong Kong, Macau and Taiwan. During 2017 the number of business jets registered in the Cayman Islands, but operating in Greater China, increased by 40%, although in real terms this was a jump from 10 to 14 aircraft.

Other registries are growing as well, although at a slower rate.



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