Boom Time For Business Aviation

Demand for private jets is on the up in the Middle East, but global economic hurdles, a sizeable grey market and lack of airspace are all pressing concerns.

Dark clouds may be gathering over the world economy but the global business aviation industry, at least, remains relatively upbeat – factoring in a further market increase next year on expectations of sustained medium term economic growth.

Taking a longer view, Honeywell, in its 23rd annual Business Aviation Outlook, is forecasting up to 9,450 new business jet deliveries globally, worth $280 billion, through 2024 – equating to an eight per cent increase in projected delivery value compared to its 2013 forecast.

Slightly higher unit deliveries, says the survey of industry players, will come with modest list price increases and the continued strong showing of larger business jet models in the delivery mix.

JETS GALORE

In the meantime, deliveries this year – indicative of programme schedule recoveries, new model introductions and additional fractional uptake – are expected to be 650 to 675 new jets worldwide.

In the Middle East, Bombardier Business Aircraft – in its ‘Market Forecast 2014-2033’ – expects the region’s fleet to grow from 395 in 2013 to 745 by 2023 and 1,405 by 2033, giving an equivalent fleet CAGR of seven per cent over the forecast period.

The company has a total of 100 business aircraft in service within the region – its medium size jets, represented by the Challenger family of aircraft, proving the most popular, accounting for over 60 per cent of deliveries.

Bombardier’s Global series of aircraft has also proven popular, accounting for a quarter of deliveries. The Global 5000 and Global 6000 are products of choice for several clients in the region, allowing them to fly from Dubai to key cities in Asia or Europe.

Meanwhile, new models in the series – the Global 7000 and Global 8000 – are set to enter service in 2016 and 2017 respectively.

Globally, approximately 22,000 business aircraft deliveries are expected over the next 20 years – North American demand (making up roughly 60 per cent of the global market at present) for example, is set to continue increasing as corporations and High Net Worth Individuals (HNWI) revisit purchase plans put on hold following the financial crisis that led to the near meltdown of the global banking system six years ago. While 2014 is likely to see only a slight increase globally, conditions are expected to further improve next year.

As the report notes, Saudi Arabia, the UAE and Turkey took delivery of the largest number of business jet in the Middle East in 2013 and account for more than 70 per cent of the industry’s overall fleet in the region. Turkey was home to 27 per cent of the region’s fleet, with Saudi Arabia close behind at 26 per cent.

Jets in the medium size category, due to the geographical requirements of the region, now comprise half the Middle Eastern fleet – a region that has seen its business jet numbers double over the past decade. However, larger models are proving increasingly popular.

As Claudio Camelier, VP marketing & sales Middle-East and Asia Pacific at Embraer puts it: “The Middle East has established in the Middle East over this period of time.”

While noting demand softened after the 2008 global crisis, the fundamentals for growth in both market size and Embraer’s market share remain in place, Camelier adds.

“The more than 35 Legacy (aircraft) already operating in the Middle East are testimony to the success the Legacy platform has established in the Middle East over this period of time.”

The company forecasts the Middle Eastern market for new business jets at private aviation around $10 billion over the next 10 years, with the potential to absorb 200 to 250 jets during this period.

Trevor Esling, regional SVP, international sales, Gulfstream, is similarly upbeat, noting not only the more than 155 Gulfstream aircraft currently operating in the Middle East but also the company’s near 40 year presence there.
The vast majority of the company’s aircraft in the region are large-cabin, long-range aircraft, such as the G550 and G450. The G650 has also proven popular. "Overall, the Middle East seems to be fairly robust from a market point of view," he says.

Despite upbeat sentiment, the short-term picture for the Middle East & Africa has proven mixed – the region’s share of projected five year global demand slipping below its historical range of four to seven per cent this year, according to Honeywell. This has been reflected by just 18 per cent of survey respondents indicating they intend to replace their fleets or add new jets this year, compared to 26 per cent last year.

These scaled back plans are symptomatic of the hangover following the recent political turmoil set in motion by the ‘Arab Spring’, ongoing conflict in the wider region, and the recent emergence, in western Africa, of the Ebola virus.

However, the long-term importance of business aviation in the Middle East can be seen in the setting-up of dedicated units by the region’s major commercial airlines, including Emirates Executive (Emirates), Saudia Private Aviation (Saudi Airlines) and Qatar Executive (Qatar Airways).

Qatar Executive, for example, signed a memorandum of understanding with Gulfstream Aerospace in October 2014, to buy up to 20 aircraft.

As Mark Hardman – operations director/ AOC accountable – Middle East, at ExecuJet Aviation Group puts it: “We will certainly see a number of new service providers establishing within the region, for example: providers associated with the continued development of Dubai World Central (DWC) Airport infrastructure and services.”

Hardman also notes the region has an ageing fleet, which is the perfect platform to introduce newer models from all OEMs (Original Equipment Manufacturers).

BIGGER AND BIGGER

“What we are seeing is a move away from midsize business jets to the super large and ultra long range categories. The aircraft being delivered presently centre on the Challenger (Bombardier), Gulfstream (Gulfstream) and Global 6000 (Bombardier) categories in Dubai.

“Elsewhere in region the BBJ (Boeing) and Airbus CJ remain popular with a number of deliveries in Saudi Arabia and Qatar. Going forward, we predict the Global 7000, 8000 and Gulfstream 650 dominating the market in terms of future new deliveries," he adds.

The global business aviation industry faces a number of challenges, however – not least growing fears about the strength of the world economic recovery, with Japan recently slipping into recession for the fourth time in six years, China now witnessing an economic slowdown and the Eurozone continuing to grapple with how best to avoid a deflationary trap as the engine of Germany continues to sputter.

In the Middle East, there are region specific challenges, including air space congestion, the grey market and ongoing political turmoil impacting fuel bills.

This all comes with regional business aircraft movements likely showing double digit growth this year, in part due to demand from outside the region and the repositionaling of aircraft to the Gulf from areas of conflict such as Iraq.

“For as long as the UAE and Dubai in particular remains a popular destination business jet travel will continue to be robust. Most popular routes are the ones between airports from the Kingdom of Saudi Arabia and the UAE as well as connections between the UAE hubs in Abu Dhabi and Dubai and Europe, India and South East Asia,” says Holger Ostheimer, general manager, DC Aviation Al-Futtaim, which has an integrated FBO and hangar facility at DWC.

Data from worldwide aviation consulting firm Private Jet Services show demand on the increase – its Aviation Demand Index pointing to an 11 per cent increase in qualified demand in Q3 over Q2 of this year, with a six per cent increase in the same time period for private aviation trips flown.

Increased aircraft movements aside, ongoing political turmoil has added to fuel bills as journey times have been extended, especially for operators chartering flights out of the Gulf to Lebanon, given they have to fly around Syrian airspace.

GREY MARKET

In the grey market, meanwhile, private aircraft owners without an air operator’s certificate (AOC) continue to conduct illegal charter flights – in turn eating into legitimate business activities because they can customarily undercut those operators when it comes to chartering fees.

Cumbersome bureaucracy in a number of Middle Eastern countries also completely restricts general aviation activity, according to Hardman.

In some cases, the success or failure in obtaining an AOC or related authorisations can depend on the strength of local private aviation relationships, when it should really only depend on the professionalism of the team, manuals and the operation as a whole, he notes.

"In certain countries it is not unusual to have official submissions rejected by the local regulator three or four times, before successfully re-submitting the original paperwork. Patience and perseverance are key attributes," he says.

Not only does the grey market hinder legitimate market growth through unfair competition, it also puts insurance cover in jeopardy, thereby potentially exposing passengers in the event of an accident.

Industry estimates on the scale of the problem, which is more prevalent in the Middle East than elsewhere; suggest it could amount to a minimum 20 per cent of the overall business jet market, although the true figure may be much higher.

“For operators providing charter opportunities in the market, grey charter operations are proving a commercial risk to the competition as well as a safety and liability risk for the passenger. In this instance, passengers compensate aircraft affiliated entities for travel without the aircraft or its operator being legally entitled or from a regulators perspective approved to undertake flights for remuneration or hire," says Ostheimer.

The region faces the added challenge of congestion – reflecting the explosive growth in business jet movements in the civil aviation space in recent years.

Congestion isn’t simply a question of competing for a finite number of landing slots and parking spaces on the apron, as infrastructure tags
demand, but also the use of available air space as local commercial airlines launch more routes.

The problem is exacerbated – reflecting the ongoing political turmoil – by airspace having to be reserved for military purposes.

None of these problems are insurmountable unless there is an absence of political will. There is little evidence to suggest this, even if the pace of change needed to address these and other issues – where regulators can actually address them – is invariably glacial, much of the time.

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