Before there can be a wholesale change in the political leadership of a new government, China’s aviation industry must come of age. Close observers in the country’s business aviation community have suggested that this could result in a more consensual approach to regulation, but also yet more bureaucracy. A change of leadership in Hong Kong could also have ramifications for the regulatory environment in which business aviation is hobbled.

Manufacturers See Cause for Optimism

According to Diamond Falcon Jet international sales director Jean-Michel Jacob, the Chinese government’s conservative approach is governed by a realistic assessment of the country’s infrastructure limitations. “They feel it’s preferable to be careful because they don’t want to see an accident,” he said, “so they only let aircraft enter the country at what they think is a reasonable pace.”

Non-Chinese operators are régime tightly restricted in terms of the number of mainland aircraft they can use. For the most part, they are confined to the major airports, obeying a key advantage of business aviation: the ability to fly closer to the passengers’ final destination by using smaller airports. With air-traffic congestion in Beijing, access to the country’s major airports depends on getting landing slots, which are rationed to large groups. The major airlines, obviating a key advantage of business aviation: the ability to fly closer to the passengers’ final destination by using smaller airports. With air-traffic congestion in Beijing, access to the country’s major airports depends on getting landing slots, which are rationed to large groups. The major airlines, obviating a key advantage of business aviation: the ability to fly closer to the passengers’ final destination by using smaller airports. 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At last year’s Asian Aerospace, Larry Flynn (left front row), then Gulfstream senior v-p of marketing and sales, and Jin Chuan, of Hong Kong International Aviation Leasing, signed a memorandum of understanding calling for five G450s and G550s to go to the DeerJet subsidiary of HNAI Group’s Hong Kong Airlines.

Continued from preceding page

specifically wanted to pursue his career with a leading business aviation provider. “This [business aviation] really only started in China around five years ago,” said Wu. “There were no expectations that this could happen 10 years ago, and 20 years ago this was a bicycle country, with little opportunity for car makers. So in reality, it [business aviation] is developing faster than anyone [in China] expected. That’s why the shortage of pilots, mechanics and managerial staff is such a big challenge, with most of the available resources going to the airlines.”

With demand in the early years of Chinese business aviation having gravitated toward the larger, longer-range jets, Cessna has arguably been at something of a disadvantage with its product line strongly weighted toward light and mid-size models. But Wu sees this changing.

“The first buyers here were not sensitive to price, so they tended to buy larger jets, but since last year we have seen stronger interest in midsize and super-midsize models, including the Sovereign and Citation X, and types like these will become more popular over the next few years,” he maintained. Cessna claims that the first private entrepreneur in China to own a jet was an air conditioning tycoon who bought a Citation.

In Wu’s view, some of his fellow countrymen still regard private aircraft as status symbols and have little objective knowledge about which models would be best suited to their needs. In this regard, he believes manufacturers such as Cessna have a duty to educate prospective buyers to help them take a more balanced and pragmatic view of what business aviation can deliver.

Wu also had a candid view of what it will take to establish the sort of infrastructure and operating environment that business aviation will need to flourish in China. He warned against assuming that just because mode of transportation has won official recognition in China’s latest five-year plan, it will therefore benefit from government funding. Instead, private enterprise will need to come up with investment and this has been a vexed issue, with foreign companies privately expressing frustration at bureaucratic blocks to their doing just that.

According to the Cessna executive, China has begun addressing this conundrum, and since last year the door to private investment in China’s aviation network has been opening. “But people are still facing restrictions, with lengthy approval processes for projects, and this is why we are now encouraging the Chinese government to open the door even more,” said Wu. “There is no doubt it will change and China will need, among other things, thousands of FBOs.”

Cessna has been playing its part, claimed Wu, with moves to establish authorized service facilities for its aircraft in China. The U.S. manufacturer is now building its own service center near Shanghai and another in Singapore to serve the wider Southeast Asia region.

“My conservative estimate is that business aviation in China will see 20 percent growth annually over the next five years, but the shortage of trained staff could be a limiting factor,” predicted Wu. In several instances, prospective clients have asked Cessna’s salesman to help them find pilots and operators to manage aircraft, and Wu believes that a willingness to support clients in this way will be critical to success in China.

It has been 10 years since Gulfstream delivered its first aircraft into Greater China, handing over a G200 to an operator in Hong Kong. Today, the manufacturer claims to have more than 60 aircraft there—even split between the mainland and Hong Kong. According to Roger Sperry, regional senior sales vice president for South America and the Far East, demand for the company’s larger, longer-range models, such as the G450 and G550, continues to dominate. At the same time, he claims that the market is showing growing interest in midsize models such as the G150, which can more efficiently serve shorter routes such as Hong Kong to Beijing or Tokyo.

“Sperry shares the view that China is now taking larger strides toward establishing adequate infrastructure, with a plan to add another 100 civil airports over the next decade. “Actually we see

At Beijing’s Capital Airport an executive terminal opened in time for the 2008 Olympic Games. But four years on, the basis for developing this facility is still unclear, apparently because the local airport administration is not comfortable with the terms under which Western partners might be involved.

At Shanghai’s Hongqiao Airport, Hawker Pacific is running what is arguably China’s flagship, full-service FBO, which opened in April 2010. Next month, the facility will host the new Asian Business Aviation Convention & Exhibition (Abace—see box on page 34).

In January, the Shanghai Hawker Pacific Business Aviation Service Centre, which is a joint venture with the Shanghai Airport Authority, completed its first scheduled maintenance work on a Chinese-registered midsize jet, following its Part 145 approval by the Civil Aviation Administration of China late last year.

According to Hawker Pacific, this work marked the first scheduled maintenance event completed by an authorized service center for a Western business aircraft manufacturer in China and the first by an independent maintenance organization. Hawker Pacific’s Shanghai base is an authorized service center for Hawker Beechcraft. The 43,000-sq-ft maintenance facility is immediately adjacent to the main FBO building.

For its part Jet Aviation still harbors ambitions to get more permanently established in China. “We started early in China, and you don’t always get rewarded for being brave,” said Christof Spaeth, Jet Aviation’s senior vice president for MRO and FBO services in Asia, as well as Europe, the Middle East and Africa. “This is still a demanding area. China is a big country and there is a lot of missing infrastructure. Finding trained personnel is also challenging, and there is still just a small fleet [of business aircraft] so it is hard to make an efficient start [in launching FBOs].”

In Spaeth’s view, the key starting point for building Chinese business aviation to its full potential is the availability of aircraft management services that would allow the country’s fleet to expand and so provide the stimulus for investment in supporting services such as maintenance. “In other words, it’s almost a classic Catch 22: no aircraft, no services but also no services, no aircraft.

“We are intensively talking to potential partners and we are getting closer,” Spaeth told AIN. “We are realistic about growth in China. Maintenance is a tough business model because it is mainly new-generations aircraft for now. What we want to try to capture is access to managed aircraft.

“The FBO side of the business is dependent on the relationship with the airport,” he added. “It is difficult to develop an independent FBO chain in China, because you need a link into the airport and it is natural for the airport to wish to keep the business to itself.”

The perspective of rival bizav services group ExecuJet Aviation is similar. It has established an aircraft management and sales office in Beijing and a maintenance support joint venture at Tianjin, but it would like to get involved in handling too.

“Infrastructure has been slow to develop in China largely as a result of the inability of private companies to obtain land at airports and the slow progress of foreign companies in partnering with local companies,” said Graeme Duckworth, managing director of ExecuJet Asia.

Through its joint venture with Chinese partner Tianjin Haite, the Switzerland-based group is now building a full MRO facility at Tianjin, near Beijing. This is due to open in the second quarter, and ExecuJet is evaluating FBO ventures at several airports.

“There has been a great deal of progress made regarding ease of ownership and operations of business aircraft in China, with bureaucracy being the primary reason for the delays in the past,” Duckworth told AIN. “In my view there is still more required in further opening up the airways, developing secondary business and private airports and streamlining government application processes generally.” —C.A.
Operators prepare to expand Chinese bizav’s flight envelope

Asia Jet epitomizes the emerging pack of private flight service providers jockeying for position in China. The Hong Kong-based operator was formed in 2008 by investors who were on close terms with the then president of NetJets, Richard Santulli. The objective had been for it to somehow partner with the U.S.-based fractional ownership group, but that year’s major economic downturn put paid to that plan.

According to CEO Mike Walsh, plans to break into mainland China through an alliance with Deerjet fell apart because of problems with an audit, so instead Asia Jet looked to launch its own answer to NetJets through an alliance with Metrojet, which already held a Hong Kong air operator’s certificate (AOC), allowing it to launch a new charter jet card. After Metrojet failed to secure an AOC for mainland China, Asia Jet hitched its wagon to China Eastern Airlines Executive Air, a new Shanghai-based private jet offshoot of the Chinese airline.

Even as NetJets prepares to announce renewed plans to launch fractional ownership in the Chinese market, Walsh indicated that Asia Jet could also start offering shared aircraft ownership options there. The key to this will be to find an efficient fiscal plan for making the best of what Walsh refers to as the “high barriers to entry in China,” most specifically a 24-percent tax on imported aircraft.

One option, maintains Walsh, is to treat the aircraft as a shared asset that is leased, offshore, to Asia Jet, which in turn leases it to China Eastern. For the owners this means paying tax on only the lease payments, spread over the term of the lease, rather than on the full asset value. Both Deerjet and BAA Management have already adopted similar tactics.

The process for delivering aircraft into China is still precarious and time-consuming, resulting in many owners keeping aircraft in China or on the N-register [U.S.],” explained Walsh. In some cases, owners are able to import aircraft through the city of Shenzhen, where reportedly the bureaucratic barriers are less onerous. In Walsh’s view, it is possible that the mainland Chinese government might eventually recognize Hong Kong and Macau—and maybe even Taiwan—as part of an “open skies” zone that would greatly simplify the myriad complications associated with operating aircraft between these territories. “But for now the barriers of protection are still in place,” he concluded.

For the time being, Asia Jet’s fleet consists mainly of Gulfstreams, including a G200 and a G300 that it bought from Toyota USA. More G200s and G150s and an Embraer Legacy 600 are due to be delivered to the jet card provider, some of which will be directly owned and others leased. Also in the mix are a Bombardier Challenger 605 and a Citation XLS+ leased through Cesna.

According to Walsh, demand and profit margins are stronger for aircraft in the super-middle and large-cabin classes. Average flight times for Chinese clients are three hours and longer, with aircraft carrying six or more passengers. One factor tipping the balance against the use of smaller jets is that landing and handling fees at Chinese airports are not sufficiently differentiated according to aircraft size.

In Walsh’s view, barriers have become precariously thin, partly through what he regards as predatory pricing strategies dictated by some charter brokers. In these circumstances, he isn’t particularly keen to see an influx of new competitors, but he expects this to happen in the none-too-distant future.

“In a growing market where barriers to entry are high, the barriers are somewhat welcome because otherwise there would be a dogfight,” he concluded. “In China people are expecting growth as high as 24 to 30 percent annually over the next 10 years or more, but it can’t happen at the pace that the Western world would like,” Walsh told AIN.

Walsh shares the view that Chinese officials are quite consciously limiting business aviation market expansion to a pace that they are comfortable regulating and to make best use of limited infrastructure. He believes that the authorities keep them they could use some help from Western counterparts to break this logjam, but that Westerners must wait to be asked for this help. “It is better to have growth at a slow pace than to have it closed down altogether, and some people are simply too impatient,” said Walsh.

Another up and coming operator is Hong Kong Jet, recently formed by China’s Hainan Airlines as its new business aviation division under the leadership of Chris Bucholz. Deerjet is its sister company on the mainland, but the plan calls for Hong Kong Jet to get its own Chinese AOC eventually.

The company’s first focus will be to serve foreign charter clients wanting access to China and surrounding Asian destinations. But Bucholz revealed that Hong Kong Jet also is to be the conduit for a fractional ownership program program to be launched this year. Last October it took delivery of its first aircraft, a G550. He says Hainan Airlines has big ambitions in business aviation and plans to add dozens of aircraft over the next few years to start tapping economies of scale needed for successful fractional ownership offerings. To that end, last month the company added five large-cabin aircraft to its existing fleet of six managed aircraft.

Bucholz claims that Asian clients will expect a higher level of service and greater flexibility from a fractional ownership program than is currently the norm in the West. Hong Kong-based operators intend to expand the program beyond China via a network of commercial operators. The group also has ambitions to move into business jet maintenance, with approvals to work on several different makes of aircraft.

“The market here is growing extremely quick, and there’s no sign of its slowing down,” he told AIN.

According to Bucholz, the majority of new jet owners in China are private individuals rather than corporations. He characterizes the typical new customer as a workaholic tycoon who buys an aircraft with personal funds rather than making the case for channeling the aircraft acquisition through his company, even if financing the aircraft through a loan or lease would be more fiscally efficient.

“When these people are buying their first aircraft they are generally comparing the cabinequipe to first-class airline service, which is very good in Asia,” said Bucholz.

Bucholz indicated that foreign companies have found it hard to break into the Chinese market because generally they have struggled to secure the right partnerships with local companies. A foreign investor is allowed no more than a 49 percent stake in a Chinese company.

In his view, linguistic and cultural differences have been a bigger obstacle to the success of business aviation joint ventures than China’s notorious bureaucratic maze.

To operate effectively in China, Bucholz maintains, it is imperative to do so under a Chinese AOC. In practice, but not officially, access to airspace and airports is somewhat easier for Hong Kong-based operators. Hong Kong Jet believes it benefits from its direct connections with a major, established operator such as Hainan Airlines with strong connections with aviation regulators.

“In terms of operational flexibility, the situation is far better than it was 10 years ago,” said Bucholz. “Compared with India, China is light years ahead and it will improve further, but at some point it will have to open up airways on the mainland.”

In December 2010, TAG Aviation announced plans for a partnership in China with local operator First Mandarin Business Aviation Company (trading as Lily Jet). The planned joint venture has yet to materialize despite the fact that government approval for it had been anticipated by early last year, based on Lily Jet’s existing AOC and Part 145 maintenance certification.

However, the Switzerland-based group has also formed a joint venture with China’s Everbright Group to open a new Chinese division. Carlos Gomez has taken over as CEO of TAG Aviation Asia, which is based in Hong Kong. TAG Aviation Asia was formed in 2006 and holds a Hong Kong air operator’s certificate and Part 145 maintenance approval. –C.A.
infrastructure developing fairly quickly, considering the starting point,” he commented. “Airspace is opening up, flight planning is easier and quicker. However, with rapid growth, ramp space in places such as Hong Kong is at a premium. More FBOs and hangar space will be needed across the region.”

In the face of claims from some in the industry that Chinese officials are still slow to grasp the imperative to loosen controls on business aviation growth, the Gulfstream executive insists there is now a more cooperative attitude. This is extending into the realm of getting Western aircraft certified in China, but in this respect Sperry concedes that CAAC is still firmly on a learning curve.

“We should recall that ease of use is a two-way street,” he added. “There is a fair amount of time-consuming red tape to fly a Chinese-registered aircraft into the U.S. That means earlier planning on the part of Chinese companies and deprives them of some of the spontaneity that makes business aircraft so valuable.”

In the face of what Sperry characterizes as a Gold Rush mentality toward this exciting new market, he emphasizes that Gulfstream has taken a decidedly long-term approach since getting its feet in the door 10 years ago. “It takes time to build relationships and trust, and to reinforce that you are in a market for the long haul,” he told AIN.

“In that sense, Gulfstream is an overnight sensation more than a decade in the making. Our product support organization grows with the fleet, with more parts in the region, and Chinese-speaking support management and technical specialists embedded with fleet operators such as Deccjet.”

Continued from page 30

ABACE Convention News

Count on AIN for Full Coverage of the ABACE 2012 Show

The Asian Business Aviation Conference & Exhibition (Abace) has the makings of being a watershed event for the industry’s development in China. Organized by the U.S. NBAA, the event is being staged at Shanghai’s Hongqiao International Airport from March 27 to 29. As of early February, exhibit space for the show was sold out, except for a few slots on the static display, where 26 aircraft are already scheduled to appear. NBAA had already made plans for an additional pavilion to accommodate strong demand from exhibitors.

“This news is further evidence of Abace’s standing as Asia’s premier business aviation event,” said NBAA president and CEO Ed Bolen. “We created a first-of-its-kind, enclosed exhibitor pavilion specifically to accommodate additional exhibitors, and to see that area sell out along with our original floor space under scores the significant interest in the show in China and across the Asian region. Clearly, momentum continues to build for a strong show that will give exhibitors an unparalleled opportunity to demonstrate their products and services, and showcase the value of business aviation to a fast-growing marketplace.”

Abace is being organized in partnership with the Shanghai Airport Authority and co-hosted with the Asian Business Aviation Association and the Shanghai Exhibition Company.

U.S. deputy transportation secretary John Porcari will be among speakers at the Abace opening session. The show will also feature educational sessions. For more information see www.abace.aero.

AIN will publish its award-winning special show editions on each day of Abace, as well as provide full online coverage from the event. Also available at the show will be the first Chinese language edition of the annual Buyer’s Guide published by AIN sister publication Business Jet Traveler. –C.A.