

Finding the best fleet

By Angus von Schoenberg, director, Airstream International Group

Since the formation of ERA in 1980, the member airlines' aircraft requirements have constantly evolved according to capacity demand and available technology. Such needs may be short-term to cover specific additional lift requirements on certain routes or can be driven by long-term growth or rationalisation.

Although there are considerable fleet changes at an aggregate level within Europe, individual airlines do not constantly acquire or dispose of aircraft. Accordingly, it is often inefficient, even for larger regional carriers, to develop in-house expertise in this area. The multidisciplinary nature of these tasks from aircraft evaluation through to financial structuring renders outsourcing an attractive option. Independent third-party expertise can add considerable value.

Short-term capacity

Regarding short-term capacity, a few third-party advisers can arrange interim lift on a wet lease or aircraft, crews, maintenance, insurance (ACMI) basis. Airstream's experience demonstrates four main trends in these areas – established carriers who have a short-term requirement for additional capacity perhaps during seasonal peaks; cover for maintenance down-time; new route proving trials and start-up carriers. For example, the former includes Airstream's placement of an ERJ 145 with Luxair for six months. The placement of a Flightline BAe 146 to a central European operator was an example of the latter and proved to be a low-risk strategy for testing certain routes.

Aircraft acquisition and disposal

Many regional operators have frequently disposed of or acquired turboprops and older jets although, historically, this type of business has been dominated by manufacturer trade-in and lease-out transactions. However, changed market dynamics, including the adoption of stricter international accounting rules,

have led to more new generation regional jets and turboprops becoming available in the used market with little or no manufacturer involvement. As such, third-party remarketing specialists have an increasing role. For example, Airstream has recently arranged the placement of three used ERJ 145s with new operators including BMI Regional and City Airline.

Regional aircraft finance

A quality third-party consultant can combine aircraft financing skills with the above services. For example, by providing a start-up airline with a wet lease, the consultant can help a carrier to generate market credibility to

after three years. In such circumstances it may be easier and more cost-effective to unwind a loan structure and sell the aircraft separately.

Other airlines may need operating leases more for group accounting purposes but may operate an aircraft for over 10 years. Airstream developed such a hybrid operating lease structure for Widerøe's DHC8-Q400 aircraft.

Finally, an appropriate mix of lease and loan financing in the regional sector is restricted by the absence of large third-party lessors and a limited number of banks and financial institutions active in the sector compared to those



Airstream International Group has worked on developing operating lease structures for airlines including Widerøe.

then acquire or dry lease aircraft on a long-term basis. Similarly, if, for example, a remarketing agent can also advise on how best to finance an acquisition, the probability of a successful aircraft placement is much improved.

Financing may of course be a stand-alone service. The task of a third-party arranger is not just to introduce financiers to airlines. Optimum value can be added by a careful assessment of customer requirements and then development of the financial structure that most closely meets those objectives. For example, some airlines may seek an operating lease to allow the flexibility of returning aircraft at certain times. This freedom is not always in place as a five-year operating lease is not flexible if a carrier needs to dispose of the aircraft

institutions active for large aircraft. This situation makes the choice of the right third-party assistance even more important.

Overall, therefore, independent third parties can add considerable value to regional airlines by:

- saving valuable senior airline management time;
- providing expertise not otherwise available within individual airlines;
- providing such expertise only when specifically required, and;
- transferring industry best practice and market knowledge to customer airlines.

Ultimately, these processes contribute to cost reduction for regional airline customers. ■