

# THE HINDU

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## **Economic crisis : Corporate Jets put on sale**

The price of second-hand corporate jets has been slashed as businesses offload an asset that has come to embody the height of corporate excess during the credit crunch. This week the US government set tight restrictions on the use of Citigroup's corporate aeroplane after the bank accepted a \$45bn bail-out.

This followed a public outcry after the chief executives of General Motors, Chrysler and Ford made one of the biggest corporate PR gaffes of recent times by flying to Washington bail-out hearings in private jets. The howls of indignation were still ringing in their ears when a bill sanctioning a government-funded rescue was approved by Congress in December with a proviso: any carmaker seeking federal funds must undergo "divestiture of all passenger aircraft owned or leased".

Such is the disdain for private aeroplanes on Capitol Hill that it has been enshrined in legislation. Corporate jets are officially out of favour with US politicians, who now have the power to rescue or destroy companies. Ford pre-empted the bill last month by announcing that it was exploring the sale of its private jets. The corporate jet market has deteriorated markedly in the last few months .

Even if Ford finds a buyer for those planes, no one will want to boast about it, says Gary Crichlow, an analyst at the aviation consultancy Ascend. "The use of business jets has suddenly become vilified. Companies might decide from a public perception point of view that they might not want to be seen owning an aircraft, particularly in the US."

Second-hand valuations for the Gulfstream G550, a Rolls-Royce among corporate jets, have fallen sharply as the market has dried up. The G550 can fly a group of businessmen from London to Tokyo without a refuelling stop and, according to Crichlow, was almost impossible to get hold of in the used-plane market six months ago - and then it would have cost about \$58m. Now, he said, they are much easier to source and would cost \$50m to \$55m, a discount of up to 14%. "Six months ago you could probably find a G550 but they were few and far between. But now some are being sold for a price that would have been reasonable a few years ago but is a rock-bottom price now," he said.

Crichlow said the corporate jet market would have a "rough ride". Sales of corporate jets were expected to peak in 2011 but the slump in the US economy last year has changed those forecasts. He expects the market peak to have

been passed last year with more than 1,045 jets due to be delivered worldwide and about two-thirds of that total coming from US orders.

This year he says the delivery total will be flat. "Jet ownership is definitely going to take a hit because of the need to conserve cash. People will be trying to sell them. That will see a lot more aircraft coming on to the market and the increase in supply will depress used jet values further."

There are 16,000 purpose-built business jets in the world, according to Ascend, with only 500 lying idle. North America has the largest share, with about two-thirds of all private aeroplanes, followed by Europe with about 15%. The growth markets are in economies such as Brazil, India and China with the American share of all new deliveries falling from three-quarters to just over half since 2003.

However, an aviation source said Ford needed to sell its aircraft as soon as possible. Otherwise, Congress is, in effect, forcing cash-strapped car manufacturers to lose money on their assets - as a precondition for giving them government cash.

"There has been a major downturn in corporate usage," said the source. "The financial sector and the New York finance community, who are big users of jets, are not going to use them. So there is going to be significant overcapacity and aircraft dumping. But those who can get their aircraft out on to the market over the next six months will find there may be opportunities to realise value out of their aircraft."

After that, said the source, the market could be glutted with more firms joining Ford in trying to make some cash and avoid the withering criticism on Capitol Hill.