Rural Airports In America: Change Means Opportunity

Michigan Airport Conference
February 19, 2014
Let’s Start....
Airport Planning: Now, It’s Two Words, Benjamin..

Global Economy
It’s time for rural airports to look beyond “air service”
Regional US Airports: A Solution For Chinese Aviation

Joining The Global Paradigm
The 787 Example

Approximately 30%-35% of the components in the 787 are produced in small facilities that are located in regional areas – globally.

Michigan is a part of this opportunity
Global Economy = Global Logistics

Very few commodities, very few products are “domestic”

- Example: Your laptop and its components may represent 5 – 10 border crossings

- Example: No China, Then No Margaritaville, either

- Example: Nearly 30% of US enplanements will be directly or indirectly generated by international travel by 2020.

- Emerging: Rural economies are a part of the global economy
Let’s Take Stock

US airports are not just runways and buildings. Regardless of size, they are logistic centers.

Changes in airlines do not point to a lot of growth in the future:

*US Airports must continue to re-invent their roles as economic generators... an that means looking beyond just direct aviation applications*
The Future Is Different...

Passenger air service:
Airlines are NOT expanding – just the opposite
Fleets are shrinking - not growing
Average new aircraft entering US fleets: 173 seats
Small jets are being retired

General Aviation:
The 100LL situation will – will – reduce the number of GA aircraft over the next ten years

Take Away: new revenue streams need to be developed
Reality #1: (Critical!) Life After Air Service

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Each remaining airline has its own specific route system and strategy.

The airline targets are immediately obvious without the need for a $30K “study” to “find the right airline.”
Why Invest In the United States?

Access to the Entire North American Market – The Largest in the World

Cheap Assets – Plenty of Real Estate At Bargain Prices

Closer Location for Suppliers – Specialized Chinese Goods Key To US Manufacturers

Predictable Economic Environment – More Transparent Policies Regulations
Okay, Why **Chinese** Investment?

The Chinese economy is booming – up and down, but booming, nonetheless.

Tremendous amounts of capital are being **build up**.

Few outlets for investment in China itself...

Therefore, billions in capital is being invested **abroad**.
Okay, Why China?

What Else?

China manufacturing today is cheap, but the R&D is weak...

Logistics – particularly in western China – are weak, limited, and transport-expensive

Better bargains for investment in US & EU

Political/legal climate is more stable & more developed in the US

US business opportunities are huge potential
Why Are They Coming Here?

- Sophisticated work force
- Developed infrastructure
- Proximity to main US market
- Ability to adjust rapidly to market shifts
- More reliability in infrastructure – Beijing may have a dozen different electric rates, for example
Chinese Investment In US Is Becoming Easier

Private company investment is a growing piece of the direct investment pie and is not subject to cumbersome Congressional review.

The Chinese government is loosening capital controls on firms wishing to invest in the US.

What to watch longer term? China and US are entering negotiations on bilateral investment to free up red tape.
Less Regulation Has Lead To A Surge In Investment

Chinese direct investment in US has grown from less than $500 million to over $12 billion YTD increasing 24-fold

Previous investments were in US government bonds and securities in addition to government directed “strategic” acquisitions in energy

Opportunities are now shifting to the Private sector spurring much more aggressively in industries across the board
In China, growth is projected to decelerate slightly from 7.8 percent this year to 7¼ percent in 2014. Policymakers have refrained from stimulating activity amid concerns for financial stability and the need to support a more balanced and sustainable growth path.
Chinese Investment in US is Growing While Other Investment Is Shrinking
Chinese Investment In Aviation

Timco – Aircraft Overhauls

Cirrus Aircraft – Light Aircraft

Mooney - Light Aircraft (via US Company)

London/LHR Investment

But these are the big ones – the average investment deal is less than $21 million. The point is that there is a huge pool of available and eager Chinese investment capital

FBOs? Office Parks? Research Centers? Overhaul Facilities?
“... Chinese investors also are going after distressed properties that typically require local real-estate savvy and often additional investment...

- Wall Street Journal, November 1, 2013
Is There Potential For Your Airport?

Let’s look at one poster child for foreign investment:

Golden Triangle Regional Airport, Mississippi

- Severstal – Russian-backed steel mill
- IAI – Israel Aircraft
- PACCAR – Dutch-owned truck manufacturer
- EADS – American Eurocopter

For starters... And they’ve not even tapped China - yet
Prime Types of Targets

Expansion of existing Chinese-owned companies in North America

Acquisition of existing US business – locally or at another site that needs to re-locate

Joint venture with existing business in region

Chinese companies with strong interest as suppliers to US companies – auto and aviation
Okay, What’s The Plan?

The First Step – Evaluate Your Competitive Inventory

Places. People. Perspectives

- US Military presence – deal killer for China investment. Not happening. Go back to sleep
- Land availability – suitable for what type of use... both on-site and adjacent
- Incentive programs & capital availability
- Labor availability as appropriate
- Logistics & transportation
Logistics & Access

A Prime Reason They’re Interested

Measure: Ease of Entry

- Access to adjacent industry sectors
- Road access – including into facilities
- Availability of appropriate modes
- Air service access – not necessarily at the local airport, either
- Access from China – time & hassle
Do Your Intelligence

Rule: Anticipate. Don’t React

- Research current Chinese-owned or Chinese related companies in the US

- Watch for growth & more acquisitions (Example, might Haier buy its plastics supplier?)

- Which may have expansion plans?

- Research current Chinese suppliers to automotive, & aviation (Boeing & Airbus)
Things To Understand

- It’s not a slam-dunk – the potential targets are relatively small, not giant factories

- “There are 1 billion Chinese... if we can just get one tenth of one percent of their business, Wow!” That is pure snake oil

- Must be market-realistic. Creating “solutions” to non-existent problems is a direct path to failure

- Examples: The STL & Mid-America air cargo fiascos
Position Your Assets

- Know fully what can, and cannot be done to incentivize new investment

- Target your goals without pie-in-the-sky projections

- Regional trade missions are fine – if focused, staffed professionally and aren’t subterfuge to see the Great Wall. (Not really worth it.)

- Gentle pressure and gentle awareness. Take care with ostentation
Consider A Web Presence

It does get attention... and gives identity to your airport/community

But have it done professionally, or it can be embarrassing

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How to Attract Investment

Focus on nearby companies that currently have affiliations with Chinese companies

Work through state and local governments to research available tax incentives for job creation, etc.

Work through any state trade offices that may have physical representation in China. In addition, the US Chamber of Commerce.

Foreign Trade Zone status offers a stronger incentive for Chinese firms to locate near airports. Goods arrive on a tax-deferred basis, can be remanufactured and exit under a different tax/tariff status.
Recruiting Chinese Business to Your Airport

26 States maintain a trade office in China
26 States in total maintain a trade office IN China (many are in Shanghai)

- They exist to assist Americans doing business in China, and more importantly, to recruit Chinese business to their state (international economic development)

- Of the 26 states with a trade office present in China, 25 of them have deals recorded by Rhodium Group since 2000 (a 96% success rate)
Aviation Investments By Chinese Firms

HAECO Purchases Timco for $389 million, with US-based MROs expected to continue to be prime targets for Chinese investments

TravelSky, the largest Chinese GDS sets up R&D location near Atlanta to tap American IT intellect

General aviation is hot: Cirrus Aircraft acquired by China Aviation Industry General Aircraft and Mooney Aviation acquired by Beijing Group

China Investment Corporation purchased 10% of London Heathrow operator
Most Importantly

Understand what Chinese investors want and effectively promote what your airport has to value

Easy air service access to China, educated workforce, quick and easy interstate access, state and local incentives, the unique arrangement of FTZs near airports

Choose which firms to effectively target. Private firm investment from Chinese firms create less complications than firms with strong government interests.
Most Importantly

What are the top sectors in your area and how may they provide potential links with Chinese business?

Know your local economy and link it to China’s. Investment is taking place in everything from Automotive to Agriculture. All parts of the country have potential.

State and local support is absolutely critical. Delegations with local participants to China build relationships.
Even If They Have To Shake Hands With Rahm Emanuel, They’re Still Interested

Department of International Trade and Economic Affairs

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Mayor Emanuel welcomes Mr. Wang Chao, Vice Minister of Commerce for the People’s Republic of China, to Chicago on Oct. 10, 2013
Joining The Global Paradigm

You Can’t Plan Local, Anymore

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