

# USM IS BECOMING AN INTEGRAL PART OF THE SUPPORT NETWORK FOR AIRLINES NEEDING AFTERMARKET SUPPORT

The market is really searching for best value for money so salvaged parts from torn down aircraft are the perfect source. Freightier Trends has learnt the outlook that the Used Serviceable Market (USM) is very strong and will continue to gain momentum throughout 2023. Many older narrowbodies will return as converted freighters to replace even older fuel inefficient types. Many are viewing the USM segment as a growing revenue stream given the forecast numbers of candidate aircraft and increased demand for material over the next decade. The demand for USM parts has increased especially for A321/A320 and B737-800 due to high volume of flights back after pandemic. Here are the details .....

**1) How do you see the market outlook for disassembly of aircraft in the current market?**

**Kevin Wall, Chief Commercial Officer at APOC Aviation** - As the industry continues to bounce back from the effects of the Covid pandemic, supply chain pressures are enormous. OEMs are dealing with shortages of both raw materials and manpower. Used Serviceable Material (USM) is becoming an integral part of the support network for airlines needing aftermarket support. The current commercial aircraft disassembly market which was valued at USD 4.6 billion in 2019 is projected to reach USD 5.4 billion by 2027 at a projected CAGR of 7.4% . This has enormous consequences and of course presents a real opportunity for the USM segment.

**Lee Carey, Vice President - Asset Management, EirTrade Aviation** - The outlook for the Used Serviceable Market (USM) is very strong and will continue to gain momentum throughout 2023. The level of scheduled maintenance events is continuing to increase as expected and this is directly correlated with the demand for

material. To cater for this demand, EirTrade has continued to invest heavily to ensure that we continue to have one of the most expansive inventories of USM to cater for our clients across all Boeing & Airbus commercial aircraft types.

**Armando Filho, Director of Material Management – Vallair** : We have noticed that the market is really searching for best value for money so salvaged parts from torn down aircraft are the perfect source. However strict quality procedures must be followed to guarantee that parts are removed correctly, tagged and packed properly. This underpins inspection, repairs and/or overhaul processes which will all build value in terms of quality, cost, timing and proper back-to-birth paperwork. With this methodology, USM can reach more customers in different markets, and compete in a proper manner with OEM parts. Having comprehensive parts

availability helps to minimise the aircraft and engines repair/maintenance process, and it's the reason why Vallair has been focusing on excellence within our own teardown, repair, and maintenance shops, combined with logistics support to offer the widest options to our customers and exceed expectations.

**2) What are the USM projections so far for the current year. How was the market last year as most of the narrowbody aircrafts were looking for P2F conversion?**



Kevin Wall

**Kevin Wall** - Narrowbody aircraft will continue to lead the MRO recovery although probably at a slower pace than projected. Deliveries exceeded retirements with North America showing the strongest growth. Asia Pacific already has the largest narrowbody fleet and holds almost 40% of the new aircraft backlog. Airlines are rejuvenating their fleets driven by environmental pressures and maintenance cost reduction. Many older narrowbodies will return as converted freighters to replace even older fuel inefficient types.

**Lee Carey** - USM provides a cost-effective solution to support aircraft requirements for aircraft owners. This becomes particularly important on older widebody aircraft types which become more expensive over time to maintain, particularly freighter aircraft which have had an extended life cycle such as the B757 & B767. USM solutions contribute to making it economically viable for

Continued from Page 16

aircraft types to be maintained and continue operating.

**Armando Filho** - The USM market has been growing after 2021 (post covid) and is predicted to grow up to US\$ 9.5 billion in 2027. There is an increasing focus of major MROs and airlines to integrate used serviceable materials in their maintenance plans to drive down operational cost.

3) Do you see the USM market as highly

potential threats. Competition in the USM market is increasing too. Many are viewing the USM segment as a growing revenue stream given the forecast numbers of candidate aircraft and increased demand for material over the next decade.

**Lee Carey** - The additional uptake of A330, A321, B737NG & B777 for P2F conversions will extend the product life cycles of those aircraft which are converted and will stimulate some demand for USM material to support any



Lee Carey

competitive? Do you see high demand for narrowbody teardown aircraft especially 737-800 and A321.

**Kevin Wall** - Increased cost and slower recovery of revenues might delay the return to profitability for the airline community beyond 2023. Airline debt levels have increased 51% during the pandemic and will take years to pay off. Fuel prices are likely to stay above pre-pandemic levels with the risk of remaining high. Overcapacity risk, increased wage costs and higher sustainability-related costs and taxes are

maintenance events in the coming years. The demand for P2F conversions in recent times, particularly on narrowbody aircraft has contributed to an inflation of the market value, particularly B737NG & A321 aircraft. There is huge demand for USM material for these aircraft types however the inflated values in recent times have made it more difficult to acquire such aircraft for the purpose of disassembly. However, we do anticipate a mild downward trajectory of these values throughout 2023 – 2024.'



**Armando Filho** - The lost cost of USM is the biggest factor behind the exponential growth in the market, then competitiveness is growing and it's the right moment to implement reliable process, quality, services to reach proper teardown process to obtain reliable USM parts.

4) Which aircraft type demand for airframe types and parts inventories are currently seen by the companies. How long will the demand be sustained?

**Kevin Wall** - Approximately 10,800 aircraft retirements are forecast over the next decade. This is averaging over 1,000 per year or 2.8% of the fleet forecast. This is set to peak in 2027 at almost 1,300 aircraft. Returns from long-term storage are set to peak in 2023 with almost 800 narrowbody returning to service. Widebody aircraft will be somewhat slower with over 200 returning to service in 2024. However, two thirds of the aircraft returning to service will have done so by the end of 2023. Over the next three years we can expect a total of 2,000 aircraft to return to service given that the market continues its current trend.

**Armando Filho** - The demand for USM parts has increased especially for A321/A320 and B737-800 due to high volume of flights back after pandemic, but also for the high level of demand for the A321 P2F conversions. This offers many advantages by having the highest payload in its class, and lower fuel burn. It has significantly better technical reliability than older aircraft types on his class. The B737-800 aircraft type is flying to the end, as the ongoing MAX recovery situation continues to affect operators and MROs, and there is a general shortage of parts to keep the global fleet flying, which is likely to continue for at least 5 years.

5) How big is the demand for widebody teardowns, especially 747, 767s and 777s, as there is a big demand for 777 P2F conversion.

**Kevin Wall** - Widebody MRO took a hit from the accelerated retirement of older aircraft. In 2020-21 alone 10% of the global widebody fleet has been retired while deliveries dropped 60%.

Europe & Asia Pacific showed the highest retirements led by the B747-400 and A380. The cargo market is booming and many B777, A330 & B767 will return to the market as converted freighters. The global freighter conversions market was USD340 million in 2021 and is expected to grow to USD710 million by 2027, thus exhibiting a CAGR of 13%. The growth in freighter demand is to a large extent due to the dramatic expansion of e-commerce and increased demand for cargo capacity, coupled to the retirement of widebody passenger aircraft due to the pandemic. Over the next decade over 260 x B777 retirements are expected, mostly of the -200ER variant. Of those some 60 will be



Continued from Page 17



Armando Filho

converted to freighters.

**Armando Filho** - The global widebody aircraft market has been on a long recovery path following the devastation caused by the outbreak of COVID-19 pandemic in

early 2020 which effectively grounded a majority of global, in-service widebody fleet and accelerated the retirement of B747s and A380s. The ongoing steady recovery in demand & activity levels across airlines globally is encouraging, especially for domestic travel, while longhaul international travel is still impacted and needs more time to recover.

The view from the supply side, however, is equally complex & challenging marked by supply chain disruptions, constraints, and labor shortages. There is a great opportunity to use USM parts in terms of cost-effectiveness to minimise the impact of OEM pricing. The B777 and A330 are strong candidates for P2F and teardown because they are really successful and reliable aircraft with lots of potential. This is the reason that Vallair is investing in the wide-body with E-Class conversion options and base maintenance capabilities in our new facility in Chateauroux, France.

**6) Do you think that the used-parts market will gain momentum in the current year?**

**Kevin Wall** - With many airlines, the main priority in the short term is to pay back debt accumulated during the pandemic.

Controls on expenditure remain in place for the foreseeable future. For many, USM provides a cost-effective alternative. For the USM industry, competition among suppliers is increasing. Access to current data-driven technology is key. For some more traditional 'teardown' based providers the organizational culture change required may be challenging. Time to market is becoming increasingly important as the cost of capital increases. The market is growing, the marketplace is changing, many will innovate, some may not. The USM market will soon be a US\$5 billion market where market-share and relevance are key. As the market evolves and matures, we will see significant consolidation through either merger or acquisition where economies of scale and material availability are the driving factors.

**Armando Filho** - As mentioned previously the USM market already gained market share and is growing. This is significant in terms of recovering parts, generating options in the market, competitiveness, and proper cost-effectiveness. We also need to consider the environment and sustainability, recycling materials has an important part to play in aviation for the foreseeable future.

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