CAN THE MIDDLE EAST BIZAV SECTOR REVERSE ITS FADED FORTUNES?

News / Business aviation

The Middle East—once one of the true hotspots of business aviation growth—is now experiencing a cooling in demand. Ahead of this week's MEBAA 2016 show, even the most optimistic of industry observers acknowledged that a combination of political instability and declining oil revenues have dented the industry's prospects in the region—at least for now.

Trends of flat to slight decline in the region appear to be the consensus among forecasters, even if aircraft manufacturers are still trying to look on the bright side (see below). But with OPEC now predicting peak demand for oil could come as soon as 2029, future prospects for business aviation growth seem to hinge on the extent to which the Middle East's economies can diversify beyond the energy sector. The United Arab Emirates is the poster-child for this laudable accomplishment. Saudi Arabia—which still boasts the region's leading business aircraft fleet—still has a mountain to climb in this respect.

In its latest, and largely pessimistic, 10-year business jet delivery forecast published on October 30, Honeywell Aerospace predicted annual fleet growth for the combined Middle East and Africa region of just 1 to 2 percent through the end of 2021. This is down from the 2 to 3 percent growth rate experienced over the past five years. Overall, the avionics and engine maker cut its delivery forecast by around 6 percent from 9,200 units in 2015 to 8,600 aircraft in the new forecast.

"The recent fleet growth slowed, as predicted, due to political instability and a migration of aircraft from the region," reported the Bombardier forecast team. "The fleet was nearly static in 2015."

However, Charles Park, Honeywell’s director of market analysis, did offer some grounds for optimism. “At first blush you would think that oil prices really haven’t recovered to anywhere near what they were before 2014, although they have firmed up somewhat, so we did pick up some improved interest rates out of the Gulf states this year,” he commented. “The overall Middle East/Africa buying plan rate is still below the world average, but it did improve quite a bit over the 2015 reads, so that was a little surprising to me, and it’s a positive surprise.”

Honeywell’s well-respected survey of customers found that in 2016 just over 20 percent of respondents indicated they have plans to purchase new jets in the next five years. This would mark a modest increase in the outlook compared with 2015 and 2014, but is still some ways below the equivalent projections from operators in the region in 2010-2013.

Customers’ plans to replace or expand their fleets with pre-owned aircraft over the next five years, showed a dip to 21 percent in this year’s forecast. This is lower than the equivalent projections for the previous six years when the rates for the rolling five-year windows varied between 16 percent (in 2015) and a high of 38 percent (in 2011).

Overall, Honeywell sees the Middle East and Africa accounting for just 3 percent of global new jet sales to traditional corporate and charter operators. This makes it the least significant region in the world, by comparison with Asia Pacific at 6 percent, Latin America at 12 percent, Europe at 14 percent and North America at 65 percent.

The latest forecast for business jet deliveries over the next 10 years from pre-owned aircraft broker Jetcraft sees the Middle East and Africa still accounting for just 3 percent of global totals. This is well behind the company’s projections for North America (rising to 60 percent for 2016) and Europe (rising to 15 percent). It sees the Asia Pacific proportion of the total falling (to 10 percent), and the same trend for Russia and the CIS (4 percent) and Latin America (5 percent).

Saudi, UAE Still Top

According to business aviation data specialist JetNet, Saudi Arabia and the United Arab Emirates (UAE) have consistently boasted the number one and two fleets of turbine-powered business aircraft in the Middle East and North Africa. Together, as of the end of October, the two countries accounted for around 40 percent of all aircraft based in the region—a proportion that has barely changed at all over the past decade. Looking at the national fleet totals for 19 countries over the period 2006 through 2016, the most rapid rates of growth were achieved between 2006 and 2010 (with increases of between 20 and 31 percent), followed by falling single-digit increases (despite the fact that 2011-2014 saw average oil prices that were roughly twice what they are in 2016).

As of the end of October, the number of turbine-powered business aircraft based in Saudi Arabia totaled 184—representing an increase of almost 69 percent since 2006. The UAE has achieved even more impressive growth, with its fleet size rising by almost 184 percent to 139.

The rest of the region is a mixed bag, including anomalies such as Iran with 45 aircraft listed (albeit, undoubtedly, a very aged assortment of models due to the long-running sanctions) and Israel with 95 aircraft.

North Africa also has seen considerable growth over the past decade—no doubt motivating the recent move by the Middle East Business Aviation Association (founded in June 2006) to expand its scope into the neighboring Arabic-speaking countries. Morocco is now the largest of these national fleets with 47 aircraft. Egypt formerly had the dominant fleet until political upheaval resulted in the number of aircraft based there falling from 48 in 2010 to 40 this year. Algeria’s fleet has grown to 40 aircraft, while Libya’s has shrunk to 15 in the wake of the ongoing political crisis. Tunisia has just three locally based aircraft.

Flights Increasing

Business aircraft flight activity out of the Middle East lately has been somewhat encouraging. According to Germany-based data specialist WingX, there were 5,400 flights from the region in the third quarter of 2016, which represented a 21 percent increase over the same period in 2015. In terms of year-to-date activity (as of October 25), WingX (using Eurocontrol data) tracked 13,800 flights (up by 14 percent on last year).

The company attributed much of this growth to activity among bizliner aircraft, such as the Boeing Business Jet (BBJ) and Airbus Corporate Jet (ACJ) families. Without these perennial Middle Eastern favorites, the growth rate for the third quarter would have been just 5 percent.

In fact, one third of the global ACJ family of more than 180 aircraft is now largely based in the Middle East, according to the European manufacturer. It is now seeing initial orders for the new ACJneo models, powered by the new, more fuel-efficient CFM International Leap engines.

“This has been a very important area for us historically,” ACJ president Benoît Defforge told AIN. “Our Middle East customers are enjoying both our single-aisle aircraft [the ACJ320 series] and our widebodies [the ACJ330/340/350/380s].”

Saudi Arabia still accounts for the lion’s share of ACJs in the Middle East. Defforge played down suggestions that problems in the country’s oil-dependent economy are significantly dampening market conditions there.

Airbus believes that both the new Neo models and the new ACJ350 Easy Fit VIP widebody will boost interest in the region. “Middle Eastern customers are interested in the Neos because they are now flying all around the world and they want range and comfort that they can’t get with a traditional business jet,” Defforge stated. “These customers are used to traveling with an entourage, so the big space available in the ACJ350 is very interesting to them.”

Boeing Business Jets president David Longridge shared this perspective with his rival. “The Middle East is still critically important to us, but in the last couple of years it has been quieter,” he commented. “This is not a permanent shift and we still expect to see plenty of demand there.”

At the NBAA show in early November, Boeing launched the new BBJ Max 7 model, and the Middle East market’s desire for range and comfort was a big factor in this decision. “The need to fly from Dubai to New York non-stop is now a common requirement, and the Max 7 will be able to do that with its additional 800 miles of range,” said Longridge. “In some cases the principal is traveling with 10 or more people for 10 or more hours, and this means the ability to have separate rooms in the cabin is very important. The BBJ Max 7 will fly as far as something like the [Gulfstream] G650, but without having to make the choice between range and space.”

Most of the demand for BBJs has come from the six states of the Gulf Cooperation Council: Saudi Arabia, the UAE, Qatar, Bahrain, Kuwait and Oman. Longridge acknowledged that long-running dip in oil prices and Saudi Arabia’s efforts to reform its oil-dependent economy has inhibited aircraft buying decisions. “But I don’t believe these changes are permanent,” he said. “Oil prices have always fluctuated and the demand will come back.”

There are now 56 BBJs based in the region and Longridge sees more demand coming from customers who are moving up from smaller business jets. That said, no new green deliveries are being made for Middle Eastern customers in 2016, but some completed aircraft have been delivered to the region this year and at least a couple more are due there in 2017. The 71 BBJs either in service or on order for the Middle East constitutes around 30 percent of the manufacturer's entire fleet, making the region the largest market in the world for the aircraft, with North America at 24 percent.

Boeing has a customer support representative based in Abu Dhabi. It also has authorized warranty service centers in Riyadh (Alsalam Aircraft Company) and Dubai (Jet Aviation).

At Bombardier, Khader Mattar, regional sales vice president for the Middle East, Africa and Turkey, also acknowledge the demand-softening impact of suppressed oil prices and political instability. But at the same time, he argued that the regional instability seems to have boosted demand for private charter flights—perhaps due to security concerns—and this in turn has increased interest in new aircraft among charter operators.

“Current conditions have been good for charter, even if other customers have delayed aircraft purchases,” Mattar told AIN. “We've had some inquiries from people who chartered and now want to buy.”

In Mattar's view, the expansion of Saudi Arabia's economy beyond the oil-and-gas sector could prove to be a good thing, but for now conditions have cooled there. “In the future, this could mean more foreign investment, and we are seeing the [Saudi] authorities promoting more AOCs [commercial Aircraft Operator Certificates] and allowing foreign companies to operate there. This is opening doors for us,” he said.

Considering the segments served by its Learjet, Challenger and Global families, Bombardier claims a 27 percent overall lead above other manufacturers. Its growing Global family is its strongest card, with the existing Global 6000 able to fly from Jeddah to New York. The new $72.5 million Global 7000, which will be Bombardier's largest business jet yet and with range of 7,400 nm, is due to enter service in 2018.

Since January, when TAG Aeronautics amicably stepped down as Bombardier's exclusive sales representative in the Middle East and Africa, the Canadian airframer has taken direct control of the sales process in the region. “We like to have more control of the region and direct access to clients,” said Mattar, adding that it has increased its sales presence with more staff based in Dubai.

Customer support is provided through approved service centers Qatar Executive and ExecuJet (in Dubai). Bombardier has almost $17 million worth of spare parts based in the region.

The Middle East also has been a key market for Dassault Aviation's Falcon family, and the French company has high hopes for the success of its new Falcon 8X, which has just entered service and for which the first Middle Eastern delivery was anticipated by the end of November. “The market there is now challenged by the difficult economic environment,” acknowledged international sales director Renaud Cloatre. “There are a lot of preowned aircraft on the market, and so it is not easy to replace these with new ones. But the fundamental trend is for business people to be able to travel farther and faster, and so the demand is still there. What we hear when we talk to people who already own a jet is that clients now expect more efficient and flexible aircraft.”

Overall, Cloatre indicated that some prospective buyers are now hesitating over new aircraft purchases, partly due to concerns about depreciation in the asset value. “It can be a tougher decision now compared with 2006 when aircraft where actually appreciating in value,” he commented.

While acknowledging the low oil prices’ particular impact on the Saudi Arabian market, Cloatre insisted that the market there is not completely “frozen.” In fact, he said that an improved regulatory environment in the country has improved the situation of legitimate charter operators and has resulted in increased demand in this area.

In addition to the GCC states, Cloatre pointed to rising sales potential in countries like Oman, Egypt, Jordan and Lebanon. “Customers there love the trijet but they also like the new [twin-engine] 2000LXS,” he stated. “All Falcons are capable of flying non-stop across Europe and Africa [from Dubai] and they can also reach much of Asia. Another big strength is that they can land at a weight that is close to [full fuel weight], which is good when customers want to change plans at short notice. So you could fly from Dubai to Doha and then on to London without refueling.” Many other business jets are not able to land with the weight of nearly full fuel tanks, so they cannot make a short hop followed by a long flight without topping off the tanks at the interim stop—which can be an unwelcome delay. Sometimes, fuel isn’t even available at the interim airport.

Dassault has authorized service center partners in the shape of Saudi Arabian Airlines in Jeddah and Jet Aviation in Dubai, as well as a Saudi-based field service representative. They are backed up the Paris-based Falcon Response Team with its Falcon 900 aircraft ready to transport a Go Team to support customers within two hours, and to transport passengers if their aircraft cannot be returned to service in time to meet their schedule.

Gulfstream’s presence in the Middle Eastern market has been dominated of late by the G650, of which some 25 are now based in the region. Its ability to fly non-stop to the U.S. has been a big selling point.

One significant Gulfstream customer is charter operator Qatar Executive, which has started operating the longer-range G650ER. As part of an order for 30 aircraft, the company also is due to take a mix of the new G500 and G600 models.

According to Trevor Esling, Gulfstream’s regional senior vice president for international sales in Europe, the Middle East and Africa, the UAE has seen more activity than Saudi Arabia lately, with a steadily strengthening market. “But overall, Saudi Arabia is still the most important market, and Gulfstream is a very strong brand there,” he commented.

There are now more than 120 Gulfstreams based in the Middle East and North Africa, and these also include a mix of G550s, G450s and G280s. “The Middle East is a market that is, in some respects, like Russia and China, in that it developed from the top down. So the light- and medium-size side is relatively under-developed,” said Esling. “The main focus has been on being able to fly non-stop from Dubai to London, but we’re now getting more requests for destinations in China.”

Gulfstream also has service center support from Jet Aviation in Dubai. It is also adding a new 6,000-square-foot (557-square-meter) parts distribution center at the Dubai World Central (DWC) Airport site, which will carry about $22 million worth of inventory.

Textron Aviation’s position in the Middle East market spans both turboprop- and turbofan-powered products, but, with the pending service entry of new models like the Citation Longitude and Hemisphere, it is the jet side of the equation where the manufacturer sees the most potential for growth.

According to senior vice president sales Kriya Shorrt, the developmental $35 million Hemisphere (the largest Citation in the line’s history), for which first deliveries are anticipated in 2020, will be very attractive to Middle Eastern customers. It offers a combination of 4,500-nm range and a spacious three-zone cabin that is proclaimed to be the widest in its class. The increased range of the Citation Longitude—now 3,500 nm—also makes a more compelling case for its use on intercontinental flights to and from Europe. Textron’s other aircraft based in the region include Hawker business jets, Beechcraft King Air twin turboprops and Cessna Caravan turboprop singles.

“When you look at the economic environment in the Middle East today, it’s clear that customers are more mindful about costs,” Shorrt told AIN, arguing that the new Citations’ combination of range and price point mean that they will find themselves in the right place at the right time. “Maybe in the past [in the Middle East], we didn’t have the opportunity, but now we do because people want to achieve a mission and a lifestyle at the right price. We expect to see more opportunity opening up in terms of what business aviation can do for the region, including models like fractional ownership.”

In Saudi Arabia, Textron has a long-established sales and customer support partner in Wallan Aviation. In Africa, it is represented by Africair.

In addition to the UAE, Turkey is showing signs of an uptick in demand, and Textron recently delivered two Citation Latitudes there. It also sees a recovery in the once-promising Egyptian market, which was disrupted by political turbulence.

Brazil’s Embraer Executive Jets has seen a clear case of arrested development in the Middle East market, with what president and CEO Marco Tulio Pellegrini described as “more selling than buying.” In his view, continued uncertainty over income from oil has very definitely halted investments, and this, combined with an excess supply of preowned models, has stalled new orders.

“What’s missing is confidence,” he told AIN. “It is difficult to say whether we have reached the bottom but I hope we will see change next year.”

04 DECEMBER 2016

SOURCE: AIN
ARTICLE LINK:
https://50skyshades.com/news/business-aviation/can-the-middle-east-bizav-sector-reverse-its-faded-fortunes

