

# AIRCRAFT EXPORT FINANCING

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

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1725 De Sales Street, N.W., Washington, D.C. 20036**

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## Projected Traffic Growth and the Free World Open Market

Airline traffic is forecast to continue at a substantial growth rate for the next decade. Free World traffic totaled 10.4 billion Revenue Passenger Kilometers (RPKs) in 1980. The projection for 1991 is 22.5 billion RPKs—an average 6.2% annual increase (Figure 1).

The world's airplane manufacturers will be competing for a \$122 billion free world open market over the next decade. This covers the airlines' requirements to add capacity for the increased traffic. It also considers the need to retire old and inefficient airplanes and replace them with improved technology equipment. The market is split with 60% (\$73 billion) for non-U.S. airlines, and 40% (\$49 billion) for carriers in the United States (Figure 2).

Sales competition occurs well in advance of actual deliveries. Normal lead time for airplanes in production is 1½ to 2 years and longer for newly-designed models. Competition is keenest for the initial sale to an airline since follow-on orders will continue for the next 15-20 years, and that segment of the open market will be secure for the winning manufacturer.

### THE SIZE OF THE MARKET

- Non-U.S. Airlines  
—\$73 Billion over the next 10 years

### THE NEED

- One-fifth of all aircraft sales to emerging nations
- Private capital market limitations  
—Country risk  
—Tenor
- \$48 to \$57 Billion of Eximbank support over the next ten years

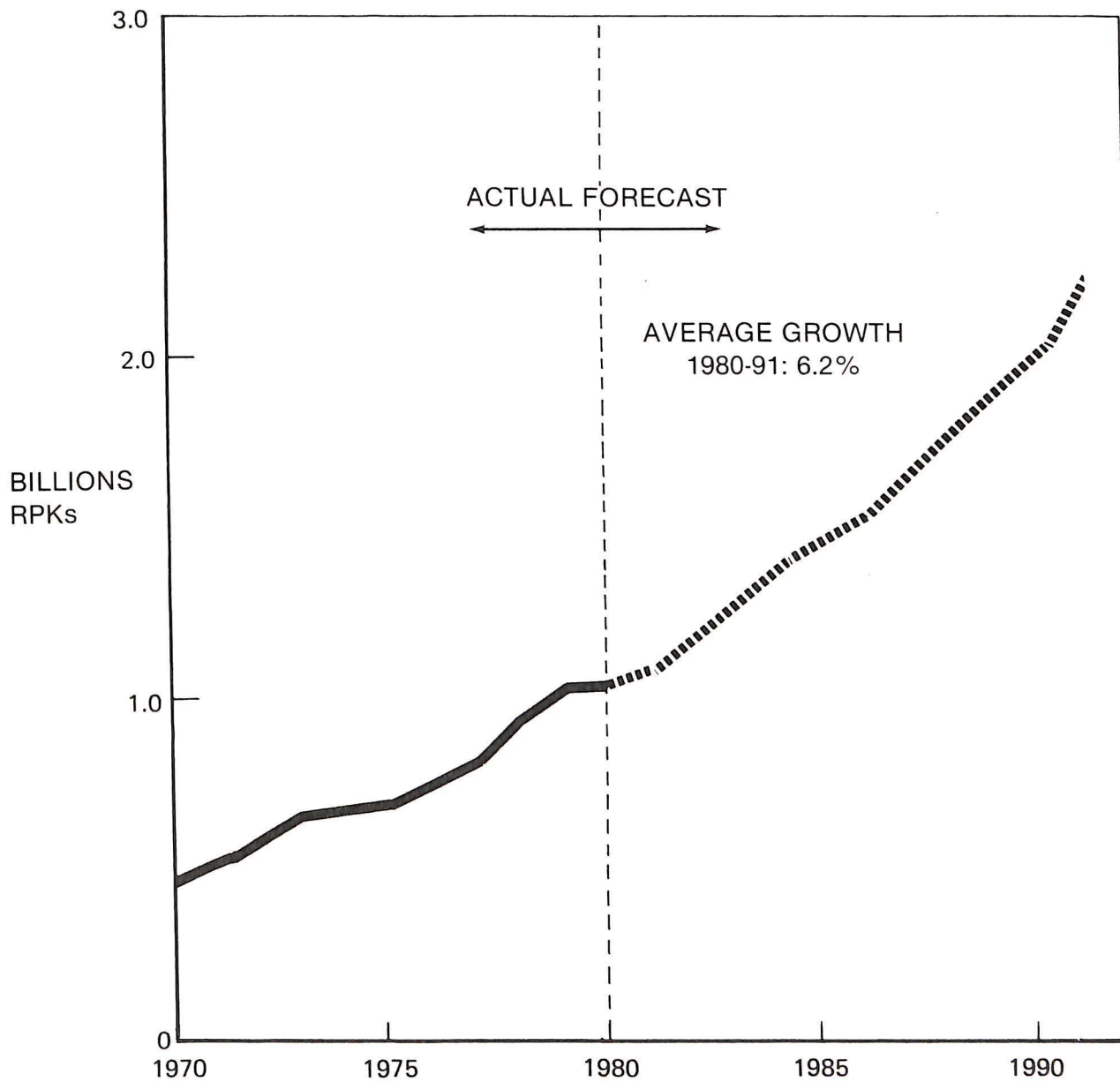
### THE PROBLEM

- Airbus penetration of the aircraft market
- U.S. Airline market  
—\$49 Billion over the next 10 years
- Increasing market share
- **Subsidized customer financing**
- Airline economics  
—Debt-service burden with high rates and short term

### THE BEST ALTERNATIVE

- **Non-subsidization**
- **Market rates—tenor**

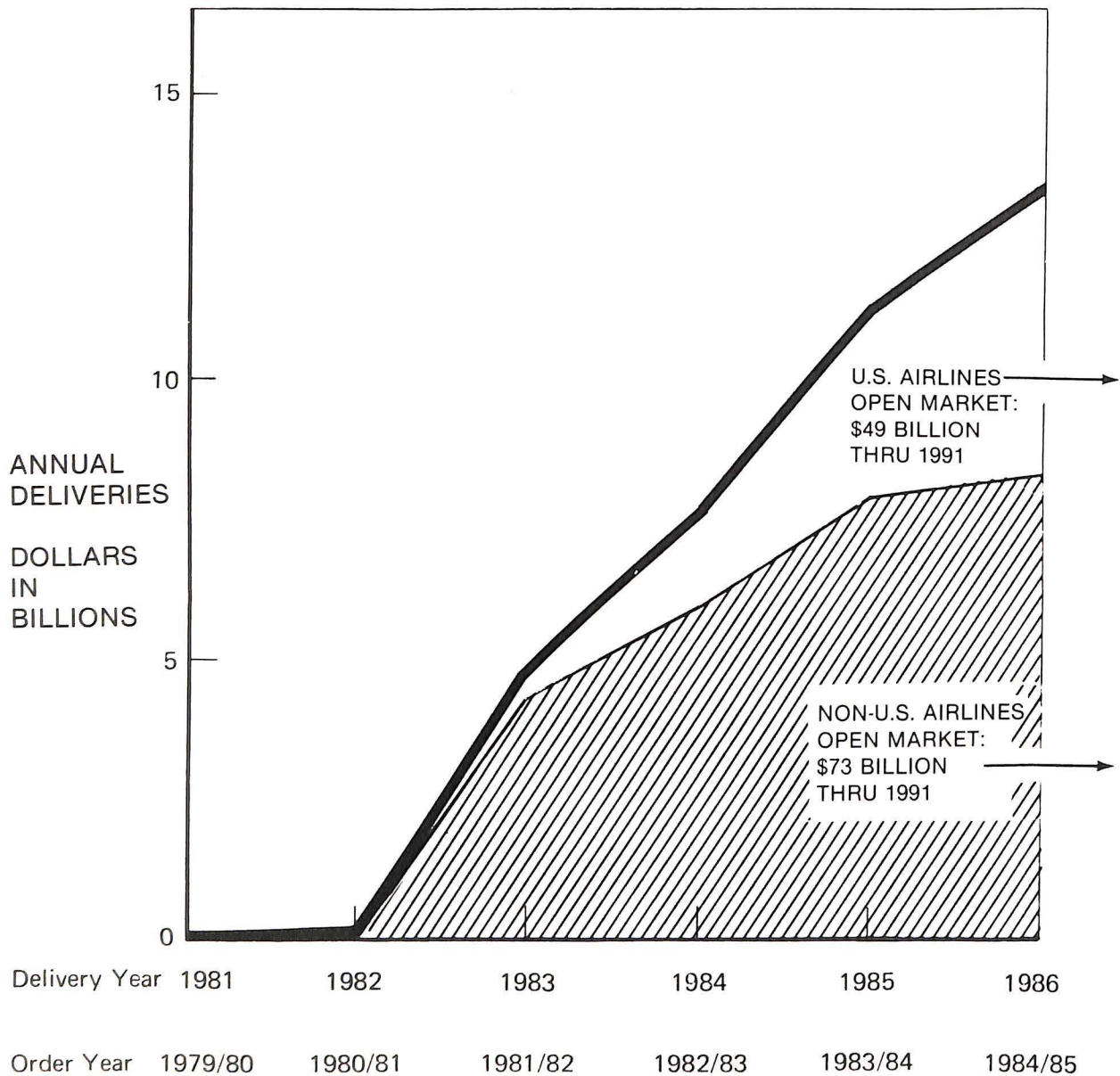
FIGURE 1  
TRAFFIC GROWTH FORECAST FOR FREE WORLD MARKETS  
(Traffic Doubles from 1981 to 1991)



**FIGURE 2**  
**\$122 BILLION OPEN MARKET THROUGH 1991**  
**(Free World Airlines)**

**COMPETITION FOR DELIVERIES STARTING IN 1982/83**  
**PLUS FOLLOW-ONS**  
**TAKES PLACE IN 1981-82 SALES CAMPAIGNS**

(CONSTANT 1981 DOLLARS)





## The U.S. Share

Assuming Eximbank would support export financing of U.S. aircraft, the potential for the next decade lies between \$48 and \$57 billion. This is 65% to 80% of the total \$73 billion open market for non-U.S. airlines.

It is forecast that \$15 billion in U.S. aircraft already supported/"matched" will be delivered to foreign customers in this 10-year period. An additional \$33-42 billion will also be sold to non-U.S. airlines. These short-medium and long range models will be directly competitive with the new foreign designs and therefore be eligible for Eximbank support.

### **"MATCHING" REQUIREMENTS WILL GROW**

#### **POTENTIAL FOR U.S. AIRCRAFT SALES TO NON-U.S. AIRLINES, 1981-91**

##### **Aircraft Already "Matched"\***

Short-Medium Range	\$ 15 Billion
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##### **Aircraft That Will Be "Matched"**

Short-Medium Range	\$ 8-12 Billion
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Long Range	<u>25-30 Billion</u>
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Sub-Total	33-42 Billion
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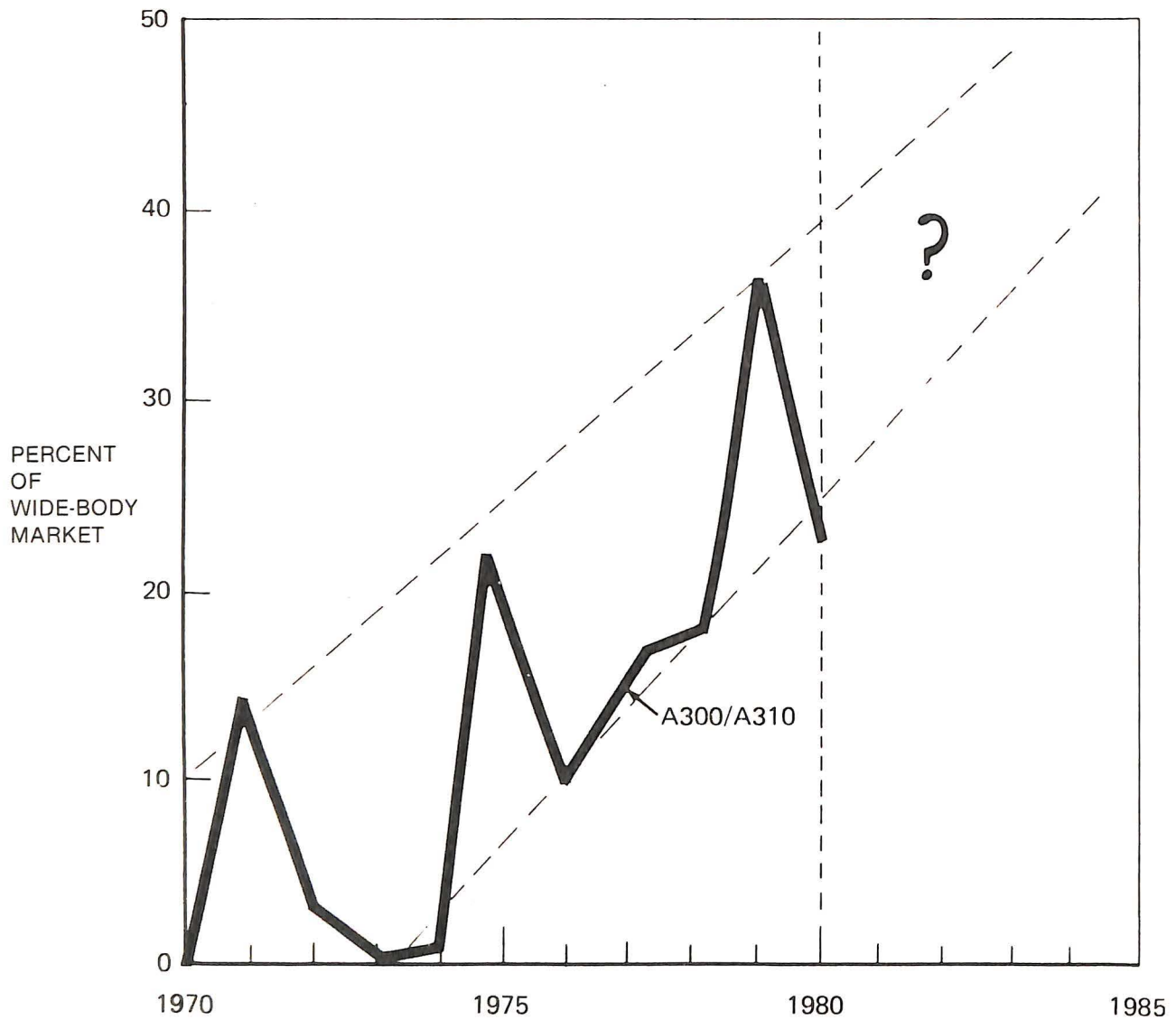
Total	<u>\$48-57 Billion</u>
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Total Potential Sales—\$48-57 Billion (65%  
to 80% of Total \$73 Billion Open Market)

- TOTAL POTENTIAL EXIMBANK SUPPORT—\$48-57 BILLION FOR NEXT 10 YEARS
- ALL OECD NATIONS FACE INCREASING DEMANDS FOR SUBSIDIZED LOANS TO COMPETE UNLESS AN AGREEMENT IS REACHED.

\*Matched—U.S. aircraft defined by Eximbank as being directly competitive to foreign models and therefore eligible for financing.

FIGURE 3  
EMERGING PUBLIC SECTOR MULTINATIONAL ENTITIES  
AIRBUS SHARE OF WIDE BODY MARKET\*



SUBSIDIZED CUSTOMER FINANCING MAY INCREASE PENETRATION

\*ANNOUNCED ORDER DOLLARS

## Airbus Market Penetration

The penetration by Airbus into the market has been significant and rapid (Figure 3). A steadily increasing share of the widebody market illustrates the trend. As new models of foreign-made aircraft are added, other market segments will feel their presence. Unanswered subsidized financing will make the penetration of Airbus certain.

Airbus is expanding its product line. At the Paris Air Show, the formal announcement was made of the A320 program with firm sales and follow-on options to Air France. The objective of Airbus is a "family" of airplanes with range and size capabilities equal to those of U.S. models.

Introduction of the BAe 146, coupled with plans for the MDF-100, further increase the direct competition matrix (Figure 4).

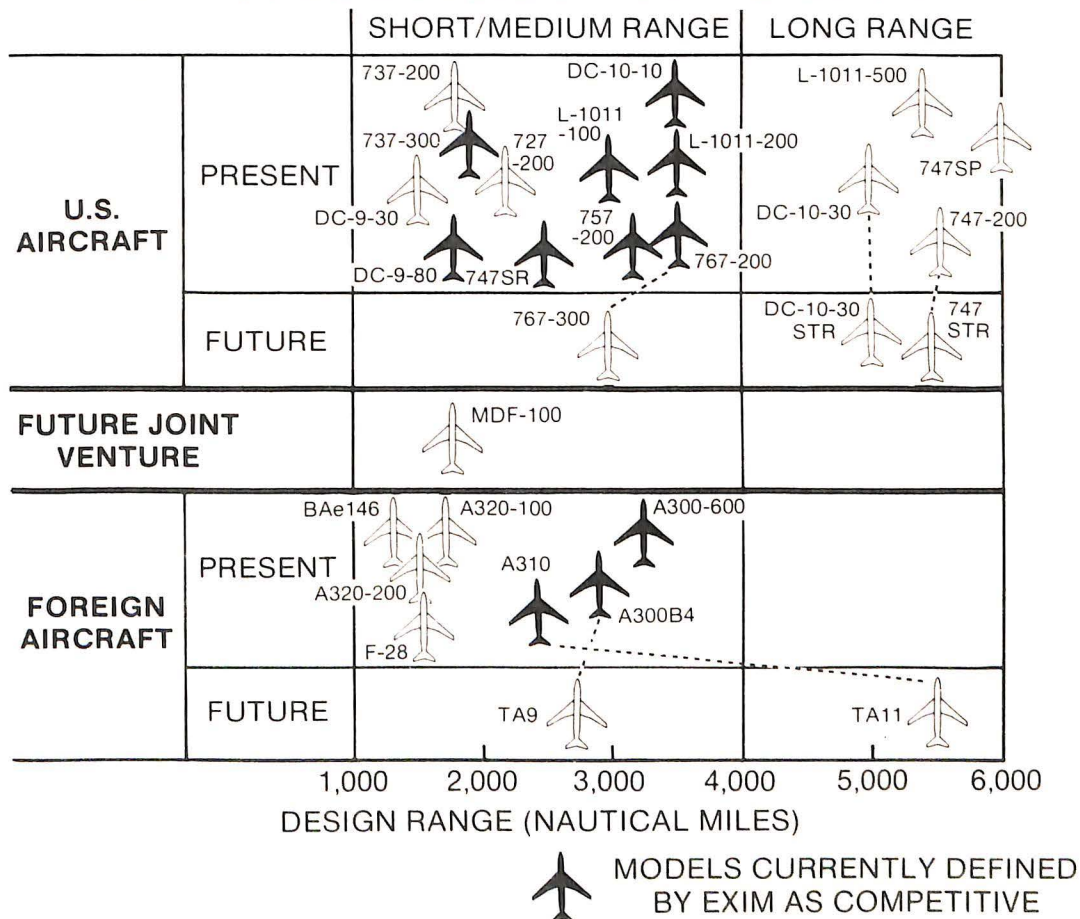
These new aircraft types will eliminate former "ground rules" used by Eximbank to segregate aircraft types as "competitive" or "non-competitive." All U.S. aircraft will have direct foreign competitors.

There are practical alternatives to the high levels of subsidized export financing required in this competitive environment—alternatives that would benefit the manufacturers, the airlines, and taxpayers.

Although raising the interest rate from a subsidized level to market rate will increase the

FIGURE 4

### ALL U.S. AIRCRAFT WILL HAVE DIRECT COMPETITION WHEN NEW MODELS ENTER THE MARKET





total financing cost to the borrower, the burden can be partially offset by increasing the repayment terms to market tenor—15-20 years (Figure 5).

## The Best Alternative

The objectives of an international agreement regarding aircraft export financing should be to involve the private sector financial organizations on a worldwide basis. The capital markets

must be allowed to serve all financial requirements including equal access, free mobility and full parity for all parties concerned.

The best alternative is an effective agreement with OECD countries which results in:

- Longer term
- Private sector funding
- Equal access
- Free mobility
- Full parity

**FIGURE 5**  
**COMPARATIVE DEBT SERVICE REQUIREMENTS**  
**Ten Year Subsidized Versus Fifteen Year Market**  
**Financing**  
**(\$20 Million Package)**

