

Flying in the Age of Covid-19

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Photo: Cyrille Cosmao/Dassault

Covid-19 has upended the business aviation industry, bringing aircraft manufacturing, maintenance, and transactions to a virtual halt. But these systemic shocks have been of relatively little consequence to private jet travelers—so far, at least.

Most have been resigned to staying sheltered or were required to do so. Yet, while governments shut borders, airlines slashed service, and your office became off-limits, private aviation remained open for business. If you needed to charter, use hours on your jet card, or summon your fractional-share aircraft, your provider could accommodate you. For aircraft owners, meanwhile, access to the National Airspace System remained uninterrupted.

Meanwhile, the industry quickly implemented effective safety protocols. It also secured financial and regulatory assistance from Congress and the FAA to keep business aviation and the airways open. (See sidebar on page 00.) Indeed, business aviation demonstrated once again, perhaps more emphatically than ever before, that its people, equipment, and culture can be counted on in times of crisis.

But make no mistake: COVID-19 is dramatically altering this industry, and you need to understand what's changing, how those changes will affect your flights, and what you can do to be ready.



Business Aviation's New Flight Rules

The first rule of flying in the coronavirus era: make sure your lift provider—whether a charter or jet card company, membership or fractional program, flight department, or yourself as an owner—follows recommended standards for coronavirus prevention. If you travel on your company's aircraft, or on a principal's owner-flown aircraft, ask the head of the flight department or whoever is in charge of the boss's airplane about health procedures.

The Centers for Disease Control, Food and Drug Administration, and World Health Organization are among agencies promulgating standards. Comprehensive compliance guidance is available from business aviation groups, including the NBAA, Helicopter Association International (HAI), National Air Transportation Association (NATA), and European Business Aviation Association (EBAA).

Virtually all providers, from operators to ground-service suppliers, have developed and instituted Covid-19 protocols. Signature Aviation's SignatureAssure is among now-common branded safety programs based on standards from the aforementioned agencies, and the company ensures that its service partners observe them, as well. Universal Weather and Aviation, for example, has implemented its own standards-based program at the top 100 destinations frequented by its flight-services customers, covering FBO operations, in-flight catering, and ground transportation.

For the foreseeable future, you'll see examples of these measures throughout your journey. You'll be asked about your health and recent travel, have your temperature read before departure, and fly with a mask-wearing crew. The aircraft will have been disinfected immediately after its last use to ensure that it's safe for servicing by ground personnel and again, for your safety, before you board. You will be offered a mask. Catering options may be limited, and onboard service items may be disposable.

Protocols are in a constant state of updating as researchers gain more understanding about the coronavirus and new disinfection products and systems come to market. Charter broker Magellan Jets had to "learn how to match up the list of FDA- and Environmental Protection Agency (EPA)-approved cleaning materials" and then distribute ample supplies to its partner operators, COO Todd Weeber said during a NATA webinar.

Companies have become accustomed to customers requesting details about cleaners and procedures, according to that webinar's participants, so don't be shy about asking. At an NBAA-hosted webinar on disinfection practices, decontamination expert Frances Grinstead recommended that customers demand peer-reviewed data on the efficacy of each product and system the provider uses.

Remember that though all U.S. public-use airports remain open, surrounding communities may be under various lockdowns, so investigate your intended destination accordingly. If you're planning to travel internationally, your charter provider will research any Covid-19 restrictions affecting the flight, your entry into the country of destination, and quarantine issues.

Financial Concerns Regarding Lift Providers

For the duration of the downturn, charter will likely remain on sale along many routes, as operators struggle to generate cash flow and book enough business to satisfy the manufacturer--recommended minimum operational time for engines and aircraft. This has led to a "race to the bottom in pricing," says Worldwide Jet's Noel Fournier. However, one-way pricing has reportedly become less available on some routes, as providers aren't confident that they can find customers to book the return legs.

Many jet card, membership access, and fractional programs report an uptick in customer renewals and inquiries from prospects. Fractional-fleet operator Flexjet's CEO, Mike Silvestro, terms such activity "off the charts," and NetJets saw in May "the best month of new customer relationships" in 10 years.

Yet Covid-19 has revealed the risks to financial health that charter providers can represent, in the failure of light jet operator JetSuite. The high-profile company, backed by Jet Blue and Qatar Airways, owed some \$50 million in deposits to customers when it was forced into bankruptcy after the pandemic cratered demand. In bankruptcy filings, JetSuite revealed that it had never been profitable. (Several membership programs stepped up to offer discounted services to former customers who lost deposits, though most of these programs require deposits of their own.)

The true financial condition of privately held companies is impossible to know. Nonetheless, ask for audited financials before depositing funds with any flight provider. Consider working with a consultant to help with your choice. And seek a provider that offers an escrow option. In the wake of JetSuite's bankruptcy, for example, Clay Lacy Aviation introduced interest-bearing, protected accounts for customer deposits.



Coronavirus 101 for Aircraft Owners

Aircraft owners must ensure that an effective written Covid-19 protection plan—which outlines standards and practices to be followed throughout flight operations—is in place. The NBAA has published guidelines owners can use to implement cleaning protocols, and HAI has issued "Covid Clean" standards for rotorcraft operators. These cover disinfection and cleaning procedures for aircraft and facilities, and the use of personal protective equipment (PPE).

Consider the ground services at your destination airport and contact any facility you're considering for a tech stop or longer stay to ask about its Covid-19 protocols. If a management company operates your airplane, satisfy yourself that it has instituted appropriate practices.

Make sure you've minimized the potential for liability claims arising from Covid-19 exposure in your aircraft, whether from a charter customer, a line person who handled the baggage, or others. Aviation attorney David Mayer advises requesting Covid-19 waivers and indemnities from affected individuals to mitigate the risk of liability claims. Examine your insurance policy to see whether it protects you against such claims. Though proving a link between a suspected exposure and infection is difficult, you must take reasonable care to maintain a safe and healthy environment in and around the aircraft to avoid being considered negligent and liable.

Ensure that your flight crew remains sharp despite falling flight hours and the FAA's waived recurrency and training requirements. Wyvern's senior director of quality and education, Andrew Day, suggests providing simulator stick time "at the very least."

Maintain manufacturer-mandated operational minimums for your aircraft and engines; failure to comply can void warranties. At Solairus Aviation, which has 119 aircraft on its charter certificate, owners allow their crews to perform takeoffs and landings, "and in some cases a few approaches," notes Tom Benvenuto, senior v-p of flight operations. To maintain their focus on aviation, Solairus also regularly gathers its remotely based crewmembers online in small groups to discuss aircraft systems and procedures.

Monitor the financial health of your management company, as well. As demand for lift skyrocketed in the lead-up to business aviation's last cataclysm—the Great Recession—some management companies underpriced their fees to draw aircraft owners, calculating that their 15 percent share of charter revenue would compensate. Some of their clients, meanwhile, counted on charter income to make aircraft ownership financially viable. Both approaches revealed their folly in the ensuing collapse.

Sound management companies charge fees commensurate with the services they offer and keep owners apprised of the economics and realities of the charter market. If your management company doesn't appear to be doing that, ask why.

Buying and Selling Aircraft in a Pandemic

Buying and selling business aircraft during Covid-19 hasn't been as easy as booking a flight through charter or other "asset light" access programs. At the onset of the coronavirus era, uncertainty about aircraft valuations brought transaction activity to a near standstill; with residual values unknown, aircraft financiers turned off the spigots, and prospective buyers walked away from deals. Moreover, the mechanics of transactions—moving an aircraft to an inspection site and returning the crew home as well as ensuring the facility would remain open and that needed parts would be available—became fraught with risks of their own, further inhibiting transactions.

The last convulsion of this scale followed the 2008 financial collapse, which introduced a decade of declining values. But consider important differences between then and now. The 2008 debacle was triggered by a financial bubble, one big enough to levitate the values of some preowned business jets higher than those of new models (no waiting in line!). By contrast, valuations on the eve of the Covid-19 era were reality-based, and for now, government stimulus programs are helping to soften financial fallout, and panic pricing hasn't cut residual values.

A sales slowdown began in the fourth quarter of 2019 after more than a year of market stabilization, and low global economic growth prospects were anticipated to put a damper on demand in 2020 anyway, but not on the scale Covid-19 created. In April and May, preowned business jet transactions were down about half, year over year, from a total of 431 to 217.

On the plus side, “sellers have [refused] to capitulate to market pressure to sell quick and cheap,” says JetNet’s Paul Cardarelli.

As of mid-June, inventory stood at 10.3 percent, with some 2,300 jets on the market. Though that’s above the 10 percent threshold considered to separate a buyer’s and seller’s market, no influx of for-sale aircraft accompanied the decline in transactions. By contrast, in the recession, inventory quickly began rising and ultimately topped out near 18 percent.

Also, by mid-June, average values of business jets fell 13 percent from Covid’s onset, Amstat reported, with large-cabin models losing the most (15 percent) and light jets the least (12 percent).

But the market remains thin, and with uncertainty prevailing, professionals advise buyers and sellers alike to wait for more clarity.

If you’re thinking of selling, use the current downtime for maintenance and upgrades that will make your aircraft stand out in what is likely to become a more competitive market. If you’re a buyer, work to identify the best models for your mission. The economic downturn is sure to motivate some owners to sell their aircraft, and some bargains for cash purchasers may be available. If you want to capitalize on such an opportunity, don’t try to lowball your bid, angling for the deal of a lifetime. Identify a target acquisition and seek a reasonable discount rather than a fire-sale price.

Meanwhile, the slowdown that began last year and was accelerated by Covid-19 has hit sales of new aircraft as well. Manufacturers have reduced workforces and lowered production and sales targets and will likely sell 30 percent fewer aircraft than they did last year, predicts JetNet’s Rolland Vincent—even as a new generation of models (the Pilatus PC-24, Bombardier Global 7500, and Gulfstream 500 and 600, for example) come to market. Some new aircraft are reportedly being discounted. So if you’ve been thinking about buying new, this could be an excellent time to do it.

The Route Ahead

One rare bright spot in the Covid-19 crisis is that it has for now erased business aviation’s pilot shortage, which had increasingly constrained operations and raised concerns about the industry’s growth prospects. The airlines are expected to furlough thousands of pilots before traffic returns to pre-pandemic levels, ending the exodus of corporate pilots to the commercial world, though the length of the reprieve is debated.

Meanwhile, the economy will remain business aviation’s underlying driver, and for now, as goes Covid-19, so goes the economy. But whatever the economic trend, the consensus is that in the long term the pandemic will bring business aviation many new customers who are concerned about the health risks of commercial aviation.

Fully 90 percent of the approximately one million people who can afford to fly privately do not, according to a recent McKinsey study based on Credit Suisse and Wealth-X data. Moreover, 40 percent of billionaires are 70-plus years old, and the average age of ultra-high-net-worth Americans is 58, putting this group at high risk for Covid-19 and other pathogenic diseases.

But fewer providers may be around to offer them service. Grants, cash reserves, and investor funds are helping to keep business aviation airborne, but many industry observers expect that if the downturn continues beyond this year, some providers could consolidate or go out of business. Conversely, many believe that should the war against Covid-19 turn a corner by year’s end, we’ll see a strong market turn.

“During an economic downturn or a recession, business aviation has been the first to go and the last to come back,” says Joe Moeggenberg, CEO and president of aviation services company Argus International. “This [current situation] is just the opposite. Companies are not selling their

airplanes, corporate flight departments are not putting aircraft on the market or furloughing pilots and other staff, and the same goes for charter operators.”

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