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The Real Action Is in Private Jets

Pricey fuel be damned. It's full speed ahead on orders for \$3 million-plus business aircraft—often from Asia, Russia, or the Middle East

by [Carol Matlack](#) and [Mark Scott](#)

Visitors to Britain's Farnborough Air Show can easily overlook the display of business jets, tucked down at the end of a runway behind the sexy fighter planes and the big Boeing ([BA](#)) and Airbus ([EAD.PA](#)) aircraft. But business jets—luxury planes catering to corporate executives and the super-rich—are just about the hottest thing in aerospace these days.

Even as high oil prices crimp airline orders for big passenger planes, business-jet sales are booming. Deliveries are expected to top 1,200 this year, the third consecutive record year for the industry, and most analysts predict the numbers will keep rising at least until 2010. Sales over the next 10 years are likely to exceed \$220 billion, more than twice the figure over the preceding decade.

Who is buying all those planes, which start at around \$3 million and can run well over \$40 million? Many customers come from the growing ranks of the ultra-rich in Asia, the Middle East, and Russia. This year, for the first time, more than 50% of business jet sales will be outside the U.S. "Back in 2001, our orders were split 70-30 in favor of North American business, but now that's been flipped to 70-30 in favor of international," says [Steven Ridolfi](#), president of the business aircraft division of Canada's Bombardier ([BBDB.TO](#)). "We've been seeing double digit growth across emerging markets."

Dodging Airport Hassle

Demand from business travelers is rising, too, as time-strapped execs look to escape "the hassle factor of airports and security," says Colin Steven, vice-president for sales and marketing in Europe, the Middle East, and Africa for the executive-jet division of Brazil's Embraer ([ERJ](#)). "They want to fly direct, do their business, and get back."

The expansion is rippling through to aerospace contractors, too. Honeywell Aerospace ([HON](#)), for example, recently signed a \$23 billion contract with Embraer to supply engines to its next generation of business aircraft. "These are very exciting times, and we see the growth continuing," says [Paolo Carmassi](#), president of Honeywell's Europe, Middle East, Africa, and India business.

The boom also is lifting the fortunes of private jet charter and time-share companies. London charter

outfit [Ocean Sky Aviation](#), for instance, already operates a fleet of 11 jets and has two more on order at a cost of \$30 million each. CEO Kurosh Tehranchian figures Ocean Sky's revenues will nearly double this year, to about \$220 million.

One appeal of high-end business jets, of course, is that no commercial airline can match their comfort. At Farnborough, Embraer is showcasing a mock-up of its new Lineage 1000 jet, which lists for \$42.9 million and boasts features such as a stand-up shower, double beds, and a private dining room. The company announced the sale of a Lineage 1000 to the [Al Habtoor Group](#), a business conglomerate based in Dubai.

Even Embraer's lowest-priced business jet, the \$3.1 million Phenom 100, has an interior designed by BMW Group's [Designworks/USA](#), an affiliate of the German luxury automaker.

New Players

Unlike the big commercial-jet business, which has been winnowed down to a Boeing-Airbus duopoly, the business-jet sector is attracting new players. Embraer, known mainly as a manufacturer of regional jets, launched its executive-jet division only three years ago after watching a surge in orders at industry heavyweights, including Gulfstream, owned by General Dynamics ([GD](#)); Bombardier, and the Dassault Falcon unit of France's Dassault Aviation ([AVMD.PA](#)). Business jets now account for 16% of Embraer revenues, and the company says it expects that share to rise to 25% by 2010.

Despite their taste for luxury, most business-jet customers pay attention to fuel costs—especially because these planes increasingly are being bought by cost-conscious intermediaries such as charter, air-taxi, and fractional-ownership companies. "Because of rising fuel costs, fuel efficiency has suddenly become an issue for business jet owners," says [John Rosanvallon](#), CEO of Dassault Falcon. To cut the fuel bill, manufacturers are developing more-efficient engines and using more lightweight materials.

Will the credit crunch and global financial turmoil take a bite out of private jet sales and charters? Ocean Sky's Tehranchian thinks not, because the wealth of his clients insulates them from economic squalls. "Any person who spends the sort of money required for a charter at our level has decided this is a lifestyle issue," he says.

As for high fuel costs, Tehranchian says they cut both ways. "Many of our clients are from energy-based economies, particularly Russia and the Middle East," he says. "High energy prices are good for us. I thank god for them every day."

Small comfort to weary passengers in their cramped economy-class seats, but purveyors of airborne luxury—and their customers—look set to keep flying high.

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