

Smaller jets – still playing a vital role?

The order books of aircraft manufacturers clearly reveal that the demand for regional jets (RJs) offering over 70 seats is currently larger than the demand for jets of 50 seats or fewer. Will this trend ever reverse? Does a viable market still remain for the 50-seat jet? Is the pressure from turboprops intensifying or weakening? How significant is the role in 2008 for jets of up to 50 seats in intra-European aviation? To answer these questions, Regional International has asked a number of industry experts to analyse the state of the market for sub-70-seat jets and to offer their opinions on future demand.

Stability but not growth

Bombardier does not expect additions to the European fleet with new 50-seat RJs in the foreseeable future. However, according to Barry MacKinnon, Bombardier's regional vice president of markets and airline analysis: "The in-service fleet will remain stable as a strong used aircraft market continues to develop. The small capacity and long range of 50-seat jets are becoming attractive to emerging economies where traffic volumes are low. For example, our asset management group has been successful in placing pre-owned CRJ100 and CRJ200 aircraft with airlines in Russia, Georgia, Belarus and elsewhere. The CRJ200PF (Package Freighter) is a new use of converted CRJ200s, with West

Air Europe being the launch customer. The CRJ200PF offers jet speed and efficiency with up to a 6.9-tonne payload capability." MacKinnon adds: "We have also seen conversions of CRJ100/200s to corporate shuttle aircraft."

Demand remains

Embraer is concerned for the future of the smaller RJ, noting that the sustained high price of aviation fuel is particularly detrimental to small capacity RJs that have difficulty in profitably amortising the additional expense over a limited number of seats. And in a competitive environment, of course, raising ticket prices to offset the higher cost is not always an option.

Luiz Chiessi, Embraer's vice president of market intelligence, says: "The days of big volume orders for regional jets have long passed. However, there is still strong demand for RJ capacity. Our Paris office is having trouble sourcing ERJs [which range from the 37-seat ERJ 135 to the 50-seat ERJ 145], especially for customers in Eastern European markets. Even some of our existing operators in continental Europe are looking for more ERJs."

Chiessi accepts that demand for new RJs may have peaked but believes that the lower ownership expense associated with used aircraft is helping to keep the seat-

kilometre costs of the aircraft under control. Furthermore, he adds: "You can challenge the viability of RJ economics on a point-to-point basis but the real value of the aircraft is in their contribution to an overall route network. With so much emphasis on long-haul international expansion these days, RJs are vital to delivering passengers to hubs to support a carrier's global system."



Optimistic about the RJ's future, Chiessi concludes: "While some commentators may consider the RJ a mature product, we see demand seeking a point of equilibrium. We are no longer manufacturing ERJs in record numbers but our joint venture facility in China [Harbin Embraer] will produce around 20 of the aircraft this year. And there is sufficient interest from the used market



to suggest that 50-seat jet capacity is still very desirable."

Strongest market in North America

Rob Morris, director, market analysis and support with BAE SYSTEMS Regional Aircraft, sees clear global differences in demand for smaller RJs. He says: "The 30- and 50-seat RJs never really penetrated the European market to the same extent as in North America, which I suspect was because of the relatively high air traffic control and airport landing fees in Europe, tending to penalise smaller aircraft. Such fees continue to negatively impact the seat-mile costs of smaller regional jets in Europe and as airports seek to maximise their passenger throughput per slot they will seek to drive operators to larger aircraft by increasing such fees relatively for smaller aircraft. And, of course, the ongoing high fuel price is not helping the situation for smaller jets either. So I think that the fleet of such aircraft in Europe will continue to stagnate, as it has over the past two or three years, before it declines as existing aircraft are replaced by larger, more cost-effective RJs."

Early success fading

Paul Clark, director of financial services and investment firm MDT, acknowledges that the 50-seat RJs offered by Bombardier and Embraer proved to be one of the aviation success stories of the 1990s and the early part of the new millennium. Following initial orders focused on the US

market, Clark observes that: "European airlines started to catch 'jet mania' in the mid-1990s." He explains: "Many European regional carriers ordered the aircraft, possibly under the naïve assumption that if the 50-seat RJ was such a success in the US then the aircraft would be a huge success in Europe as well. However, this expectation did not prove to be the case, for a variety of reasons."

Consequently, as Clark explains, the five-year period after 2001 saw a net reduction in the number of 50-seat CRJs and ERJs flying in Europe. "Some airlines either reduced or eliminated the type from their fleets while other carriers discovered that they could not make the economics work on the routes they were flying. However, carriers including Spain's Air Nostrum and Cimber Air of Denmark have made a great success of operating smaller RJs."

"Today," Clark calculates, "of the 280 50-seat RJs operating in Europe, 55% are concentrated among just six carriers, including Régional in France, Air Nostrum and Germany's Lufthansa CityLine. And Lufthansa CityLine is committed to reducing the carrier's 50-seater fleet."

However, Clark believes the negative trend has started to reverse over the past two years. "Some new airlines, in Eastern Europe particularly, have started to fly 50-seat RJs, while Cimber Air has been actively adding to the carrier's fleet of CRJs. Today, the capital cost/lease rate of a 50-seat RJ is little different from an equivalent age 50-seat turboprop and this situation has certainly helped to open up opportunities for the smaller RJ."

Neville Taylor, MDT's head of new business, North America, adds: "In the longer term, it is difficult to see a substantial increase in the number of 50-seat RJs operating in Europe. Smaller jets remain better suited to long and thin routes [in regions such as North and Central America]. These regions seem to offer greater possibilities for smaller jets than can be found in passenger operation within Europe, where the larger RJs and turboprops have greater potential because of the lower per-seat-mile costs." ■

