ABACE: CHINA'S PRIVATE JET MARKET GOES QUIET – FOR NOW

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A Chinese proverb reads thus: All things are difficult before they are easy. This aptly sums up conditions for private jet makers in the previously booming China market. Prior to the last instalment of the Asian Business Aviation Conference (ABACE) show in Shanghai in April 2015, manufacturers commented on a sharply slowing market for private aircraft, mainly owing to a crackdown on corruption by premier Xi Jinping: almost overnight it became unwise, if not outright dangerous, to flash one's wealth.

Conditions have deteriorated in the last 12 months. Apart from the corruption crackdown, which is still in full swing, there are fears about China's economy , underlined by a stock market crash in the second half of last year that rattled world markets. The crisp, charismatic men who sell the world's most exclusive product readily admit that times have changed in China, but they are invariably optimistic about the market's long-term potential. Moreover, they are seeing more sophisticated usage of private jets, and a growing acceptance of second-hand aircraft.

Hong Kong-based Jean Michel Jacob is China general manager of Dassault Falcon. He agrees the slowing economy and anti-corruption drive have affected the market for jets on the mainland, but feels current conditions will only prevail for the short to medium term. The company plans to bring a full line-up of aircraft to ABACE this year, including its developmental Falcon 8X. Jacob says this modern type is well suited to the Chinese market, which gravitates to aircraft with bigger cabins and a long range.

Another old hand in China is Roger Sperry, regional senior vice-president for international sales at

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Gulfstream. He says although China is slowing it is still growing. He also points to a definite maturing in the market.

“People that have had business jets for a few years – and that's all it's been in China – are now learning how to utilise their aircraft in their companies as a business tool, and we're seeing many of our customers really expanding their business outside of China,” he says. “We see a number of flights going to Europe, Africa, and the Middle East. Companies increasingly understand how to [use aircraft for business].”

China corporate jet numbers from business jet consulting firm Asian Sky Group corroborate the views of Jacob and Sperry. According to the company’s approaching Asia-Pacific Business Jet Fleet report, which will be released at ABACE, the fleet in Greater China (including Macau, Taiwan, and Hong Kong) grew 6% in 2015, to 465 aircraft, compared with 15% fleet growth from 2013 to 2014. Mainland China saw 15 new and 13 pre-owned aircraft delivered in 2015, but it also saw 18 aircraft leave the fleet. Hong Kong, a popular registry for China, saw 18 new and 14 pre-owned additions and saw 16 deductions. The company’s statistics reflect not only aircraft with local registries, but aircraft with foreign registries that operate in the region.

Gulfstream on top

As for airframers, Gulfstream remained the solid leader in Greater China, with 33% of a 299-jet fleet, including 47% of Hong Kong’s 132-jet fleet. Asian Sky’s numbers show Bombardier business jets are also popular.

Action in the pre-owned space is relatively new in Greater China. Dassault’s Jacob and Khader Mattar, Bombardier’s regional vice-president for sales in the Middle East and Africa, both say pre-owned is becoming more popular. Jacob adds, the chairman of a company prefers a new jet, but may well obtain a second-hand aircraft for corporate use, as the upfront costs are much lower. Mattar says China is still a new aircraft market, but enquiries for pre-owned jets have definitely ticked up.

These numbers will inevitably grow, but the rate of growth will depend onChina’s economy and how the corruption crackdown plays out. Both headwinds have had a chilling effect. That said, while business jet makers don’t welcome a weaker Chinese economy, they are quietly hopeful the anti-corruption drive will be successful. Impropriety can be an irritant when doing business on the mainland.

One executive tells a story about a months-long negotiation to sell a private jet for use by a company chairman. At the very end of negotiations, the executive passed the completed sale documents to the chairman’s personal assistant. This was an individual who had been deeply involved in the process. At this 11th-hour juncture, the assistant stunned them by asking for several thousand dollars in cash as a condition of passing the contract to the boss.

"We just walked away,” the executive recalls. “We run a pretty tight ship and that’s what we had to do. Unfortunately there are others in China who will more than happily say yes."

The “others” he refers to tend to be smaller, local brokers, who are more amenable to expediting business with cash.

“The central government is doing what everyone outside China thinks needs to be done,” says one industry executive. “Obvious corruption is very prevalent at all levels. In order for China to truly become an economic world power [it has] to clean house. Corruption is so ingrained that it's going

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to be a long, difficult process to change that mentality."

Apart from deterring buyers, the corruption crackdown has also been one of several factors that have seen Chinese private jet owners seeking to sell aircraft. Industry sources indicate there is no rush to the exits but they tend to agree China is a buyer's market.

Four kinds of sellers

Jeffrey Lowe, Asian Sky's general manager, reckons China's private jet sellers fall into four broad categories. The first comprises "truly distressed sellers", hit hard by China's slowing economy and eager to exit their expensive private jet. The second category includes rich individuals who are financially sound but whose use of the asset is low, perhaps under 100 hours a year.

"When times are good these individuals can justify a private jet, but when they're not so good the aircraft becomes a liability," he says. "They are patient, but just can't justify the airplane any more."

The third category includes individuals who have a new aircraft coming in.Hong Kong, for example, was a very strong market for the Gulfstream G550, but some owners there are upgrading to the G650ER.

The fourth type of seller needs to get out of the aircraft owing to political concerns in China's prevailing climate of austerity. "These owners are either getting rid of the jet altogether, or moving it out of China," says Lowe.

The jet charter market in China, on the other hand, is subdued but still growing. According to data from Avinode – which runs an online marketplace for buying and selling air charters – aircraft requests with an arrival in China grew 6.8% in 2015 to 8,137 flights. That said, the number of requests to depart from China fell 3.9% to 3,573. The most popular aircraft to arrive in China? The Bombardier Global Express series.

According to Ian Moore, chief operating officer of VistaJet, which sells private jet use in blocks of hours, traffic from China is up 25% year-on-year. The company's first aircraft with a Chinese "B" registration started operating in late 2015, and Moore says the aircraft has been well received. He hints his firm may be a beneficiary of the current austere climate in the mainland.

"Our way of flying is more discreet [than owning a jet]," says Moore. "It's anonymous, there are fixed costs, and you don't have ties to an asset."

Summing up conditions in China, Bombardier's Mattar, stresses the challenges China poses for business jet makers, are symptomatic of broader weakness in emerging markets.

"China has always been a very important market for us, as Bombardier, and for the industry," he says. "The entire industry is facing a slowdown at the moment, not only in China but in emerging markets, and this has impacted business jet deliveries, particularly at the top end. That's where we are at the moment. Let's not forget the sanctions in Russia, which [have] a huge effect on deliveries and sales overall. China is just part of that drop. Let's not forget about the other issues."

Although this year's ABACE is unlikely to see any high profile orders, such as Minsheng Leasing's order for up to 60 Gulfstream's at the show in 2014, it will still draw leading Chinese businessmen and their colleagues, and the business jet makers will again be out in force. The easy times in China may not return just yet, but business jet makers will be ready when they do.

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