

U.S. International Trade Commission to Report on the Global Business Jet Aircraft Industry

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The United States International Trade Commission (ITC) is preparing a very timely report on the competitive conditions affecting the global business jet aircraft industry. This study, which was requested by the U.S. House of Representatives Committee on Ways and Means, is focused on business aircraft with a maximum ramp weight of 50,000 pounds or less (*i.e.*, light and medium sized jets). The ITC's final report is due in April 2012.

The ITC is investigating virtually all aspects of the business jet aircraft industry, including the industry's structure, the market, recent developments affecting demand (*i.e.*, the 2008-2009 economic downturn), financing, R&D, government policies, and programs and factors affecting the U.S. aircraft industry's competitiveness through 2028.

The ITC staff has traveled extensively to gather information and conduct interviews, sending investigators, industry specialists and economists to visit producers, suppliers, governments and universities in Kansas, Seattle, Brazil, France and Canada.

As part of the investigation, the ITC held a public hearing in early October 2011. The ITC hearing included testimony from representatives of the U.S. aircraft industry (witnesses from Hawker Beechcraft, Honeywell, the National Business Aviation Association and the International Association of Machinists and Aerospace Workers union), foreign industry (Florida's lieutenant governor testified on behalf of Embraer), the FAA, Ex-Im Bank and several private-sector aerospace industry analysts.

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The ITC hearing, which lasted a full day, was wide-ranging and covered all of the topics the ITC is investigating. The six ITC commissioners were highly engaged and interested in the presentations, particularly the testimony from the U.S. industry representatives and Ex-Im Bank.

The ITC investigation comes at a time of significant change and challenges to the U.S. and global business jet aircraft industries. The 2008-2009 global economic downturn is still being felt in the business jet industry due to significant caution among purchasers and a large inventory of high-quality, low-hours pre-owned aircraft offered by sellers suffering from the recession. While inventories of pre-owned aircraft are trending back to historical levels, the market for new aircraft continues to be influenced by the number of low-hours, pre-owned aircraft that are available.

Currently, apart from lingering effects of the 2008-2009 economic downturn, the business jet aircraft market remains affected by continued economic uncertainty in the Eurozone caused by debt crises in Greece, Italy and other European Union members.

The worldwide aircraft industry is also adapting to significant changes in demand and growth in new markets, as emerging markets in the "BRIC" countries (Brazil, Russia, India and China) provide significant future growth potential. As those markets become more accessible to general aviation, the industry expects to see significant growth opportunity in the next 20 years.

Testimony at the ITC hearing highlighted other influences on the global business jet market, including government policies with respect to financing and other types of support. Several witnesses testified about subsidies and other benefits that the government of Brazil appears to provide to Embraer in order to help it penetrate the medium and light business jet market. Such assistance would be one reason why Embraer has experienced growth in these markets while other producers have seen declines and slow recovery.

More recently, various manufacturers interviewed informally at the National Business Aviation Association (NBAA) convention held last month in Las Vegas suggested that there has recently been renewed activity in the medium and light business jet aircraft markets. Several convention participants indicated that purchases and serious interest were up over the prior year. After delaying acquisitions in 2010, purchasers may be ready to venture back into the market. For their part, manufacturers unveiled several updated models at the NBAA convention, positioning themselves to be competitive when the market improves.

The ITC's final report is due to be issued in April 2012. Wiley Rein will prepare an analysis of the ITC's report that will be made available, along with a copy of the report, upon request.