



## 2018 Q3 Report

### *Perceptions from the Middle Kingdom*

#### **Impact of Sino/US Trade Dispute on PRC Commercial Aircraft and Engine Purchases**

We are often asked if we think the current Sino-US trade conflict might adversely impact the purchase of US-built airplanes and engines by Chinese airlines and lessors. Our answer is, we don't think so, at least not nearly to the extent that many in the media and the investment community seem to think it will. The reason is that the commercial airliner and engine market isn't nearly as susceptible to trade wars as many other kinds of products are.

For one thing, the order time is too long. Commercial airliners and engines are typically ordered in significant quantities, despite their high prices, in order to obtain the best possible discounts from catalog price. The first unit of a major fleet order typically isn't available for delivery until as long as two years after ordering, and the last one may not be available until ten years after or even more.

For another, payment for each airplane in an order is made periodically from order until delivery, somewhat similar to progress payments on a construction project. A significant amount is paid "up front" and most of the rest at regular intervals while awaiting actual production, so that only a relatively small amount remains due at delivery.

In addition to all those factors, China is the fastest growing aviation market in the world, and well on its way to also becoming the largest, while the airframe and engine OEMs capable of supplying that huge demand are very few in number and at least currently all foreign. These types of long term complications don't adapt well to shifting trade winds.

There is, however, another issue unique to China that can be subject to the ebb and flow of the Sino/US relationship generally, not just to the inevitable fluctuations of the trade aspects thereof. That's the requirement for prior government approval of every foreign-purchased aircraft to actually be imported into the PRC. Such approval is applied for by the purchaser prior to delivery and granted at delivery, and its availability as scheduled can sometimes be a cause for concern during periods of heightened bilateral tensions. But, just with the trade issues, it's unlikely that this complication would be allowed to significantly impact the steady flow of new airplanes needed to satisfy the booming Chinese demand.

PGA Aviation is an aircraft re-marketing firm with focus on the Greater China market. We work closely with many airlines in the Greater China region. Our goal is to provide profitable solutions to our clients, especially working with Chinese airlines that are phasing out mid-life and end-of-life aircraft, and Chinese leasing companies that are leasing and/or selling aircraft assets. PGA Aviation can also provide PRC Aviation Policy advisory services by interacting with Chinese governmental agencies on behalf of its clients.