

U.S. Government Study Highlights Business Jet Challenges

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The U.S. International Trade Commission (ITC) has released a detailed report highlighting the challenges faced by manufacturers of small to mid-sized business jets. The Report, titled "Business Jet Aircraft Industry: Structure and Factors Affecting Competitiveness," examines the industry and market for small to mid-sized business jets (up to 50,000 pounds MTOW).

Overview

The Report confirms the significant challenges that have faced U.S. producers of very light, light and medium to super-midsize business jets in recent years. The industry sold a record number of business jets in 2008, but experienced very sharp declines in 2009 through 2011. These declines reflected the impact of the recession on the two largest markets—the United States and Europe. Predictably, the declines resulted in significant reductions in employment throughout the U.S. industry. The worldwide industry is characterized by significant barriers that limit the ability of new entrants to enter the market, unless they have access to massive capital sources and/or are protected from competition.

The Report provides detailed and informative profiles of the six global OEM manufacturers that account for virtually all production of the jet aircraft covered by the study: Cessna, Hawker Beechcraft Corporation, Gulfstream, Learjet (Bombardier), Dassault and Embraer. The majority of global production occurs in the United States, which is the single largest market. Other companies that are entering or seeking to enter this market, including Cirrus, Eclipse, Honda Jet, SyberJet, Diamond, Spectrum Aeronautica and Stratos Aircraft, Inc., are discussed. The Report notes that the Government of China has

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targeted general aviation as one of seven strategic industries that will receive priority government support in its most recent Five-Year Plan.

In discussing the significant effects of the recent economic downturn, the Report notes the declines in production and employment, as well as the impact of greatly reduced credit on the market. Overall, from 2008 to 2011, deliveries were down 57 percent. The very light and light business jet categories were hardest hit. Notwithstanding these declines, Brazilian maker Embraer experienced success in launching the Phenom 100 and Phenom 300 jets during this period.

Global markets for business jets are expected to recover as overall economic conditions improve. Emerging markets are expected to provide the greatest growth in relative terms, though growth in these markets will be hampered by issues related to restrictions on general aviation, lack of adequate infrastructure to support business jet use and import tariffs.

Export credit agencies (ECAs) such as the U.S. Export-Import Bank, Canada's Export Development Bank and Brazil's BNDES have played an important role in facilitating sales of business jets, and are expected to play an increasingly important role in the future. The lack of reliable data on the activities of ECAs in their own countries, however, limits the ability to fully assess their role in the global market. One significant factor affecting the U.S. industry is the current limited ability of Ex-Im to finance domestic sales of U.S.-built jets. Other ECAs, especially those in countries with a national development bank or a budget for national industrial policy spending, are not limited in this way, and these financing entities play a large role in their industry's growth.

Research and development (R&D) play a critical role in the global business jet industry. Even in periods of economic downturn, producers continued to invest in R&D in order to bring the most technologically advanced products to market, and as a means of brand and product differentiation. The Report notes the relative lack of government-funded R&D in the United States, and the need for the U.S. Government to support applied research (as opposed to basic R&D), as sustained and project-specific support is provided for aeronautics R&D in the European Union and Brazil.

Factors Affecting Future Competitiveness of the U.S. Industry

The Report identifies six factors as "among the most critical factors influencing the competitive position of the U.S. business jet industry in the future."

New Entrants. As noted above, a number of entities are actively seeking to enter the U.S. market or considering entering the market. Some have central government support.

Changes in Regional Demand. The United States and Europe are expected to remain the two largest markets in the foreseeable future. The continued emergence of the BRIC countries-Brazil, Russia, India and China-should result in increased demand and market opportunities.

Workforce. The U.S. industry has outsourced certain manufacturing activities in recent years, as a means of reducing costs and increasing competitiveness. This reduces the number of skilled workers in the United States, and may erode the base of knowledge that supports innovation. Additionally, the number of engineering graduates and technical workers with skills suitable for highly skilled aviation manufacturing in the United States continues to decline.

Innovation, Research and Development. The Report states this factor in succinct terms: "The lack of consistent U.S. aerospace agency funding for R&D and differing models of government-funded R&D are factors that could significantly affect the U.S. industry's ability to compete in the future." The relative lack of U.S. Government involvement in and support for R&D related to the business jet industry stands in direct contrast to the consistent and significant support provided by other governments, most notably the European Union.

Government Policies and Agreements. Increasing the number of Bilateral Aviation Safety Agreements, the number of signatories to such agreements and uniformity among agreements would improve U.S. competitiveness by reducing issues related to certification of U.S. aircraft in other countries. Challenges with the FAA's certification system that result in significant delays in aircraft and part certification hamper the competitiveness of the U.S. industry and will continue to do so if not addressed. The European Union's Emissions Trading Scheme (ETS) could discourage the use of business jets by adding to the time and cost involved in such travel. Lastly, the increased role of Ex-Im Bank, and particularly changes that would allow Ex-Im Bank to finance domestic sales of business jets, could enhance the U.S. industry's competitiveness.

U.S. Government Policies Affecting Users and Purchasers. The imposition of user fees, changes in the depreciation rate in the tax code, the expiration of bonus depreciation and concerns related to the public release of information concerning aircraft movements in the United States may negatively affect the competitiveness of the U.S. industry by reducing demand.