

ALERT

U.S. International Trade Commission Releases Report on Business Jet Aircraft Industry

May 31, 2012

The U.S. International Trade Commission (ITC) has released a detailed report concerning the global business jet aircraft industry from 2006-2011 (the Report). The study, titled "Business Jet Aircraft Industry: Structure and Factors Affecting Competitiveness," examines the industry and market for business jet aircraft not exceeding 50,000 pounds maximum take-off weight (MTOW). The full Report can be found here. The ITC's News Release accompanying the Report can be found here.

The ITC prepared the Report in response to a formal request made in May 2011 by the House Committee on Ways and Means. The request identified five areas to be specifically addressed by the ITC:

- The structure of the industry, including supply chain relationships and foreign direct investment;
- The global market for business jet aircraft and recent developments, such as the global recession, that have affected demand;
- Production, consumption, sales, financing mechanisms, research and development (R&D) and business innovation;
- Government policies and programs affecting the industry; and
- Factors affecting future competitiveness of the U.S. industry.

The Report is comprehensive, drawing upon hundreds of sources, interviews conducted in the United States, Canada, France and Brazil, and testimony at a formal hearing before the ITC. It includes robust bibliographies that will serve as a valuable resource for anyone with an interest in the subjects that are addressed.

Authors

Laura El-Sabaawi
Partner
202.719.7042
l-el-sabaawi@wiley.law

Practice Areas

International Trade

Given the nature of the study, the ITC's role was one of fact-gathering, rather than analytical interpretation or the provision of policy or other recommendations. This briefing paper provides a summary of the Report's findings generally and of the specific findings concerning factors affecting future competitiveness of the U.S. business jet industry.

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 for business jets weighing up to 50,000 pounds MTOW—the United States and Europe—which resulted in significant reductions in employment throughout the U.S. aviation industry. During this same period, however, the market for larger business jets—those weighing more than 50,000 pounds MTOW—increased, because markets for and purchasers of larger business jets tended to be less exposed to the effects of the global recession, such as reduced credit.

The industry is characterized by significant barriers that limit the ability of new entrants to enter the market. These include access to capital, the technical ability to design, produce and certify aircraft, and the ability to provide aftermarket support.

The Report provides detailed and informative profiles of the six global original equipment manufacturers (OEM) that account for virtually all production of the jet aircraft covered by the study: Cessna, Hawker Beechcraft Corporation, Gulfstream, Learjet (Bombardier), Dassault and Embraer. 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 also discussed. While the majority of global production occurs in the United States, the single largest market, the Government of China's interest in entering this market is underscored by the identification of general aviation as one of seven strategic industries that will receive priority 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 mentioned above, 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, 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 (Ex-Im), 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 transparency concerning 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.

R&D plays a critical role in the global business 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 EU 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 market, or considering entering the market. While they would need to overcome the significant barriers to entry into the industry and market, if successful, they could increase competitive pressures throughout the global industry.

Changes in Regional Demand. The U.S. 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. This positive factor is countered by continued restrictions on the use of airspace, inadequate infrastructure to support widespread use of business jets and import tariffs in these countries.

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. These factors may undermine the future competitiveness of the U.S. industry. Indeed, some engineering work already has been moved to third countries.

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. In addition, the research that is supported by U.S. government agencies is in areas that are basic or foundational in nature, as opposed to applied. In contrast, Canada, the European Union and Brazil target their R&D support to specific aircraft programs.

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 Federal Aviation Administration's (FAA) 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.

* * *