

# RECOVERY HITS CHOPPY WATERS

European business aviation hit some new lows in 2015. The repercussions of the Ukraine crisis and the spill-over of conflict in the Middle East completely took the wind out of business jet demand in Russia and Turkey. High-end tourism faltered at many of the Med's glitziest resorts. The tumbling oil price hit the pockets of potential jet buyers. C-suite confidence ebbed as China's slowdown threatened a recession across global developing markets. Has 2016 so far suggested worse is to come, or some glimmer of recovery?

By Richard Koe

**T**he year started badly for the global economy, with substantial falls in global equity markets, worsening economic indicators in China, and continuing recession in Russia and Brazil. These factors, compounded by the ongoing slump in energy prices, is a darkening canvas for new business jet sales. Last year, global deliveries of new aircraft were up, just, although the fleet in Europe dwindled. By the end of February, Bombardier had announced it expected its 2016 sales to fall by 25%, with a particular squeeze on for large-cabin aircraft.

## INDUSTRY SLOW-DOWN

The large cabin squeeze reflects the slowdown in the industry's core market of ultra-rich individ-

uals. These customers have seen billions wiped off their net asset value in the stock market this year, and rather more tangible losses in their energy-denominated income. In the latest census of global billionaires taken in March, the number of billionaires in the world has shrunk from a record 1,826 in 2015 to 1,810. That's the first time in seven years the population of billionaires has decreased. The next decade's creation of billionaires is now forecast to be much slower than the growth trend in the last 10 years.

This news seems to have come late to business jet manufacturers, and their seemingly non-stop production line of tweaks and variants to the existing line-up of large cabin business jets. Rather than stimulating demand, the main impact appears to be downward pressure on pricing for the existing fleet. With newish pre-owned aircraft at

bargain prices, owners are wary of upgrading to new. They're also concerned at the increasingly unpredictable value of business aircraft as investment assets. Ten years ago, business jet purchasers could anticipate annual depreciation rates of around 3% on new aircraft, but in the last few years' it's trending closer to 10%.

### TEPID RECOVERY

In Europe the wider concern is that the tepid recovery in the economy since 2014 is now stalling rather than accelerating. February saw EU factory output drop to a one-year low. By March the ECB had cut interest rates to negative, an unprecedented effort to encourage corporate spending and investment. The business jet market might of course benefit from this stimulus. First quarter sales results will tell if buyers

have taken the hint, but the likelihood is that the uncertainty of the Eurozone's economic prospects are playing a bigger role in hindering big investment decisions.

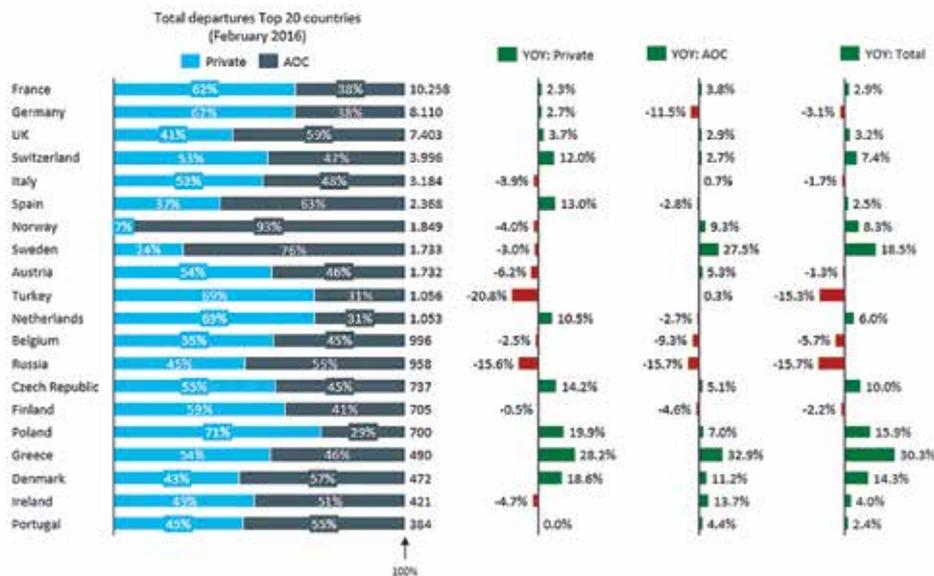
Business aviation activity so far this year in Europe reflects the same inertia. Flight activity fell 5% in January. It was up 2% in February but that was a leap year boost; year-to-date, business jet activity this year is 3% behind a disappointingly weak 2015. In the last couple of years the decline has largely come in Europe's periphery. But this year it's the larger markets, France and Germany, which have fallen well back. This is discouraging because 2015 had seen recovery in flight demand in the Eurozone core.

In Germany it is notable that the slowdown is in Charter (AOC) activity.

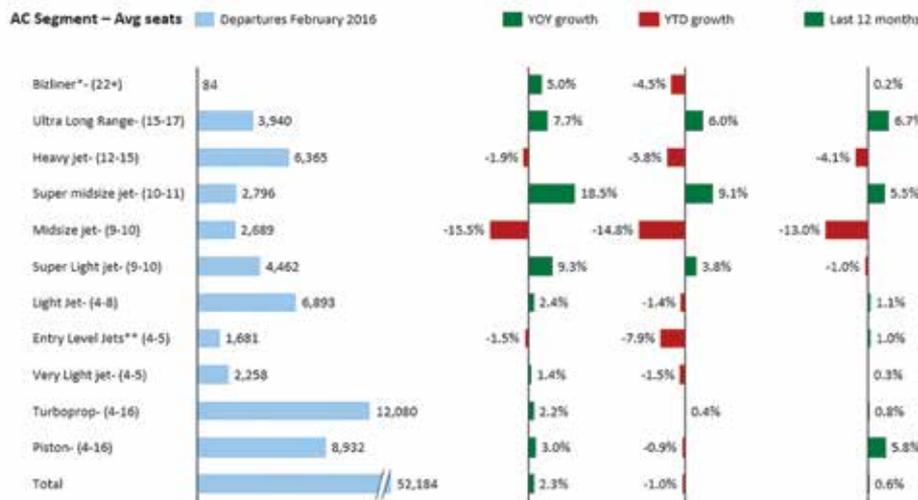
The weak demand for ad hoc charter probably indicates the low confidence levels in Europe's strongest economy. The same is true in Spain. Aircraft owners are flying as much as they did a year ago, but the charter market is evidently very choppy. This appears to be especially true at the entry level to business aviation. Charter flights in Entry Level Aircraft, such as the Citation Bravo, were down 15% YOY in February.

### EUROZONE IN DANGER

Europe's economy has been distracted by overhanging political crises, with the migrant crisis following from the debt show-down with Greece last year. This year there's now a new distraction, the threat of the UK leaving



Trending commercial & private bizav activity in Europe



Note:  
 \* Only Airbus A318 Elite and BBJ are considered  
 \*\* Entry Level jets comprise older light jet types such as Citation I and GII

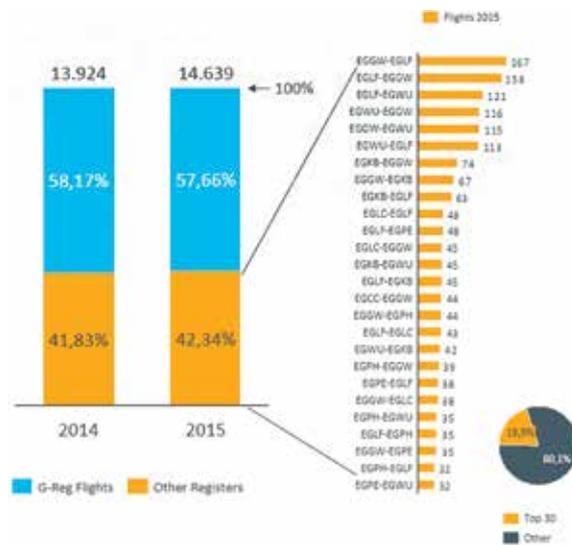
Distribution of activity between business aviation aircraft segments

the Eurozone. Brexit would deprive the EU of one of its leading economic and diplomatic powers. The majority of economists reckon that the decision to leave would severely damage the UK's prospects. It may also do worse than weaken the EU; there is a possibility that Brexit could catalyze a domino effect of other EU members deciding to follow suit, and the eventual collapse of the Eurozone.

How Brexit might affect business aviation is not yet clear. The more pessimistic economic outcome, with the UK's terms of trade severely

damaged, would see investment in the UK falling, and possibly a fatal blow to London's role as the foremost international financial hub. Naturally these repercussions would be negative for business aviation, and not just for the UK. An exodus of the ultra-rich to other parts of the world would undercut the Europe's business jet customer base. The UK might also suffer from the relocation of some 50,000 jobs associated with business aviation aircraft manufacture and maintenance.

Brexit could also complicate operations for UK-based business jet charter operators. UK operators' current access to the traffic rights of the Single European Market would need to be re-negotiated. Commercial business jet flights, in the same way as for scheduled airline connections, would be affected for all those sectors between and within EU countries, as well as from EU countries to third countries. Likewise, non-UK operators would face cabotage issues inside the UK. There were more than 5000 such business jet sectors operated commercially within the UK last year.



Commercial sectors flown within the UK in 2015

**SILVER LININGS**

But if we aggregate the picture for business aviation in Europe undoubtedly looks gloomy, there are still some silver linings in the market. The results of strong deliveries last year for some ultra-long range business jets, notably the Gulfstream 650, and for super-midsize aircraft, mainly Challenger 350, shows up in the increased activity of these segments in Europe this year. The Challenger 350s are boosting NetJets fleet, with commercial European flights in the super-mid segment up more than 30% this year. Very light jets, both Phenom 100 and Mustang, have also gained 5% in Charter activity this year.

Another silver lining is the move towards acceptance of Single Engine operations in night and in instrument meteorological conditions, in short, the availability of the single engine turboprop fleet for charter operations. EASA gave its positive opinion on the topic in November last year, which should presage the necessary legislation by 2017 at the latest. Some CAAs will move to authorize SE-IMC before then. There are operational complexities to address, but this should



Commercial and Private business aviation activity, by aircraft segment, February 2016

introduce a significantly lower price point for charter customers and introduce new customers to business aviation.

The most obvious tool for single-engine charter operations would be the Pilatus PC-12. Throughout the prolonged slowdown in business aviation activity the last few years, private flights on the PC-12 have grown. Last year, PC-12 flights were up 4%, and this year-to-date they have increased 19%. In North America the PC-12 is a mainstay of both charter and fractional fleets, flying some 200,000 sectors during 2015. A number of US-based operators, including Wheels Up, Rise, Surf Air, have launched their operations around single and twin-engine prop aircraft, and are now planning to tap the same markets in Europe.

### ADDED BENEFITS

The benefits of using these light aircraft, as opposed to multi-million dollar jets, are more accessible to the 'mass market' of businesses and entrepreneurs. Many of these customers may never have used business aviation. The benefits they miss out on are spelt out in the EBAA's latest study on the economic impact of business aviation in Europe, authored by Booz Allen Hamilton. Some of the compelling insights of this report are that each business aviation flight, on average, saves the users 127 minutes over the best alternative transportation. Measured over a whole year, that adds up to a saving of the equivalent of 2700 full-time employees.

The study also shows that business aviation in Europe serves over 25,000 city pairs, which are not connected by non-stop commercial flights. Again the single-engine aircraft contribute the most versatility, accessing almost 30% more airfields than business jets. Direct connectivity is obviously a huge money-saver. For example the study suggests that multi-leg itineraries in business jets saved European businesses in the range of €15M in avoided overnight hotel nights last year.

### THE RIGHT MESSAGE

If the statistics are pretty compelling, the next challenge is to convey the right message to the right audience. In a parallel report commissioned by the EBAA, on the perceptions of business aviation, authored by the public relations firm Grayling, the preliminary results outline the industry's challenges. There appears to have been some recovery in the previously negative perspective of policy makers, and corporations say they recognize flying privately could be a competitive business

tool. But there is still an overriding concern at the cost of flying privately, and the potential reputation damage of business aviation as a luxury.

Bringing down costs is not going to happen until the industry can work out how to expand its user base. For the last few years, the industry has relied principally on a tiny niche of ultra-rich individuals to keep the wheels turning. Now this number is even shrinking. Down the chain – at the bottom of the pyramid if you like – the trends in charter activity in Europe so far in 2016 indicate there are few newcomers to the experience of flying privately. In the current climate, the same old price tag is just too high for most businesses. Single engine charter may be one way in which the industry breaks this logjam and revitalizes its recovery in 2016. ■



Richard Koe is joint Managing Director of WINGX, taking the lead on strategy, business development and sales initiatives. Together with Christoph Kohler, Richard has grown WINGX to be the leading provider of market intelligence to the global business aviation industry. As well as managing WINGX, Richard is a regular speaker, panellist and moderator at industry conferences worldwide, writes on a wide range of business aviation issues, and works closely with regional regulators and industry associations. WINGX is headquartered in Hamburg, Germany and operates a further office in Geneva, Switzerland.  
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