

charter meltdown



by Matt Thurber, James Wynbrandt & Jennifer Harrington-Snell

TABLE OF CONTENTS:

Recession deals industry a serious blow	page 20
Usage, pricing down as operators feel the pinch	page 21
Wholesale versus retail operations	page 21
Charter trends	page 22
A guide for charter safety	page 22
European charter	page 26

Recession deals industry a serious blow

by Matt Thurber

Perhaps it was bad timing or a combination of circumstances and hubris, but the past year has not been kind to the charter industry. Some notable participants have belly flopped in a big way, but the result is not so much a severe decline in the number of charter operators, more a far lower level of activity that reflects the malaise affecting the global economy.

The demise of pioneering air-taxi operator DayJet last September didn't appear to indicate problems in the charter industry in general, because DayJet was trying to bring a new charter business model to life. The idea was to sell individual seats on a fleet of Eclipse 500 very light jets, with prices varying depending on how much flexibility the traveler had on departure time. Passengers who could accommodate a bigger window on departure time paid less than passengers who requested a smaller window. DayJet's area of operations in the Southeast U.S. was designed to fill a niche not served by the airlines, offering transportation to airports that would save hours of driving time and that would be almost impossible to reach via airlines.

DayJet's demise did not stem from the choice of airplane, according to founder Ed Iacobucci. While the Eclipse 500 had teething problems, the fundamental problem that caused DayJet to fail at its attempt to create a viable per-seat charter market was the company's inability to raise enough capital. At the time of DayJet's shutdown, it was selling less than half the daily tickets needed to survive, Iacobucci told *AIN* last year. The business model "was a thing of beauty when it was running," he said.

As DayJet was winding down its operations, another grand attempt to upend the traditional charter and aircraft management

business model was suffering its own set of troubles. The combination of two major players—Sentient Jet and JetDirect Aviation—was supposed to result in the creation of a massive charter/management firm that would realize greater operational efficiencies and serve a national base of customers in the U.S. charter market.

Sentient Jet was a jet card seller and charter brokerage and JetDirect Aviation was a growing charter/management firm when the two companies merged in April 2007, adopting the name Sentient Jet Holdings. The combined companies ended up owning 13 Part 135 certificates—with 200 charter aircraft and 300 aircraft total aircraft under management—which proved too unwieldy to manage effectively. The result was that the companies split, leaving Sentient Jet with its jet card and brokerage businesses but now owned by Macquarie Global Opportunity Partners and JetDirect ceasing operations and eventually going bankrupt in April this year.



DayJet proposed a per-seat, on-demand charter service using a fleet of Eclipses. The company struggled to find enough customers to achieve profitability and went out of business nearly a year after it started operations.

The shutdown of JetDirect left hundreds of former employees with unpaid payroll and benefits, management clients owed money for services they had already paid for and charter vendors not compensated for trips they had flown. The employees filed a lawsuit against the owners and managers of JetDirect, and that lawsuit has yet to be resolved, although a judge has dismissed some motions of the original complaint.

Besides Sentient Flight Group, all that is left of the JetDirect experiment is a

new company called Wayfarer Aviation, backed by the buyer of JetDirect's assets, investment firm Brantley Partners of Beachwood, Ohio. Wayfarer is repaying former JetDirect management clients who signed up with the new company, and the new company's fleet was up to 26 aircraft as of early last month. To help prevent the situation that led to JetDirect's alleged misappropriation of customer funds, Wayfarer set up management clients with segregated bank accounts.

There are only a few survivors remaining after the failure of JetDirect. Solairus Aviation is a new charter operator formed by Dan Drohan, who had sold his company, Sunset Aviation, to JetDirect, only to see Sunset shut down as JetDirect's financial problems mounted. Solairus, based in the San Francisco Bay Area, recently earned 10-seat-or-more authorization from the FAA.

Presidential Aviation, based in Fort Lauderdale, Fla., was another company

Southwest Jet Aviation.

Recently, charter industry veteran Bill Koch was named CEO of Wayfarer Aviation. One of his goals is to "expand the fleet of Wayfarer-managed jets available for charter service and in more and more major markets around the globe." What attracted Koch to Wayfarer was the company's infrastructure, which includes a safety management system and one of the few managed by an FAA certificate management office. Wayfarer can conduct its own conforming inspections for incoming aircraft.

"The charter business is slow today," Koch told *AIN*, "but we've seen positive trends in the last 60 days. Part of it is seasonal, but much of it is an indication of an improving economy."

Wayfarer started on April 17, about the same time the charter market reached bottom, according to Koch. "I think it's only going to get better. In an improving economy executive charter is going to be the first part of the market experiencing an uptick. The business need for our services is still there and will continue to grow. People are going to charter first before they buy a fractional share or an airplane."

The charter industry is always growing and changing, and like other segments of the aviation industry such as manufacturing and fractional shares, the economy has brought about changes that ultimately level the playing field to what might be a new and lower level of business activity.

Right now, most charter companies are struggling to remain profitable and safe. Strong players are doing relatively well, and according to charter operators interviewed for this report, weaker operators are cutting prices in a desperate attempt to generate some business and cash flow.

As is always the case when times are tough, speculation abounds and anonymous sources try to provide information that purports to show companies in some sort of trouble.

XOJet has been a frequent target of scuttlebutt within the industry, and one

Continues on page 22 ►

Decline in flying intensifies price pressures

by James Wynbrandt

The downturn of the last year has wounded most operators but felled few (the high-profile demise of JetDirect notwithstanding). As of this September, 2,233 active Part 135 certificates were on file with the FAA (17 were dual Part 121/135 certificates) versus 2,240 certificates a year ago. (Operators aren't required to surrender certificates immediately if they cease operations, but there is no indication these totals include large numbers of defunct businesses.)

The registered fleet size has also changed little over the past year, comprising 8,224 aircraft at the beginning of this September compared with 8,202 at the same time last year. A significant percentage of this fleet racks up little or no charter time. Nearly 900 (890) Part 135 operators have just one aircraft on their certificates, which are likely used primarily by their owners. Tracking data indicates several hundred additional aircraft in the charter fleet are not being flown at all currently. And some managed aircraft on charter certificates are never hired out, according to operators. Nonetheless, there is no shortage of capacity in the fleet.

"There is a glut of Part 135 aircraft at the moment, and that's one of the reasons there's so much pricing pressure," said Joe Moegenberg, president of ARG/US, an aviation consultancy and data service in Cincinnati.

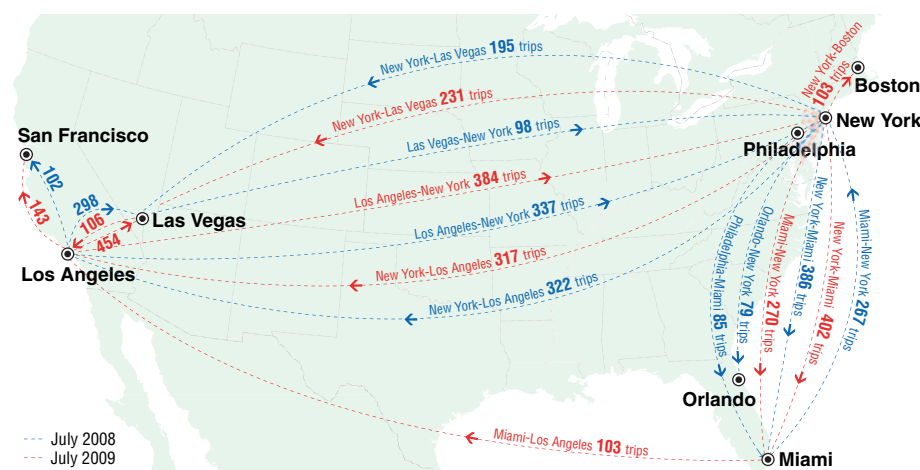
The Decline in Charter

How badly is the charter industry hurting? It depends on who you ask, what they track and how they crunch their numbers. AIN requested data on charter operations from CharterX Wyvern, OneSky Jets and ARG/US. CharterX Wyvern uses data on Part 135 operations it receives directly from the FAA. OneSky Jets tracks a discrete fleet of 2,623 charter aircraft using data from the FAA. And ARG/US collects and corrects data from the FAA. All three data providers show charter activity is down, but their figures vary substantially as a result of these differences in data collection. (As an example cited by ARG/US, if a charter crew cancels IFR before landing at its destination, the FAA may not show that flight as having occurred.)

Here's a thumbnail picture for August 2009 compared with August 2008: CharterX reports that charter activity in light, midsize and heavy jets is down 26.4 percent. OneSky finds the number of flights of its tracked fleet declined from 30,589 to 26,113 (-17.1 percent) and the number of flight hours dropped from 28,000 to 20,817 (-34.5 percent). ARG/US, however, finds overall charter trips during the same period, including all Part 135 jets and

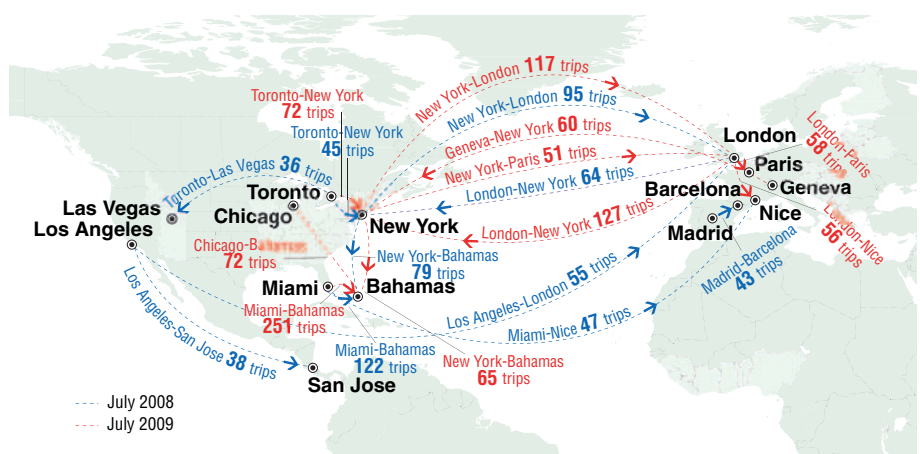
Continues on page 24 ►

Top Charter Routes—U.S. (2008 and 2009)



Source: CharterX Wyvern

Top Charter Routes—Non U.S. (2008 and 2009)



Source: CharterX Wyvern

Operators Weigh Value of Wholesale versus Retail Sales

Charter operators may sell wholesale, retail or both. Wholesale operators market their fleets to charter brokers, who act as their retail sales arms. The Travel Management Company for example, is a wholesale operator, and takes pride in the fact that its fleet has no identifiable branding. A retail charter operation deals directly with the public. It often creates a brand, with messaging typically focused on service, convenience and quality rather than price. And some operators sell to both markets. Priester Aviation, for example, has a wholesale and a retail sales force.

"The wholesale market is quite a bit smaller, and there's a tremendous amount of relationship marketing: constant communications, updates of availability, working to find a mutual solution and things along those lines," said president and COO Andrew Priester. "The retail marketplace is really about developing long-term relationships with executives, high-net-worth individuals, people along those lines. Managing the relationships is different."

Point-to-Point and the Floating Fleet

Over the past year point-to-point, or one-way pricing, has made a case for its viability, arriving aboard the "floating fleet" business model. The floating fleet operates on the principle that a pool of aircraft can be leveraged more efficiently and profitably through sales of one-way fares using an itinerant fleet, rather than basing aircraft at one location and selling on a standard round-trip pricing model.

Charter customers have traditionally paid round-trip rates, even when traveling only one way, because the aircraft incurs the flight costs of returning to its base. That pricing structure is thought to dissuade many potential one-way charter customers. Under the floating fleet model, the operator's goal is to sell a one-way trip for perhaps 1.5 times what it would cost for each leg at a round-trip rate, creating the potential to boost charter revenues by an equal percentage. But the downside risk has stymied providers in the past.

"The big issue is repositioning risk, and having to move the airplane to a new location to pick up a customer," said David Siegel, CEO of charter operator XOJet in San Carlos, Calif., one of a handful of floating fleet operators. "We're willing to take the repositioning risk because we know that by offering fixed prices we're likely to pick up another trip. We can have aircraft float around these high-demand markets."

XOJet began offering one-way pricing on select routes in its fleet of new Citation Xs in August 2008, subsequently expanding the rates to more than 4,000 city pairs. Charter wholesaler Segrave Aviation is credited with creating the floating fleet model earlier this decade.

"We found out when we first started this seven or eight years ago, we can run these jets up and down the East Coast and make money," said Richard Brennan, vice

president of sales at Segrave Aviation. "If we were aggressive enough on the NBAA [flight posting] boards and hit the phones hard enough, there was business there, and consumers liked it."

But Segrave found the traditional 85-15 revenue-sharing management agreement between aircraft owner and charter operator wasn't suited to its point-to-point model.

"With the traditional 85-15 deal with the owner, you're only rewarded so much for business savvy," Brennan noted, because although the operator makes money on every flight, even if the aircraft is chartered out for less than the direct operating cost, the upside is limited by the operator's 15-percent share. (Conversely, this arrangement can lead owners to question whether the manager is low-balling quote requests or being diligent about securing the lowest prices on the costs of services passed along to the owner.)

Thus, Segrave rewrote all its management contracts as lease-rate agreements. Segrave now foots fixed costs such as crews and insurance, and pays the owner a fixed amount per hour for use of the aircraft.

"When we took that on, it became a different model. It made us the best stewards of the aircraft," Brennan said. "Now it's up to us to get the best price on fuel and hotels."

The aircraft owner pays an identical hourly aircraft fee and pro-rated fixed costs. "So if it's \$50,000 per month in fixed costs, and the owner uses the aircraft for three days, we divide that into 50, and they pay that portion. It makes it simple."

The Travel Management Company (TMC) in Elkhart, Ind., a wholesale operator, was founded in 2006 specifically to profit from the point-to-point market. "From the get-go, we thought a floating fleet was the best option," said general manager Scott Weiss. "The goal is to keep the airplanes in the high-demand markets; there are several across the country. New York-Florida is a big market in the fall and winter. If an airplane leaves a market, say from New York it goes to Billings, Montana, our goal is to price it back into the [high-demand] market."

TMC operates a fleet of wholly owned Hawker 800/850XPs, 400XPs, Beechjet 400s and Cessna Citation S/IIIs. Weiss credits the limited number of aircraft types as part of the reason for TMC's success.

"The crews and maintenance are all the same," Weiss noted. "Other [operators] are using a whole hodgepodge fleet, and that makes it tough to manage crews and maintenance."

Operators also say a critical mass of aircraft is required to make the floating fleet model work. "It gets easier as you hit 15 aircraft to quote [a price for a flight]," said Weiss. "I can quote anything a broker throws at me; sometimes I'm not the best price, but if you have only one or two [airplanes] it's tough to quote."

"Once you get to 20 airplanes, you've got a critical mass in a fleet," said XOJet's Siegel. "We've got 25 Citation Xs right now."

Continues on page 24 ►

Recession deals industry a serious blow

► Continued from page 20

recent report suggested that the company was selling off its Citation X fleet. The misinformation likely stemmed from the fact that six Citation Xs the firm was leasing recently changed hands and from XOJet's assistance to "other parties to sell their Citation Xs," according to XOJet vice president of marketing Tony Kavanagh. "There are no current plans to sell any Citation Xs from the XOJet fleet."

XOJet had 30 Citation Xs on order and as of early last month had taken delivery of 25 of them. "As with all operators," Kavanagh said, "we have adjusted our skyline to respond to the macro environment in private aviation. However, unlike most, we feel fortunate to have an active line of credit to buy both new and used airplanes and intend to use this downturn as an opportunity to acquire a superior fleet at cyclical low prices. We have, in fact, both upgraded and added products over the last 12 months." XOJet has also taken delivery of three Bombardier Challenger 300s so far out of its 80-aircraft order announced at the NBAA Convention in 2007.

There has also been speculation recently that charter/management firm Segrave Aviation was about to run out of money. Segrave president Jim Segrave explained that Pegasus Elite Aviation, which Segrave helped launch in August 2007, has closed. "However, Pegasus paid every invoice, bill and debt it owed to every vendor without any exceptions," he told *AIN*. "Segrave Aviation is well capitalized with significant cash reserves as well as financially strong owners and not going anywhere. There is a group of disgruntled pilots who



Newly launched management services provider Y2K Aviation offers this Global Express for charter.

were laid off by Pegasus intent on slandering Segrave due to the close connection of the two companies."

Some bold entrepreneurs still see opportunity in the charter market and have opened new companies. Drohan and Solairus Aviation are a good example, not only surviving the JetDirect debacle by obtaining a new charter operating certificate but also by expanding the company. Drohan's original company, Sunset Aviation, which he sold to JetDirect (and for which he was never fully paid), focused on Northern California charter using smaller jets and turboprops. By obtaining new 10-seat-or-more approval and hiring

former Tag Aviation executives such as Jake Cartwright and Gil Wolin, Solairus is placing itself into the market for larger jets located around the U.S.

Another group of former Tag executives led by COO Larry Edeal launched charter/management operation Y2K Aviation in September. Currently Y2K has just one aircraft, a Global Express based in Hillsboro, Ore., but the company is offering aircraft and charter management as well as Part 135 charters throughout the U.S.

Edeal spent 10 years at Tag Aviation and managed the Global Express. He stayed with the airplane after its owners left Tag (when the FAA revoked Tag sister company AMI Jet Charter's Part 135 certificate in late 2007 for reasons that the agency has never fully explained). Edeal and his team applied for and received a Part 135 certificate for Y2K Aviation earlier this year, and they plan to employ the Tag model of having the aircraft's primary team located with the aircraft and supervised by Y2K headquarters. "They run the operation in accordance with what's in the manual, and we supervise the managers," Edeal said.

The plan for Y2K is to help companies that are considering downsizing their flight departments earn 50 to 100 hours of annual charter revenue so they can keep their aircraft.

"There's a lot of activity out there," Edeal said. "I've been quoting trips for the last six or seven months. We're doing OK. I think one of the other reasons is that we're building a foundation here; when the market does turn, I think people who have the Part 135 certificate and quality aircraft and service will just start shooting up. We need that foundation before we can take off. Our investors understand that; they want to do it right. Most of us came from the Tag culture of 'Let's do it right.' That model has been ingrained in us; it can be done and it can be done well, and that's what we live by."

ACP Jet Charters of West Palm Beach, Fla., sees an untapped market for jet cards and launched retail jet card service InJet in late September. One might think that there are plenty of jet card programs available to satisfy the marketplace, with fractional-share operators, brokers and block-charter programs, but InJet promises "to be the most innovative in the industry" and to "offer unmatched flexibility to its members." InJet's program includes the InJet 25 jet card with guaranteed rates in 25-, 50- and 100-hour blocks; Touch 10, for charter buyers who want to sample the service without a large outlay of capital; and InJet One, traditional pay-as-you-go charter. InJet 25 owners can earn a discount by flying a round trip on the same aircraft instead of just one occupied leg.

Another example of an operator taking advantage of opportunities during the recession is charter/management company TWC Aviation, which is celebrating its one-year anniversary at Van Nuys Airport in Southern California, having

Trends that Made News

Several developments shaped the charter world over the past year. Here are three that bear noting:

Pricing Transparency

XOJet's one-way fixed-price fares have brought a new level of transparency to charter costs. "This is an industry that's been opaque in terms of pricing," said David Siegel, XOJet's CEO. "It's difficult to compare prices on trips and get good information. And there are operators and brokers that have profited from this opaqueness, but the customer always loses with that. We just think transparency and full information is always best for the consumer."

The low rates themselves—\$19,000 transcon in a Citation X or New York to south Florida for \$12,000—have also stirred the industry. "We're able to offer this pricing because we have a more efficient model," Siegel said. "We have 50 percent more revenue per airplane than our competitors' business models. We get paid more of the time we're flying."

Siegel also noted that these rates are below XOJet's average fares. "I wouldn't say that they're particularly profitable [flights] for us, but this program is really to stimulate trial and awareness of our product," he said. "So part of our view is it's a marketing expense."

The Operator-Broker Hybrid

Scott Phillips, president and founder of Jet 1, a charter operator in Naples, Fla., has created a hybrid model by establishing an independent brokerage arm, Charter Logic, run by CEO Jordan Brown. "One feeds the other," Phillips said. "Somebody calls for a one-way, we'll give them to Charter Logic; they can beat our price all day long. The same thing if they call Charter Logic for a round

trip, [Charter Logic] will give it to us."

Phillips isn't hesitant to use his broker arm for a round trip, either, if it makes more sense for the customer. "Today, we're trying to optimize. We won't send our airplane just because it's our airplane. By knowing every model available, we'll create a lot more options for [the customer] and we won't have to go outside our business to do that any more."

Phillips, a charter industry veteran, is sold on the hybrid concept. "I think you've got to have both," he said. "They're good for each other. We've been in this over a year. I think there's a huge advantage to the model we developed."

Charter Auction

Online charter auction, which enabled retail customers to post and providers to bid on prospective charter flights, had a bad year. Jets.com, the progenitor of the online charter auction concept and creator of the enabling online platform, ceased operations this year. OneSky Jets acquired the company's assets, but OneSky CEO Greg Johnson does not sound bullish on the charter auction concept.

"I fundamentally believe that this is a relationship-based business," Johnson said. "Those fliers who do feel comfortable shopping like to do so within a defined set of operators or a broker performing due diligence. It takes more than just a good price on an Internet Web site to win business. This economy hasn't changed that."

Johnson said that OneSky was interested primarily in the Jets.com database, and while his company will host an auction function on its site, he doesn't see it as a major business driver. —J.W.

moved there from nearby Burbank Glendale Pasadena Airport in August 2008. During the past year, according to Scott Cutshall, director of sales and management services, TWC has added seven new management clients that were former JetDirect customers as well as new clients. The company's Van Nuys hangar is full and its maintenance shop is busy. "The only down segment is charter and aircraft sales," Cutshall said, "although we [sold] two airplanes this year."

Aircraft owners are aware that charter flying is down, he acknowledged, but they are more interested in working with a high-quality management company than trying to get every possible charter hour for their aircraft.

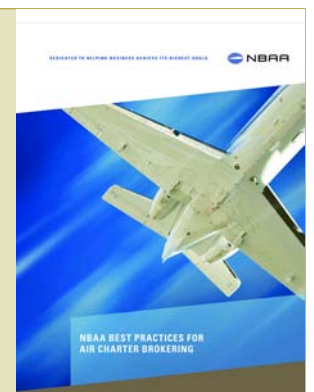
The latest JPMorgan Business Jet Monthly report underscores the effect the

recession has had on flight operations in the business aviation marketplace. U.S. takeoffs and landings were down slightly in August, to 303,000, about 1 percent lower than in July. Compared with last August, flight operations dropped 12 percent, "the smallest drop since July 2008," according to JPMorgan, but still historically lower than the 360,000 per month average since 2000.

The Aviation Research Group/U.S. business aircraft activity report shows charter flying down 11.8 percent for August 2009 versus August 2008. The largest drop was in the turboprop segment at 12.8 percent, while large-cabin jets suffered the least, with a drop of 8.2 percent. More details about the state of the charter market are available in the following section of this report. □

Charter Best Practices Guide Available

NBAA in September released best-practices guidelines for charter brokers that outline the regulatory environment in which air-charter brokers work, along with business-practice recommendations to benefit air-charter consumers, operators and brokers alike. In the course of their work, brokers encounter a number of federal and state agencies that may have jurisdiction over their businesses, and NBAA's guidelines help brokers navigate regulatory requirements and develop best practices. ■



Decline in flying intensifies price pressure

► Continued from page 21

turboprops, declined only 11.7 percent, from a total of 58,969 to 52,013. The ARG/US data also shows the aircraft flying longer flights than does the OneSky data, averaging 80 minutes per flight (up from 78 minutes in August 2008).

Other factors also skew data. For example, every time a Part 135-registered aircraft flies, even when carrying its owners rather than on charter, it appears on records as a charter flight. Meanwhile, data on the use of Part 91 (not-for-hire) turboprops and jets over the past year indicates private owners cut back less on flying than have charter customers. As Greg Johnson, president and CEO of OneSky Jets, explained, "What this means is that the drop in hours being reported here is probably understated [for the drop in charter hours] because it cannot account for and filter out the owner flying on charter aircraft."

Several anecdotal reports present a bleaker picture.

"I don't believe it's a secret: the last year has been very difficult for all charter operators," said Andrew Priester, president

and COO of Chicago-based Priester Aviation. "We're down 30 to 35 percent on a 12-month average."

The Price of Charter

Excess capacity and decreased demand have made a buyer's market for charter over the past year. In addition to lowering hourly rates, many operators have waived standard two-hour minimums.

"The reduction in demand has created price pressure across the board," said OneSky's Johnson. "On some of the most popular routes the prices are down as much as 20 percent."

Asked for comparative costs on popular routes over the past year, Jim Betlyon, president of Trenton, New Jersey-based CharterX Wyvern, said, "It is difficult to demonstrate; anecdotally prices are at breakeven or less. Some operators are quoting at less than DOC [direct operating cost] to keep the airplane moving and have some revenue going to the owner and themselves."

Wayne Rizzi, president of broker Air Royale International, said that a New York to London round trip aboard a GIV is now about \$83,100, compared with \$92,900 a year ago, an 11-percent drop.

The most aggressive pricing has been between the Northeast and Florida and



Elkhart, Ind.-based Travel Management company owns its fleet—rather than managing aircraft for owners—a business model to which it attributes its profitability.

on transcontinental routes. And some of the greatest price pressure came not from desperation but by design. San Carlos, Calif.-based XOJet introduced one-way fixed prices in August 2008

aboard a fleet of new Citation Xs and now offers all-inclusive coast-to-coast fares of \$19,000 and New York-South Florida flights for \$12,000.

Continues on page 68 ►

Operators Weigh Value of Wholesale versus Retail Sales

► Continued from page 21

A larger fleet can also absorb a bigger support staff and greater investment in the business, both advantages in this relationship-centered, high-dollar arena. Segrave has four programmers on staff who work solely on the company's proprietary software, capable of generating automated, contract-ready responses to requests for quotes 24/7. "Today alone we sent out 192 quotes for \$5.7 million," Brennan reported on a recent late afternoon. Segrave uses CharterX's business-to-business charter market portal for its online booking.

"We continue to think technology is the way to go," said Brennan. And it doesn't have to be proprietary. "Every pilot has a BlackBerry and inputs fuel burn," he continued. "We're tracking fuel burn during flight to see how we're flying these airplanes: are we flying efficiently and using long-range cruise? If one pilot is continuously burning more fuel than another pilot, he'll hear from the chief pilot: 'How are you flying this?' or 'Is there an issue with the jet?' We're really aware of these things."

Operational costs are different for a floating versus a fixed fleet. With no home, a floating fleet doesn't need a base hangar. "Our 50,000-square-foot hangar is always empty," said Weiss of TMC. But road costs are high. "We've got a lot of airline tickets to buy" for commuting flight crews, he said. In terms of expenses, he said, "I think the floating fleet is kind of a wash."

But any money operators can save on the road is money earned. TMC's pilots maintain a 15-days-on/13-off work schedule, rather than the more common eight-on/six-off crew cycle to reduce travel expenses. Weiss and the rest of TMC's management are former charter pilots themselves, and they believe that provides invaluable experience for running a charter company.

Fortunately for these and all operators today, FBOs that just over a year ago were preoccupied with fractional and jet card

customers are now receptive to making deals on fees, services and fuel. That's especially important to floating fleets, which are forever on the road. Segrave has recently established preferred relationships with Signature, SheltAir and Landmark.

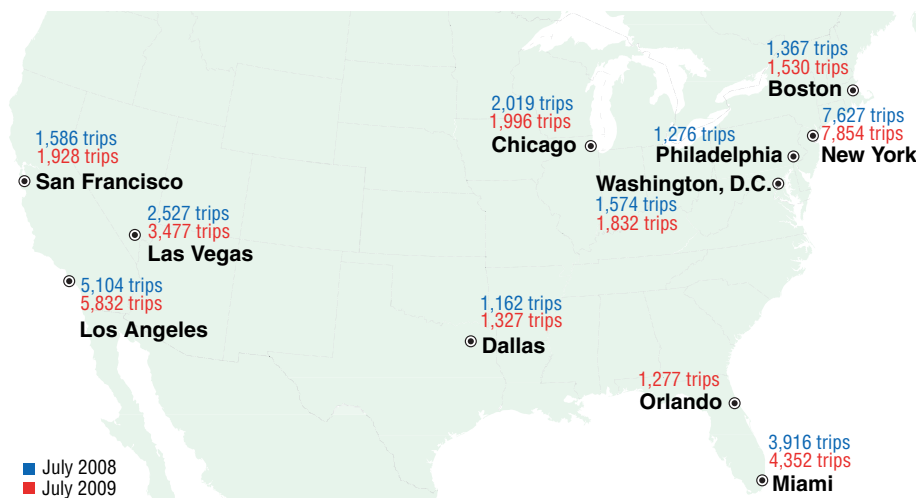
"Before, Signature wouldn't even think about talking to a [charter] operator," said Brennan. "Now it's working deals with Segrave and it's happy with how much fuel we're buying. That's part of our model; we've had to be aggressive on travel costs."

Operators don't need floating fleets to play in the point-to-point market space. Online portals such as CharterX and a company's internal databases of customers and their travel preferences simplify marketing one-way trips. "We've really adapted to the point-to-point market," said Priester of Priester Aviation, which operates aircraft from more than half a dozen locations around the mid-continent region. "We've definitely had more people requesting point-to-point service. So with really aggressive marketing of one-way trips, letting people know where they're available, we're able to take advantage of that. It has become an important part of the charter marketplace."

(Should an empty leg of a paid round-trip flight be sold, it is customary to return a portion of the initial charter customer's payment.)

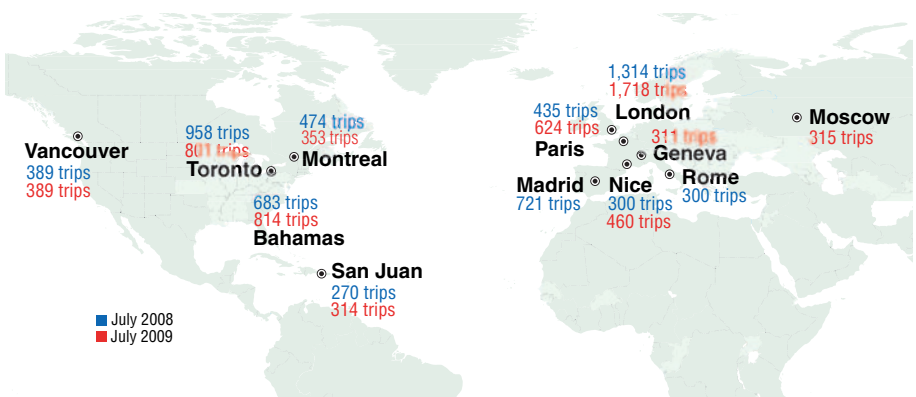
Is this growing point-to-point market just another form of bubble? The fact is, not all charter operators have much demand for one-ways. "Seventy-five to 80 percent of our business is companies booking an aircraft for the duration of the trip, with multiple cities," said Batchelder of Elliott Aviation. But Batchelder allows that some regular clients will make seasonal one-way trips to vacation homes, for example. And what happens then? "In that case, we'll contact local charter operators, national brokers, and let them know we have an airplane flying back to Minnesota." —J.W.

Top Charter Destinations—U.S. (2008 and 2009)



Source: CharterX Wyvern

Top Charter Destinations—Non U.S. (2008 and 2009)



Source: CharterX Wyvern

The European charter market

SLOWING BUSINESS SHINES A LIGHT ON THE SECTOR'S OTHER CHALLENGES

by Jennifer Harrington-Snell

Predictably enough, the economic downturn and its impact on business aviation has been by far the biggest issue on the minds of European operators over the past year. As one operator explained, in the past 12 months "business aviation fell off a cliff." But the economy is not the only weighty issue; the downturn has brought to light a number of other concerns, including price undercutting, black-market operations and strained business relations with U.S. operators.

Above all, however, the recession is still the key issue on which operators are focused. "The economy has been a major dump for us," said Edgar van Schaik, vice president of charter sales for Geneva-based PrivatAir. "Any operator that tells you that business has been fantastic is lying. I don't know one single operator that's not suffering."

Figures vary widely, but most operators and organizations agree that business has dropped 20 to 40 percent overall. According to Pedro Vicente Azua, COO of the European Business Aviation Association (EBAA), business might be even worse were it not for the large number of aircraft owners in Europe. "Most owners have their aircraft with a charter operator," he said. "That's why most of the operators still have business. Owners are still flying. The real charter part of the business is suffering, however, because there aren't that many people coming in from the street and chartering an aircraft."

There is also some indication that operators of large business jets have been less affected by the downturn than operators of smaller jets. "I can't categorize it easily and say that it has impacted one section worse than another, but it seems that the heavy-iron end was less affected than the lighter iron," according to Guy Lachlan, CEO of the British Business & General Aviation Association (BBGA). "Beyond that, it's very hard to form a conclusion."

Among the operators that confirmed that assessment was London Executive Aviation (LEA), which saw a 20-percent drop in flight hours among its medium-size jets and a 40- to 50-percent drop among the entry-level airplanes, such as its King Air 200s and VLJs, according to LEA chief executive Patrick Margetson-Rushmore. "It's nearly business as usual on the larger aircraft," he said.

Lachlan said the discrepancy could be

related to the types of customer who generally fly on large aircraft. "It's probably because there's a disproportionate amount of chartering done by governments at that end of the market," he said. "Governments aren't immediately impacted by this crisis."

Another discrepancy lies in the size of operations that have been most affected. Large operators, with more overhead, appear to have been affected to a greater degree than smaller operators. Cardiff, Wales-based Dragonfly Air Charter, which operates three King Air 200s, has made it through the recession relatively unscathed, according to founder and CEO Howard Palser. "We're a small company," he said. "We were able to sustain this downturn rather better than large operations that have large numbers of pilots and expensive airplanes, where the costs can rapidly escalate. If you have a small operation, fewer staff and fewer aircraft, you tend to keep those aircraft flying and keep the business jogging along, pending the upturn."

The large operators have also noted the discrepancy. And in some cases, the discrepancy has resulted in resentment, especially in cases where questionable aviation companies have fared better than reputable operators. According to van Schaik, "The people who actually contribute something and have added value are the ones who are suffering the most because we have the heavy overhead," he explained. "Good operators are struggling for survival, while little brokers who have no overhead, no additional value, are surviving."

Pricing Wars

Operators who act as brokers have taken the largest hit, van Schaik said. "Business itself has not dropped off that much. There's still a fair amount of aircraft movement. However, the number of people who actually made money on those transactions has dropped dramatically."

At one time, there might have been two or three brokers involved in one transaction, van Schaik explained. "In previous years, the sky was the limit. What you saw happening was double or triple brokerage. There were two or three brokers involved in one deal."

Now, customers either go directly to the operator or use a questionable broker who quotes the lowest price.

According to the most recent figures from Eurocontrol, the year-to-date decline in the number of business jet flights throughout the EU was 18.4 percent, less than the 20 to 40 percent figure most operators are quoting.

One of the biggest problems operators are facing as a direct result of the downturn is pressure on pricing. "There are organizations out there that are undercutting prices," Dragonfly's Palser said. "You see jets flying for considerably less



London Executive Aviation reported a 20-percent drop in charter for its larger aircraft, such as the Falcon 900EX.

than what we charge for a turboprop."

The problem, according to LEA's Margetson-Rushmore, is that some operators believe they should lower prices in a recession. "Actually, the opposite is true," he said. "You have the same cost base in overhead and less volume going through. You actually need to charge more, increase revenue."

Operators who charge less are not always the safest ones, according to David Macdonald, sales director of charter broker Air Partner. "The thing about price is interesting," Macdonald said. "In a recession, everything is about price. And price is a factor for lazy operators, people who have nothing [else] to offer."

Although brokers and operators alike complain about low prices, some companies insist low prices are good for business. UK charter broker EMTjets advertises itself as an online "charter marketplace," where operators can bid for business. The company claims to provide the most competitive rates to customers and advertises empty-leg flights at 25 to 50 percent less than the cost of average trips.

EMTjet manager Jonathan Lloyd insists that the business model is good for both operators and customers, from an environmental and a financial standpoint. "Operators make a profit from each empty leg that is sold," he said. "The charter has already been paid for, and if we can fill the aircraft coming back, they're much happier."

Approximately 1,700 operators, about 80 percent European, have signed on to the EMTjets Web site, with an additional seven to 10 more signing up each week, Lloyd said, adding that empty-leg regulations in Europe are not quite as stringent as those in the U.S.

Another problem, according to van Schaik, is an increase in the number of questionable operators from areas such as Eastern Europe and Russia who charge lower prices than their European counterparts. And because of the recession, clients are more willing to choose a flight based on the cost.

"Even though it might appear the same on paper, a Swiss-registered Gulfstream might not be the same as a Gulfstream from another area," van Schaik said.

Due in part to issues such as these, PrivatAir has its own in-house auditor to evaluate the safety standards of each of its operator partners. "One thing is for sure: safety is absolutely our utmost concern,

and if that means we lose business because some monkey operator charges less, so be it. We will never lower our standards."

In addition to price undercutting, there has also been an increase in black-market charter activity, which takes two forms: private users chartering out their aircraft to friends and family, and illegal operations from non-European operators.

The UK Civil Aviation Authority (CAA) recently launched a publicity campaign to educate end users about the problem. "Most companies planning to undertake work that legally requires an AOC abide by the law and hold the certificate," said David Chapman, a member of the CAA Safety Regulation Group. "However, as in all walks of life, some companies and individuals choose to ignore the requirements and operate illegal public-transport flights."

The CAA has published information, including a list of authorized AOC holders and a special leaflet to customers, on the organization's Web site. It will also "continue to investigate and, if necessary, prosecute companies and individuals that fail to follow the requirements."

The organization said it is difficult to determine how often this actually occurs, but agents routinely conduct random spot checks at various airports and urge operators and users to report illegal activity. Punishment can include up to two years in prison and/or unlimited fines.

Illegal charter activity has always been an issue, Air Partner's Macdonald said. The problem has simply gotten worse over the past year or so. "Because of the economy, more aircraft are being pushed illegally. You have owners out there who are feeling the pinch, and because of the pressure they're under there is a much bigger temptation for them to charter the aircraft illegally."

The only way to address the issue is for the industry to police itself, Macdonald said. "It is a problem, but the industry has become much more aware of it. I think you're going to see a lot more illegal operators being reported; if we don't tell the authorities what's going on, the authorities can't do anything about it."

International Relations

A large segment of the black-market operations involve charter companies from non-European countries, namely North America, who operate illegally with the EU. Some operators are well

Continues on page 69 ►



David Macdonald, Air Partner

Decline in flying intensifies price pressure

► Continued from page 24

"It just demystifies the whole process for everybody," said XOJet CEO David Siegel about fixed pricing. "It really forces everybody in the whole value chain, whether a broker or operator or somebody else, to demonstrate what [they are] actually doing for the customer."

Some operators, while not cutting rates, have forgone customary increases. "Historically, Elliott [Aviation] will raise charter rates for CPI [consumer price index]," said Toby Batchelder, sales manager of the Minneapolis-based operator. "In 2009 we did not have a price increase on hourly rates, mainly because fuel is cheaper today. In that sense prices have come down."

Other operators have held fast on rate cards. "The charter market did not slow down because the prices of charter were too high," said Priester. "It slowed because the purchasing habits of charter customers changed. We have been resisting lowering the charter rates. We really believe people who are flying on the airplanes are willing to spend money on the quality of the operation."

Scott Weiss, general manager of the Travel Management Company (TMC) in Elkhart, Ind., a wholesale operator, sounded a similar note. "We stuck to our guns on pricing, and stuck to a service everybody needed. We've had a lot of good brokers out there say, 'Even though [the trip quote] may be \$1,000 more, a new [Hawker] 400XP will show up, and if it breaks, they'll get a replacement there.'"

"We're actually raising prices," said Richard Brennan, vice president for sales at Segrave Aviation, a wholesale operator based in Kinston, N.C. "You can't get to profitability with every jet flying at a loss. It's just not going to work."

Owned Versus Managed Fleets

The past year has brought into focus differences in operational philosophies between the owned- versus managed-fleet model. When business was brisk and money was cheap, shortcomings of operators trying to execute on either model weren't so apparent. Many charter operators have aircraft they own as well as aircraft they manage and charter for private owners. Other operators have either owned or managed fleets, and rarely have opinions about the models been so sharply drawn.

"You can't be an owner and charge enough for charter to break even; you're dead in the water," said Scott Phillips, president and founder of Jet 1 in Naples, Fla. "I used to own more than half my airplanes. In 2006, I sold my airplanes and said, 'I'm going strictly into management.'"

Those opposed to ownership cite the cost of paying for and maintaining the aircraft, which can leave owners exposed in a down market. And the fact that most aircraft used for charter are under management may be what's keeping many operators afloat.

"If the charter companies were all dependent on charter revenue, the reality is, some companies might have ceased business," said OneSky's Johnson. "But the fact there hasn't been carnage means aircraft owners are lowering rates or lowering expectations [on charter revenue], and continuing to pay management fees."



Scott Phillips, Jet 1 president

But successful operators that own their fleets can be equally adamant.

"We own everything; we don't manage any airplanes, so that's a huge benefit to us," said TMC's Weiss. "[The aircraft] never have to be somewhere because an owner needs them, and there are no

problems with owner approvals [of individual charter flights]."

An important element in the TMC model, unusual for fleet owners, is that the aircraft were purchased outright, bought with proceeds from company owner Peter Liegl's sale of his Forest River RV business to Warren Buffett's Berkshire Hathaway holding company. "We don't have any debt; everything is paid for. I can see if you went into this with a lot of debt, it would be tough," Weiss conceded.

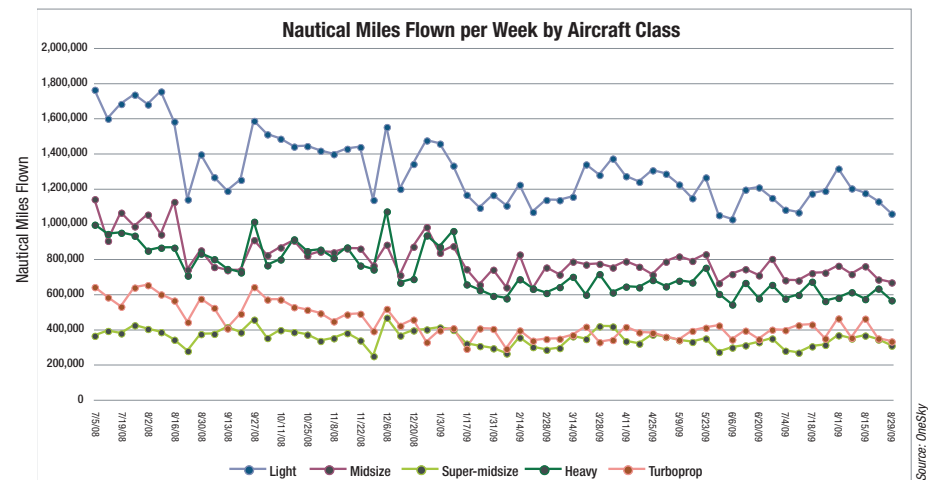
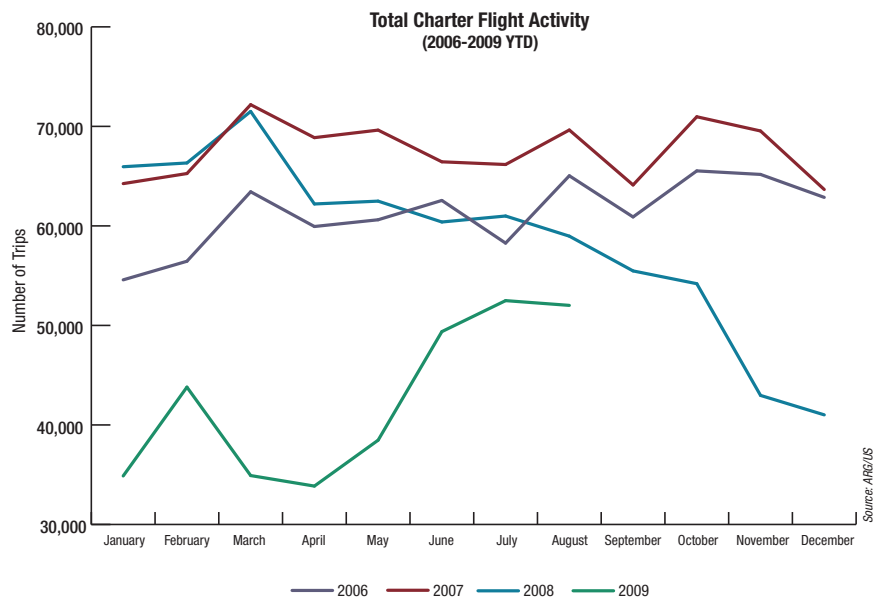
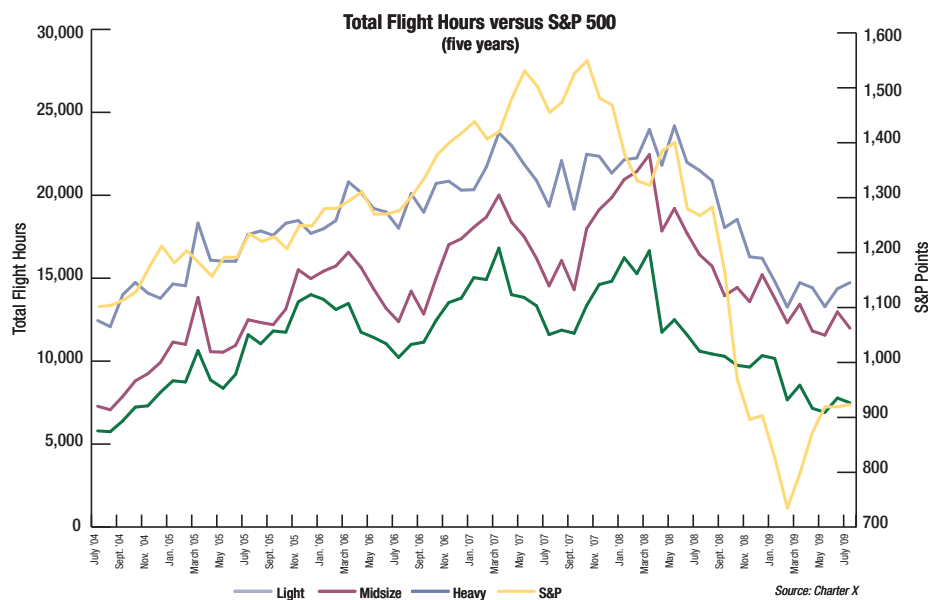
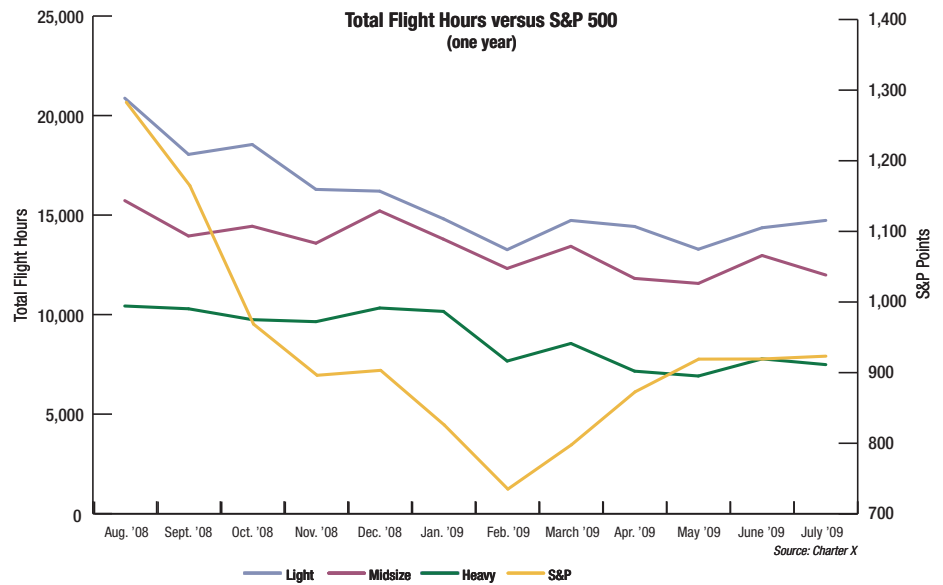
But a managed fleet is no panacea to cash-flow problems. During the recent boom times operators hungry for lift offered attractive management contracts to owners, with low fees and assurances of strong charter revenue. But those



Charter aircraft such as a Priester Challenger 601 are not sitting on the ramp because the price of charter is too high, Priester maintains.

arrangements have proved painful for operators taking a hit on management fees and owners feeling shortchanged on promised revenue. These disillusioned owners make this an operator's market in terms of having a pick of aircraft to manage, but operators are being cautious about whose aircraft they agree to handle.

"There's plenty of management opportunity," said Brennan of Segrave, which has both owned and managed aircraft in its fleet. "The question is, is there enough charter out there for it? We've been realistic with our owners on what the market is doing. You can't have an owner who wants to fly 30, 35 [charter] hours per month." □



European charter

► Continued from page 26

aware that the flights they conduct are illegal. Unfortunately, there are no hard and fast numbers as to how often this occurs, according to the UK Department for Transport. “These are illegal operations; therefore, they go undetected,” a spokesman said. However, when an illegal operation is uncovered, the UK government has the authority to detain the aircraft by order of the Secretary of State and impose fines and jail time.

In other cases, operators are simply not aware of the rules. “One issue has been the lack of understanding by American operators about what they can and can’t do here in Europe,” Macdonald said. “The Open Skies agreement allows them to come over here and have freedom of movement with their passengers, as long as the flight originates and ends in the U.S. But some carriers think they can come over here and look for business [from European customers]. They can’t.”

He added, “If they think they can come into Europe, and the Europeans are going to stand by and watch them take their business, it’s not going to happen. If a European operator wanted to conduct a flight from New York to Boston, would American operators object? Of course they would.”

American charter operators, especially those whose permits and traffic

King Air operator Dragonfly has seen little change in business because of its low overhead.



rights have been denied, need to be better educated about the Open Skies agreement, according to Macdonald.

The TSA’s security rules for European operators have also been a contentious issue. BBGA’s Lachlan said the TSA’s “onerous procedures” have made it difficult to operate foreign business jets in the U.S. However, a recent meeting between U.S. and European officials “has gone a long way to answering the concerns of European operators,” Lachlan said.

According to Steve Brown, NBAA’s senior vice president of operations and administration, the key difficulty for foreign operators is a lack of standardization in applying the principles and policies that already exist. As a result of the meeting, however, the various U.S. agencies pledged to revise their forms to make it easier for foreign operators.

There was also some discussion about the Electronic Advance Passenger Information System, or eApis. “It’s an electronic, online system that has been created for U.S. Customs and the TSA,”

Brown said. “We’ve had about four months of experience with it, and both U.S. and European operators believe it is a much more efficient, user-friendly system. There are some software issues that need to be worked out, but the government indicated that once that’s accomplished it wants to stop all paper applications and use this system.”

Perceptions and Outlook

Although the European business aviation industry hasn’t suffered quite as much as its U.S. counterpart, perception is still a problem. Stuttgart, Germany-based DC Aviation is just one of many companies that have experienced the fallout. “All in all, our branch is suffering, especially since the managers of [the three major domestic car manufacturers] appeared before Congress in the U.S.,” said CEO Steffen Fries. “That really hurt us, as some [clients] then decided to stop flying, not only due to cost factors, but also for socio-political reasons.”

Customers don’t want to be perceived

as wasting money, said LEA’s Margetson-Rushmore. “A number of people who fly, who still have a need to fly, are actually flying scheduled [airlines] because they don’t want to be seen as being wasteful, spending excessively or causing carbon emissions. We’re the sacrificial lamb, the scapegoat.”

And the sad fact remains that business aviation still has a negative connotation for most people, said Dragonfly’s Palser. The good news, however, is that in spite of business aviation’s perceptions problems, the economy—and business—appear to be picking up slowly.

“Luckily we have noticed a change in trend over the past few months,” Fries said. “People are once again flying more. In July, we at DC Aviation again had just as many flights as at the same time the previous year.” There has also been an increase in requests for larger aircraft. The company has responded by focusing on managing Challengers, Globals, Gulfstreams, the Legacy and Airbuses.

Likewise, Margetson-Rushmore said he is also seeing an increase in inquiries. “If you spoke to me a month ago, I would have said we were just bouncing along the bottom. But we’ve seen the level of inquiries go up. We were down to 30 or 40 inquiries a day; and now we’re up to more than 100 a day. It’s a good sign, but it will be a really good sign when inquiries convert to bookings.” □