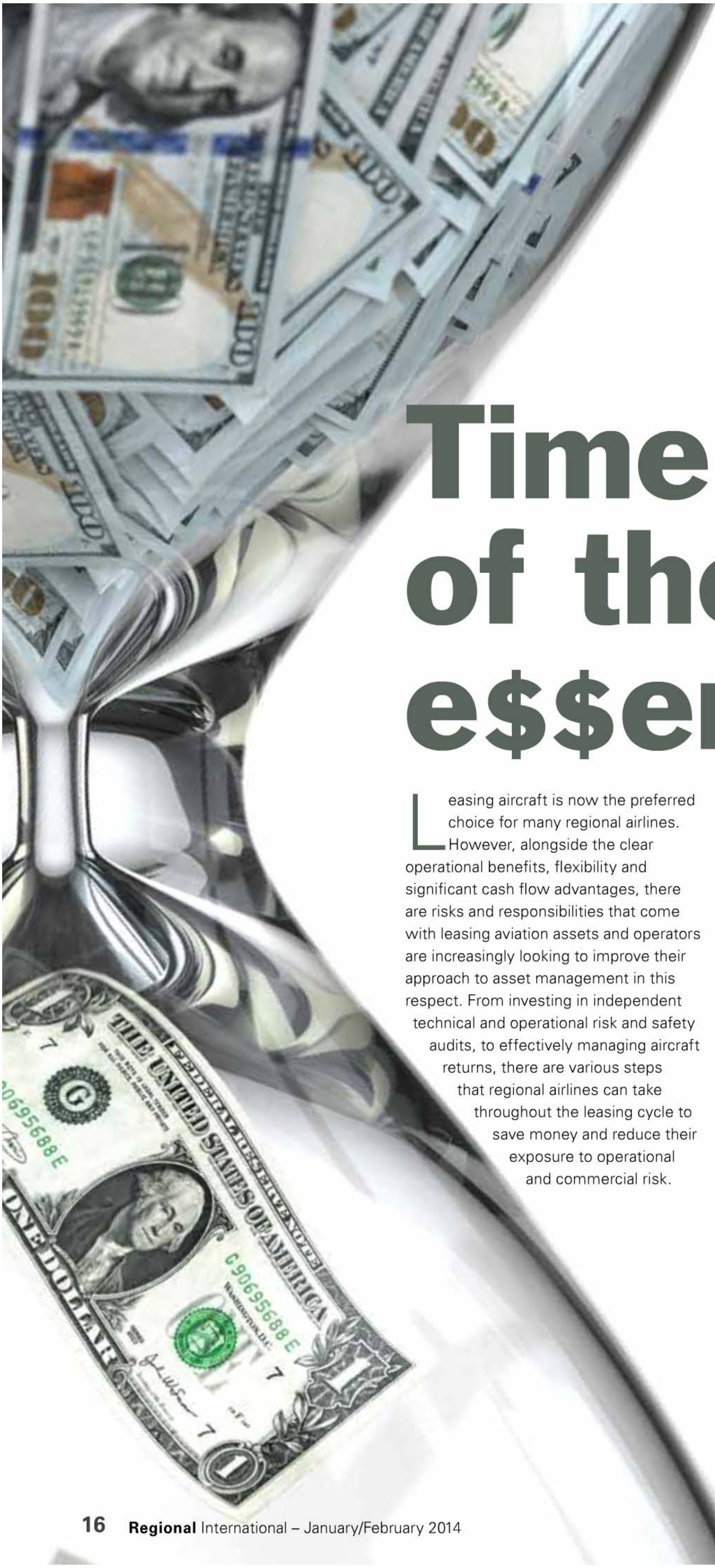

Time is of the e$$ence

Leasing aircraft is now the preferred choice for many regional airlines. However, alongside the clear operational benefits, flexibility and significant cash flow advantages, there are risks and responsibilities that come with leasing aviation assets and operators are increasingly looking to improve their approach to asset management in this respect. From investing in independent technical and operational risk and safety audits, to effectively managing aircraft returns, there are various steps that regional airlines can take throughout the leasing cycle to save money and reduce their exposure to operational and commercial risk.

Lease negotiation and delivery represent the beginning of the lessor/lessee relationship. In terms of the negotiation stage, with any operating lease the risks and rewards of the aircraft ownership are with the lessor and the risks and rewards of operation remain with the lessee. It is therefore important to properly consider the operational aspects of the aircraft from the outset. In addition to clarifying rights and responsibilities, the negotiation stage should be approached with a clear idea of what issues may arise during operation and where responsibilities will lie at the time of redelivery.

Many lessees cut corners at the acceptance stage, often due to a lack of resource and expertise to review leases and physically inspect the records and aircraft. For obvious reasons most airlines place priority on getting the aircraft delivered and operational, however, there are huge financial risks if the redelivery conditions are not clearly defined, agreed at the time of delivery and considered throughout the term of the lease. It is important to involve relevant decision makers, such as the commercial and technical directors, in the negotiations and 'fly' the aircraft forward financially and technically to map out any key responsibilities

Leasing aircraft is becoming an increasingly popular choice for airlines. Mark Rogers, commercial manager, Airclaims, reports on the risks and benefits

with the 'end of lease hand back in mind. The negotiations associated with the lease details are obviously very important but the technical condition of the aircraft and its associated records should never be over looked.

However, despite the potential financial, regulatory and technical risks in overlooking such aspects, new lessees often assume that the aircraft and records are acceptable because it has been operated by another airline. The new lessee then later has to spend tens of thousands of dollars correcting documentation issues. The importance of properly assessing the maintenance status, physical condition and specification to ensure that any discrepancies are effectively recorded and managed cannot be overstated and it is only when a thorough inspection of the records has been conducted that the commercial value and risk to the lessee can be fully established.

Wear and tear

Operation is, of course, where aircraft experience the most wear and tear and it is therefore important to perform regular technical and operational audits. Managing maintenance is a key aspect of this. Airlines are increasingly anxious to ensure that their high value assets are properly managed when components are sent to a maintenance repair organisation (MRO) or engine workshop for maintenance. Whether it is an engine on a routine repair, overhaul programme or an unscheduled maintenance check, any exposure to third parties introduces a new risk to the equation. As the potential cost of damage to a single component can range from $800,000 to well over $1.6m during this process, it pays to manage maintenance inputs as tightly as possible. Most airlines are structured to support the operation, therefore more and more airlines are outsourcing this type of work; the benefits of which range from reduced training and human resource requirements to accessing a dedicated specialist resource. Independent outsourcing can come from a number of sources such as experienced individuals to global organisations. However, given the potential commercial risks to a lessee, financial and operational risk mitigation is perhaps best achieved, by partnering qualified continuing airworthiness management organisations, with full European Aviation Safety Agency Part M, Sub Part I (ARC) approval.

Airlines will, of course, be aware of the relevant regulatory frameworks that must be adhered to in terms of operation and maintenance, but where some lessees fall down is in failing to remember that the lease return conditions must also be adhered to. Lessees frequently experience late lease return penalties because of a need to re-establish the aircraft's configuration, component and/or maintenance status to meet the agreed lease return conditions. This may involve an engine(s) returning to the workshop for life limited parts renewal, replacement or overhaul. The same could be true for major components, such as the undercarriage or auxiliary power unit. This is easily resolved, with an independent 'asset health monitoring inspection', resulting in a potential saving to the lessee of many hundreds of thousands of dollars. Effective monitoring throughout the operation can also bring about wider benefits. Conducting an independent risk survey, for example, could bring about a number of business improvement suggestions and therefore, once implemented, have a positive effect on other costs such as insurance renewal premiums.

Communication with the lessor is also vital at this stage of the cycle and something that is often overlooked. Put simply, the lessor does not want to find out what is happening to his or her asset from the media.

Lease return

The importance of the lease return conditions cannot be overstated. Lessees often leave it far too late to prepare for this. It may be surprising to learn that there are numerous examples of airlines failing to plan for the end-of-lease return. Too many airlines still accept an aircraft, place the lease in a commercial draw until a few months before expiry and then have to pay late re-delivery penalty rent due to not having planned for the re-delivery in advance. A typical late return penalty could be a percentage of the monthly rent, for example, with a A320/B737 lease out at $300,000 per month, a lessee could charge 50 per cent of the monthly lease rate for each week the aircraft is late.

"The ultimate goal is to redeliver the aircraft on time and in the pre-defined condition"

Redeliveries can never be planned too far in advance. With workshop lead times for major components sometimes stretching into months, any late notice of such requirements could turn quickly into a late re-delivery and penalty rent requirements. A message we hear repeatedly from airlines is that the technical people were not aware of the re-delivery conditions and, as such, maintenance requirements were not complied with. All departments within the airline should be provided with pertinent extracts from the lease at delivery of the aircraft so that the redelivery conditions can be considered throughout the term.

The ultimate goal being to redeliver the aircraft on time and in the pre-defined condition. ■