

# The future of private jet charter

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## Market developments

The state of the world economy and, and that of individual countries is a key factor in the demand for air travel. The Business Jet market has grown alongside corporate profits. Strong corporate profits over the last decades are directly related to the demand for business jets.

North America is still the single most important region market for manufacturers. The North American business jet demand pool is mostly driven by wealth creation. The U.S. and Canada are generating more than **50%** of the business jet orders (*Analysis from Frost & Sullivan*).

However, a significant change in the market for business aviation products is expected over the next 20 years. A shifting of the market from sales occurring predominantly in North America to one where the majority of sales are distributed more evenly all over the world. Emerging economies like Russia, China, India and Brazil are expected to play a major part in the growth of the business jet market. Europe is at the moment the most important market for the Business Jet industry, outside North America. Simultaneously, Europe has experienced an unprecedented surge in the number of multinational firms and wealthy executives using business aircraft. The expectations are that 46 percent (*Analysis from Frost & Sullivan*) of the jet fleet likely to be expanded or replaced in the next five years. The Euro against the U.S. dollar, as well as increased wealth and business expansion predicted for Eastern Europe and the Former Soviet Union are factors driving the European growth.

## **Emerging Economies**

### **Russia**

Russia is one of the top three markets in Europe. The developing of the Russian economy has had a positive effect on the demand for business jets in the country. The growth of the Business Jet industry in the past few years has been spectacular as an increasingly wealthy population discovers the joys of private flying. Being one of the largest countries in the world, Russian customers have to fly longer distances than in the rest of Europe, and generally want bigger aircraft. This explains why the wealthy business people prefer to fly. The business is now well past the \$2 billion a year mark, annual fleet growth is estimated at 35%, and the market is now thought to be second only to the USA in size. The economy is dominated by large companies, mostly in natural resources, which are cash-rich due to the demand for commodities. A new report from the Russian weekly Finans Magazine counts 101 billionaires (measured in US dollars) who have residence in Russia. Today's 500 richest Russians are worth some \$715 billion. The number of millionaires in Russia grew by 4,000 and now totals 88,000 people, according to a report Thursday compiled by Merrill Lynch and the consulting firm Capgemini. Expectations are that the Russian government is going to improve its legislative system in three main areas; duties on import of new aircraft, registration, and the air traffic system. There is also expected to be a change in tax legislation that should lower the cost of aircraft ownership and spur additional demand. Those legislative changes will have a positive effect on the market. The pace of change in Russia and the expectation of further demand once the legislative situation improve means investors and developers are waiting with new projects.

## **China**

China is another emerging economic country that is attracting the attention of private jet makers, due to its growing billionaires' club. Manufacturers reckon private aviation in China is set to take off in a big way. The number of millionaires in China is growing, more and more Chinese will have a chance to own their own planes. The number of Chinese able to afford the millions of dollars necessary to buy and operate their own aircraft is growing thanks to the express-train economy. The Chinese government is also changing their policy in terms of easing control of airspace as well as relaxing restrictions on private pilot licenses. China's airspace is controlled by the military to guarantee national and military security, and individuals are denied access to aviation matters. The potential for business aviation in China is enormous, with its booming economy, improving transportation system, and the changing of government regulations.

## **India**

India is another country that attracts the attention of private jet makers. The general economy is growing at a very fast pace and Indian corporations are spreading their businesses also globally. Corporate India has moved to the next generation that needs fast transit facilities across the country. Currently, a number of business and industrial parks and economic zones are being constructed in India, that require air-strips or helipads for business leaders to comfort their traveling tours to various parts of the world.

## **Brazil**

Brazil has long been a country where private planes are crucial to doing business, due to its poor roads and few railways. As the Brazilian economy takes off, lucrative business opportunities for aircraft manufacturers are being offered. Demand for small aircraft is growing at its fastest pace in decades. Brazil is already the world's third-largest market for business aircraft after the United States and Canada. Expectations are that the industry would generate between \$400 million and \$500 million annually in private aircraft sales in Brazil for 2010.

## **New Technology**

Looking out over the next 10 years and back to the previous decade, there are few new technology stimulants that will replicate the effect of new equipment on the last decade. New models with new features and capabilities will stimulate demand and make the business jet industry exciting. However, there is very little excitement on the horizon. Most manufacturers evolve around taking an existing aircraft and giving it a new name, with minor cockpit and interior improvement. The reason for this is because of profitability concerns. Companies are averse to approve expensive new product development programs on their own. They need a clear business plan to sell their ideas to the board and to the equity markets that buy their stock. A new trend that will drive the market is a new generation of Very Light Jets (VLJs), as nimble and cost effective aircraft that carry 4-8 passengers in a level compared to a luxury Yacht or automobile, but with the same speed or altitude as conventional passenger jet.

## **Conclusion**

The recession in the United States and the weakening of the global economy is expected to cause a significant decrease in demands for business jets in the United States. After the decline in the global economy, the overall economic growth, coupled with industry and regional trends, will sustain business jet market deliveries to new levels. The overall demand for private jets is remained to be strong in the upcoming decades, with a forecast of 15,000 business jets worth a total of \$192 billion will be sold worldwide over the next decade. Despite the weakening of corporate profits in the United States, North American plane makers are reporting record orders, many from overseas. The shift from the more developed markets in the US and Europe to emerging markets has been evident over the past four years. This is expected to continue in the next 20 years. The forecast for these countries is based on the key drivers of economic activity, infrastructure growth and market liberalization. Private jets have become the travel method of choice for corporate executives and people that can afford them. It cuts down on wait times and delays that affect commercial carriers. The competition and increased number of manufactures will eventually lower the prices of planes in the industry, which will make them more affordable in the future.