

charter market

SPECIAL REPORT



Flat year spurs charter pros to adopt fresh, innovative approaches to sales

The numbers say it was a flat year in charter, up from 2008's lows, far from prior highs, but essentially static since late last year in terms of demand, pricing and operations. But flat should not be read as placid. The year in charter was marked by noteworthy developments, including major expansions into charter from fractionally rooted providers; the ascendant demand for point-to-point pricing; a move toward right-sizing aircraft to the mission; and the rise of the suddenly super-sophisticated consumer. In addition were myriad examples of operators, brokers and other charter professionals adapting to the realities of a marketplace that will likely never return to what was once called normal. This special report on the charter market reviews the changes of the past year, and looks at where they will likely take us in the next.

by James Wynbrandt

By most measures U.S. charter operations flat-lined this past year. Cincinnati-based Argus, the aviation data research service, reports 55,759 charter operations were conducted in September compared with 54,436 the same month a year earlier, a 0.98-percent increase, after peaking at 58,949 this past March. Turboprops were the busiest aircraft segment during the year (approximately 20,000 operations per month), according to Argus, followed by light jets (approximately 15,000 ops per month). Heavy jets, the least in demand, stayed remarkably flat, at about 6,000 operations every month.

The ranks of charter operators held steady. There were 2,227 Part 135 operators on the FAA's registry at the beginning of September compared with 2,233 certificate holders on file a year earlier.

As for charter brokers, NBAA estimates they number between 3,000 and 5,000, a figure spread that includes charter operators that act as brokers when their aircraft are unavailable to perform a trip. Their actual numbers are unknown,

though anecdotal reports indicate a slight thinning of their ranks over the past year.

The *Air Charter Guide* tracks a fleet of active U.S.-registered charter aircraft (currently numbering 2,212, versus 2,225 at the end of last year), and noted several changes to fleet composition over the past year. Percentage-wise the biggest changes came at the top and bottom ends. The number of light jets dropped from 927 to 883, while the number of available very light jets (VLJs) grew to 37 from 24 aircraft. Two bizliners joined the tracked fleet, for a total of nine in the category. Ten heavy jets (534) and six midsize jets were also added.

According to Argus, since the beginning of the year, average time per flight ranged from a low of 1:15 for multi-engine turboprops to 2:40 for super-long-range jets. These low times likely reflect in part the popularity of some short-distance routes. Six of the top 10 most flown routes for charter were between the Los Angeles area and Las Vegas, according to Argus, a distance of less than 200 nm. The

eighth most popular route was from White Plains to Teterboro. The 20-nm trip is most likely a repositioning flight.

Avinode, the charter data service with U.S. headquarters in Miami, reports the price of charter steadily rose over the past year, based on the hourly rates of a market basket of aircraft models it tracks. A Challenger 604, for example, cost \$4,723 per hour in January and \$4,872 in September. A Citation Excel rose from \$3,149 to \$3,175 per hour in that period and a Hawker 800 from \$3,264 to \$3,361.

Operators Are Adapting

Over the past year charter providers have adapted their operations to meet near-term economic squeezes and position themselves for an expected—if lagging—turnaround.

"A lot of people are recalibrating what they're doing [in response to] a new pricing paradigm in the marketplace," said Andy Priester, president and COO of Chicago-based charter-management company Priester Aviation. "Two-hour minimums are nearly completely gone, hourly rates

have significantly dropped across the country, and the way people negotiate for trips and what's an acceptable margin have changed. I've never seen a market as competitive as it is now."

Wholesale charter operator The Travel Management Co. (TMC), based in Elkhardt, Ind., has added staff this year "just to negotiate hotels, rental cars and airline deals," for its more than 140 pilots on the road. "That's been a huge focus," said general manager Scott Wise. TMC also took advantage of the down market to secure space for a maintenance facility at Teterboro Airport, where it will base about a dozen mechanics to conduct all scheduled maintenance. "It's not nearly as expensive as it was three years ago," Wise said, adding that the location in the Northeast Corridor "helps the almighty repositioning."

Minneapolis-based charter-management company Elliott Aviation is hitting the phones. "Nothing beats good, old-fashioned cold calling and interacting with your existing clients via the phone," said sales manager Toby Batchelder.

Many operators are reworking or fine-tuning management agreements and enhancing efforts to bring more aircraft into their management programs, whether the airplanes are used for charter or not.

"We have two employees dedicated solely to searching for aircraft to manage," said Scott Windau of Jet Source, an FBO and charter-management company in Carlsbad, Calif., with nine aircraft in its charter fleet.

Beleaguered corporate flight departments looking to offset operating costs have also been receptive to charter-management company pitches. "For those flight departments that aren't flying 300 to 400 hours a year, it's a great time to be talking to a charter operator about leasing out their airplane," said Batchelder.

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Aircraft owners' search for an operator that can deliver maximum charter revenue contributed to the management machinations as well, but in this environment reputable operators are making few promises. "Every conversation we have with prospective management clients is about realistic expectations," said David Rimmer, executive vice president of charter-management company ExcelAire in Ronkonkoma, N.Y. ExcelAire added two Bombardier Global 5000s and a Learjet 60 to its fleet this year.

But problems like last year's bankruptcy of charter operator JetDirect have complicated such negotiations.

"I have seen the average time it takes to hammer out new contracts and leases skyrocket," said Robert Seidel, senior vice president, general manager, at Jet Aviation's U.S. headquarters in Teterboro. "Every aviation attorney is attempting to protect his or her client from every evil that has been visited upon the industry."

Jet Aviation, owned by General Dynamics, has 72 jets and helicopters under management in the U.S., 25 available for charter, either ad hoc or through its block charter PT Jet Card.

The Airline Factor

Former fractional-only providers continued expansions into charter this year and even a major airline has upped its commitment to the charter market. Delta Air Lines' private jet offering, Delta Air Elite, set the pace, adding nine jets, then acquiring Kinston, N.C.-based Segrave Aviation

(progenitor of charter's floating fleet model), naming founder Jim Segrave president and rechristening itself Delta Private Jets.

"We're trying to leverage the benefits of Delta in ways no one else can," said Segrave. As an example, with the new Air Elite Jet Card, Delta became the first major U.S. airline to enable travelers to book a trip combining a charter and scheduled airline flight with one phone call. (The card also bestows instant Diamond Medallion airline VIP status.) The company's Perfect 10 card, providing 10 hours of light jet flight time, is designed as an introductory offering.

But cards aside, Segrave said ad hoc charter represents more than half of Delta Private Jets' business. The fleet includes Bombardier, Cessna and Hawker Beechcraft jets. But despite Delta's muscle behind him, industry veteran Segrave talks cautiously about the future. "We all have to get smarter about how we operate more efficiently. It's a challenge to make it profitable."

More airline action in the charter space is likely. After all, charter customers are also often full-fare first-class airline passengers.

"[The airlines] want to control that customer," said Joe Moeggenberg, Argus president and CEO. "If Lufthansa or British Airways puts one of its VIP customers in the front of a [Boeing 777] to JFK, but that VIP customer's final destination is Buffalo, New York, and he's going to go from wonderful first-class service to an RJ, trust me, that will ruin the whole experience."

British Airways now partners with CitationAir by Cessna (rebranded last year from CitationShares, with Cessna acquiring 100 percent of the company it founded as a fractional program), providing British Airways' preferred customers with the CitationAir fleet of Citation Bravos, CJ3s, XLSs and Sovereigns.

Although CitationAir does not offer ad hoc charter, its CitationAir Jet Card is "one-way block charter" and just as economical as one-off charter flights, according to William "Woody" Harford, senior vice president and chief revenue officer. "Customers in many respects don't look at jet cards

as being price competitive with charter, and that's fundamentally not true," he said. "And at \$100,000 down, that's not a huge commitment toward flying privately."

Sentient, a national charter brokerage, this year purchased charter broker OneSky, developer of the software many charter providers use to get trip requests, search for lift and generate quotes.

"One strong trend we've been seeing is the increasing role of the Internet as a tool for charter customers in researching charter information and getting quotes," said Marty Guinoo, Sentient's CEO, and the OneSky acquisition should help Sentient capitalize on that move.

Flexjet, founded in 1995 and another of the first major fractional companies, has also added charter to its offering, but acts simply as a broker, rather than using its own fleet to serve charter customers. (See article, page 34).

Floating Fleets and Point-to-point Service

Charter's traditional "round-trip pricing" model, which requires customers to pay for both legs of a one-way trip, was eclipsed this year by the availability of point-to-point pricing, an offshoot of the sale of empty legs aboard those round-trip flights that has morphed into an operating model unto itself.

"The empty-leg sector has grown tremendously over the past year," said Wayne Rizzo, president of charter broker Air Royale International, based in Los Angeles. "Both broker and consumer are seeking the cost-effective way of true one-way pricing, and operators are refining their business models to capture that ever-increasing market share."

"The general public has really learned about these one-ways and about shopping by the trip," agreed Scott Phillips, owner and CEO of charter operator Jet 1 in Naples, Fla.

The "floating fleet" model was developed to take advantage of one-way demand. With no home base, aircraft in a floating fleet are positioned to capitalize on shifting market demand for point-to-point travel. Traditional operators are finding

ways to benefit as well, without the risk of unknown returns that floating fleets and positioning for one-way fares can present.

"We do get more point-to-point [trip requests]," said Alex Beringer, executive vice president at charter-management company Fair Wind Aviation in Fort Lauderdale, Fla. "A few [of our managed aircraft] have less owner usage, and we will float those aircraft at certain times of the year" to service point-to-point flights.

"We can place a number of aircraft within our certified network on dedication [for point-to-point trips]," said Sentient's Guinoo. "In essence, these dedicated jets act as our own floating fleet, giving us tremendous flexibility as far as where the jets can be positioned to accommodate our clients' itinerary needs."

Priester Aviation, which eschewed point-to-point charter a year ago, has since hired several people to address the growing market, and is talking with owners of its managed jets about keeping aircraft on the road to capture point-to-point flights after dropping owners off at their destinations. "We have done these things to put some twists in our approach, as opposed to 12 months ago," said Priester.

CitationAir, meanwhile, maintains a floating fleet to serve its

block-charter customers, who predominantly want one-way flights. "The perfect out-and-back trip isn't our business model," said Harford.

XOJet of Carlsbad, Calif., which helped spur demand for point-to-point with one-way transcontinental fares as low as \$19,000 aboard its fleet of Challenger 300s and Citation Xs, continues to expand its fleet, but at a slower rate than previously planned. And Blair LaCorte, CEO and operating partner at TPG, XOJet's major investor, emphasized that the transcontinental one-way fares are "not available all the time," and that the company's profitability rests on ad hoc charter and its block-charter preferred fleet access programs, not on the all-inclusive advertised transcon rates.

Charter customers have shown a penchant for practicality over profligacy this year, a reality underscored by "right sizing" their choice of aircraft for a given flight.

"A lot of people are still flying but not flying the class of airplane they were before," noted Moeggenberg at Argus. "People are moving from large-cabin airplanes to midsize airplanes, and from midsize they've been moving to light jets."

"I can tell you, anecdotally, our airplanes are flying more full," said Priester. "Customers are choosing to put more people on the airplane to maximize efficiency."

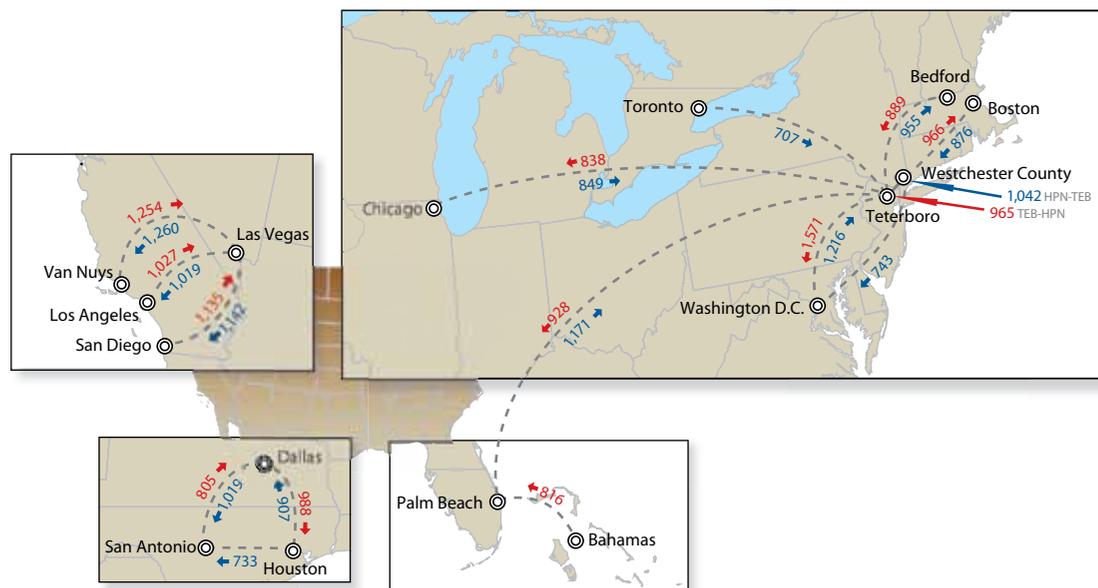
Charter operator JetSuite, based in Long Beach, Calif., which has been rolling out service in the Southwest with a fleet of four-passenger Embraer

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Argus TraqPak 2010 Aircraft Activity Data

Aircraft Category	Avg Flight Time (Minutes)	Avg Flight Time (Hours)
Single-engine turboprop	80	1.33
Multi-engine turboprop	69	1.15
Very light jet	75	1.25
Light jet	73	1.22
Midsize jet	81	1.35
Super-midsize jet	94	1.57
Large jet	105	1.75
Super-long-range jet	144	2.40

Number of Top Business Aviation Trips – U.S.



Argus figures show the popularity of some short-distance charter routes, such as the 200 nm between the L.A. area and Las Vegas. The eighth most popular route for the charter fleet is the 20-nm hop between White Plains and Teterboro, likely for repositioning.

Phenom 100s, is a proponent of right-sizing. "Using a Gulfstream to fly two or three people from Van Nuys to Las Vegas is like using a Winnebago to drive to lunch every day," said CEO Alex Wilcox. "It's not the right tool for the job."

JetSuite's owned and operated fleet model is based on high usage rates. "Our goal is to put somewhere around 1,000 hours per year on each airplane," Wilcox said. The former JetBlue executive also plans to bring airline yield-management strategies to charter. "The biggest surprise about this industry is the lack of creativity in a lot of the pricing," Wilcox said, noting that charter rates vary little with fluctuations in demand. "We're going to start bringing airline pricing into the picture."

Indeed, JetSuite has introduced "off-peak" rates as low as \$999 for the jet from Van Nuys to Las Vegas. Regular rates are \$3,000 per flight hour; a "Jet for a Day" rate is \$3,000 plus \$999 per hour (return to point of origin required).

Right-sizing can also mean moving up. Charter-management company Maine Aviation in Portland, Maine, with nine aircraft on its certificate, has had success with 50-passenger Bombardier CRJ200 regional jets converted into the 16-passenger CRJ200 GLS (Grand Luxury Series).

"The economics work really well," said Jim Iacono, Maine Aviation's director of business development. "We're able to offer the airplane at GIV rates and it's 30 percent larger than a GIV."

California charter broker TourJet, whose clientele includes

major musical acts, has booked the GLS extensively, finding it ideal for road shows with relatively high passenger and luggage loads that a typical heavy jet can't handle. "[The GLS] can use most runways a Gulfstream or Challenger can, but it has a lot more capability in terms of lift," said Dave Davis, founder of TourJet in Chicago Park, Calif.

Per-seat Services

Following the value theme, per-seat charter offerings have solidified a place in the charter world this year. Greenjets of West Palm Beach expects to complete 500 of its shared-seat charter flights operating between south Florida, New York, Boston and Chicago by year-end. Members buy a card (\$7,000 or \$12,000) entitling them to either 25 or 50 one-way trips at \$3,300 or \$3,500 per flight, with a free companion seat provided. Greenjets acts as broker and charters the jet based on the number of travelers with reservations for a particular flight. Greenjets expects to be in 30 markets by the end of 2012, according to CEO Dean Rotchin.

Los Angeles-based Spectrum Air inaugurated its per-seat charter offering last month, beginning with service between Van Nuys and Teterboro aboard a Falcon 2000 operated by Elite Air, priced at \$3,950 one way, gourmet meal service included. Spectrum plans to add flights between New York and Miami.

Sticking to heavily traveled routes makes the model viable. Customer acceptance and visibility in the marketplace could expand per-seat charter's reach

and appeal. Few barriers to entry block other charter providers from trying to tap into the market.

Charter customers have become much more knowledgeable and aggressive over the past year, according to operators and brokers, adding to the pricing pressure on charter rates.

"Customers have gotten much more savvy," said Fair Wind's Beringer. "They're avoiding brokers. They pick up the phone and do the research themselves."

"Retail clients are searching multiple operators for the best price possible," agreed Windau of Jet Source. And when these savvy customers go through brokers, they don't call just one. "A lot of brokers are calling for the same quote," Windau said. "The retail clients are starting bidding wars between brokers and operators."

The *Air Charter Guide*, whose Web site is aimed at charter customers, has seen a 12-percent increase this year. And company research shows charter customers have become more price conscious than ever.

"Price is a huge issue," said Michele Markarian, director of brand marketing at Air Charter Guide. "[The primary issue] used to be safety. Now people are taking it for granted. Now it's about price."

Charter providers regard personal connection and attention to detail as the drivers behind their relationship with their customers. In fact, last year's closure of Virgin Charter, which tried to create a national charter service, has been attributed to a lack of such personal connection. But the rise of the price conscious, savvy

charterer might change this perception of charter buying habits.

Wi-Fi Availability

Broadband access aboard aircraft made a connection with the charter market this year, a development that will likely accelerate.

"I can't convey to you how motivating a passenger convenience system—such as Wi-Fi—is," said Priester. "That [charter] trip becomes more justifiable. You're not taking time away. When you're in the airplane, you're still in the office."

"More people are asking for wireless Internet in the cabin," said Beringer of Fair Wind. "We've upgraded five aircraft with high-speed Internet," paid for by the aircraft's owner. "We tell owners they can increase charter sales."

XOJet's entire fleet became Wi-Fi equipped as of June, launched with a "Why Fly

without Wi-Fi?" promotional campaign. "Even if they don't plan on working, they want to know when they need it they can get on," said XOJet's LaCorte. "It's important for them to have that option." The XOJet fleet's manuals and documents are updated via Wi-Fi as well, saving time and money, and aircraft and the company's operational center are in continual communication, LaCorte said. "We believe having smart airplanes makes our user experience better."

Not everyone believes the charter customer is ready to pay the premium onboard Wi-Fi should command. "If people are telling me they're willing to pay for Wi-Fi, that would be a first," said Citation-Air's Harford. □

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Banks, Repo and Charter

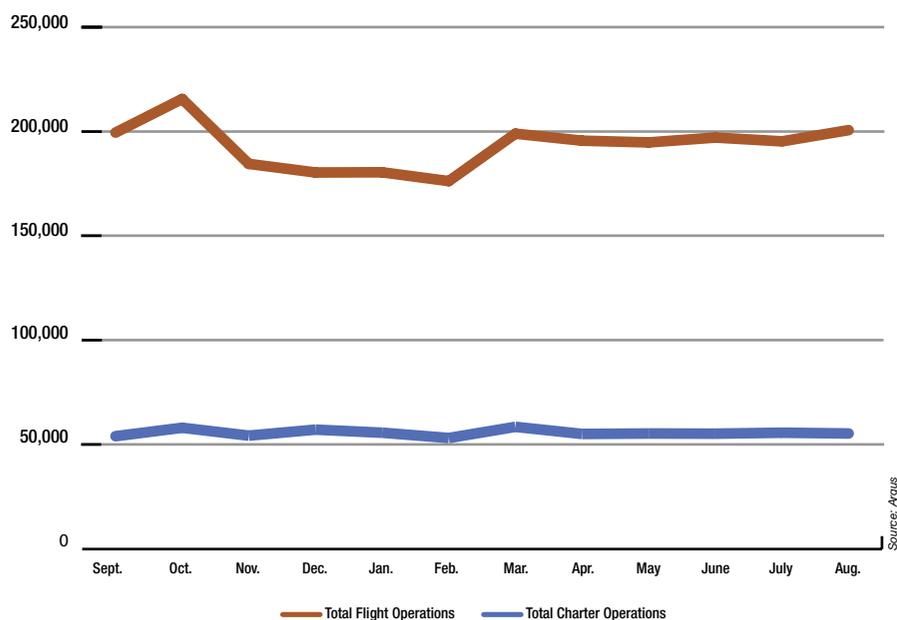
In the wake of the economic downturn, business boomed for aircraft repo specialists, who seized aircraft from owners delinquent on their loans. Yet repos have had no effect on the charter market, which depends on privately owned aircraft for the majority of its lift. Why no ripple effect? Many banks are reluctant to make loans on aircraft used for charter in the first place, because of the increased wear and tear on the asset, and concern that an owner could be depending on charter revenue to make payments.

"Our client base, both corporate and individual, rarely uses its aircraft for supplemental charter," said Michael Amalfitano, senior managing director of Banc of America Leasing—global corporate aircraft finance. "This is to maintain the appropriate tax treatment of the business use of the aircraft."

If a strapped owner considers making his aircraft available for charter, the terms of loans mandate informing the bank of any change in an aircraft's status, such as transferring operational control as is done under a Part 135 certificate, likely inhibiting bank-financed airplanes from joining the charter fleet. But, said one banker who requested anonymity, "If the truth be known, if somebody does [put his aircraft on a charter certificate], he probably wouldn't tell us." ■

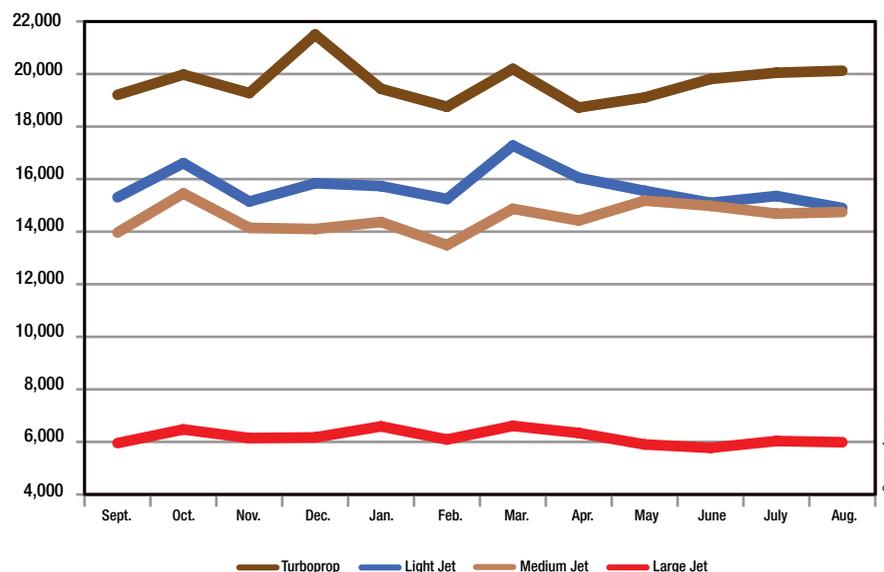
Total Charter Operations vs. Total Flight Operations

(Sept. '09-Aug. '10)



Part 135 Charter Operations by Aircraft Category

(Sept. '09-Aug. '10)



Operators wary of optimism in view of slender profit margins

by Charles Alcock

Ultimately, and unsurprisingly, the international market for private and business charter flights is a microcosm of the wider global economy in which it resides and which it serves. So, given that each new day brings fresh uncertainty and conflicting information about the fate of the world economy, why would we be surprised that the charter market too is steeped in uncertainty and insecurity?

Recent months have brought some grounds for encouragement to operators and brokers alike, but many have endured enough anxiety and discouragement since the advent of the global financial crisis some 24 months ago as to be wisely reluctant to view this as light at the end of a dark tunnel. Unpredictable swings in demand are the new norm in this market, and so too is overcapacity sustained by the continued depression in the aircraft resale sector. This has forced operators to take a cold, hard look at their cost structures as they try to survive

on slender profit margins.

According to David Macdonald, product director with major brokering group **Air Partner**, the charter sector is now seeing steady positive growth. Air Partner's flight bookings in the recent months of June, July and August were all ahead of the same period last year.

"The corporate and private clients are coming back," he told **AIN**. "People are doing business again and they need to start flying again. People who didn't fly privately last year are doing so this year; they simply took a sabbatical.

"We have slowly gone from being behind the drag curve to being slightly ahead of it," said Macdonald. "The recession did not hit Air Partner as much as some other people because we're in the flexible part of the industry and so even with people cutting back on their spending we did not see a mass exodus from products such as the Jet Card [Air Partner's block charter program]."



Stuttgart-based DC Aviation added three Airbus Corporate Jetliners to its fleet and says the demand has been "astonishingly large," with requests for them now accounting for a quarter of all its flight hours.

DESPITE INCREASED REVENUE, AIR PARTNER RECORDS LOSS IN FY10

Stronger trading in the second half of the financial year ending on July 31, 2010, lifted revenues for UK-based charter brokering group Air Partner by 22.9 percent over 2009 levels to reach £230 million (\$365.7 million). In financial results announced on October 12, costs of £4.4 million (\$7 million) associated with the closure last March of its Private Jet Operating Company (PJOC) charter operations division, plus just over £700,000 (\$1.1 million) in other restructuring expenses, dragged the company into a year-end loss of £1.65 million (\$2.6 million). However, setting aside these discontinued businesses, an underlying, pre-tax profit of £3.5 million (\$5.6 million) was achieved.

Air Partner's private jet brokering division (covering aircraft with fewer than 20 passenger seats) saw a 6-percent increase in sales to reach £41.4 million (\$65.8 million)—18 percent of the group's total revenues. However, competitive pressure squeezed margins to just 1.6 percent—lower than the 3.3 percent achieved in the 2009 financial year. According to CEO Mark Briffa, the second half of the year just closed saw "strong signs of activity among high-net-worth individuals and within the entertainment industry." The company said its Jet Card block charter program has remained profitable and is now being expanded into the French, German and Italian markets. It claimed that ad hoc charter is benefitting from what it claimed to be "the demise of fractional ownership."

Meanwhile, former Air Partner CEO David Savile, who resigned in March after the planned closure of PJOC was announced, has resurfaced as the new chief executive of rival charter broker Starflight Aviation, based at the London-area Farnborough Airport. —C.A.



Gama Aviation, with operations on three continents, decelerated its growth plans in the wake of the financial crisis but has not cut back on infrastructure and continues to field 72 aircraft, including this Learjet 60XR.

"This situation showed that flexibility has a huge financial value," Macdonald claimed. "You might think you are getting a great deal with something like NetJets [fractional ownership], but you have to build in a risk question mark, and people have been caught out by a lack of risk analysis."

Macdonald reported that charter rates have stabilized after dipping markedly in the immediate aftermath of the financial crisis. For privately owned aircraft in the charter market under management contracts, he has observed a tendency for owners to hold out for minimum rates rather than let them be used at or below cost. "They'd rather fly less than fly for less," he commented.

For Air Partner, arguably the most improved region has been the Middle East, which has moved from being an emerging marketplace to one that is established. Until fairly recently, the broker could barely function in that part of the world because there were so few licensed operators and so much illegal charter (see article on page 30).

According to Per Marthinsson, CEO of online charter portal **Avinode**, the market is now recovering and he sees a mood of optimism among his clients. "When we talk to customers they generally feel that the summer [of 2010] has been great and some have said that it was even better than at the peak and also that [profit] margins are coming back," he told **AIN**. "This is good because some of them have been flying for no more than DOCs [direct operating costs] and you can't make a business out of this."

Avinode is used by more than 1,400 operators in some 65 countries. Its statistics for online charter inquiries suggest that the market has been picking up since the fall of last year, but uncertainty about whether the rise in demand would be sustained has clearly lingered. Although inquiries do not necessarily correlate directly with actual volume of flight bookings, the Avinode data has shown steady month-on-month growth over the past 12 months (see box on page 28).

According to Marthinsson, while the recession has driven some operators out of the business (either through bankruptcy or because aircraft have had to be sold), new players have also entered the market. At the same time, Avinode has observed privately owned aircraft that were not previously

available for charter being added to commercial air operator's certificates in a bid to earn some income and also aircraft that had been on an AOC but rarely made available for charter now being offered more freely to third-party clients.

"But, overall, supply [of aircraft] is still outweighing demand," said Marthinsson. "A full recovery will be slow because demand is still low compared with supply, but the industry is going in the right direction."

Marthinsson maintained that operators can still differentiate themselves from rivals by offering new aircraft such as the Dassault Falcon 7X, for which there is strong demand. "They also have to be more savvy in selling empty legs and improving utilization," he added, arguing that the Avinode service comes into its own during hard times by providing the tools users need to get maximum return from their assets, through channels such as Air Partner's EmptySectors.com site, which Avinode supports.

Avinode's market data bears out the perception that through the downturn demand for larger jets has held up better than for smaller models. But Marthinsson suggested that the market is rebounding to the extent that light and midsize aircraft are becoming more popular again.

From the frontlines of Europe's troubled marketplace, **DC Aviation** has seen a slight overall rate of recovery, but with larger aircraft flying longer sectors faring distinctly better than the smaller/short-haul end of the fleet. "Our own long- and medium-range aircraft have now regained good levels of capacity utilization," said the German company's new CEO, Michael Kuhn.

The Stuttgart-based operator added three Airbus Corporate Jetliners to its fleet, and Kuhn told **AIN** that demand for these has proved to be "astonishingly large," to the extent that they now account for a quarter of all its flight hours. At the same time, its Cessna Citation XLS jets are also achieving some recovery in short-haul demand.

The former Daimler Chrysler flight department set itself the conservative goal of maintaining 2009 levels of flight activity during 2010. As the final quarter of this year started, Kuhn said that the firm is ahead of its revenue projections but he

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With a number of corporate aircraft such as this Gulfstream G550 in its stable, German charter operator and aircraft management company DC Aviation has seen something of a recovery in short-haul demand.

cautioned that the market could need fully three years to achieve a complete recovery from its recent low point in 2009.

Russia and CIS Hit Hard But Rebounding

From DC Aviation's perspective, the charter market in Western Europe is now seeing average growth rates of around 10 percent. Demand in Russia and the Commonwealth of Independent States saw the steepest fall in response to the financial crisis but is now bouncing back more strongly.

By contrast, Kuhn maintained, the Middle East was more resilient in the downturn and continues to offer strong potential for growth. This is why DC Aviation intends to establish a joint venture

in the region, offering aircraft charter, management and maintenance, early next year. The company has also seen a marked increase in demand for flights to and from, and within, Africa.

Since last fall, DC Aviation has had clients who had not flown at all for the preceding six months gradually getting back into chartered aircraft. Last year overcapacity in aircraft available for charter compelled the company to cut rates by up to 20 percent (at a time when other operators were discounting even more deeply). Now it sees charter rates firming up once more.

DC Aviation currently operates 29 aircraft, of which 20 are available for

charter (with the remainder being managed purely for private use). This is fewer jets than it operated in 2008, after the company lost "a handful" of clients to the economic crisis. The company owns about one third of the fleet, and next month it is set to become one of the first European operators of Embraer's new Legacy 650. A second example of the type is due to arrive next year.

For **London Executive Aviation (LEA)**, trading conditions are also improving, with charter hours for most of its aircraft climbing by 20 to 30 percent this year. However, chief executive Patrick Margetson-Rushmore pointed out that these increases should be seen in comparison to greatly reduced activity the previous year and indicated that it is still premature to talk in terms of a recovery.

Like many operators, LEA has seen significant variations in demand within its fleet, with larger aircraft generally faring better than smaller ones. For example, the UK company's Legacy jets were busy over the summer months, as were its Bombardier Challenger 300s. However, to stimulate demand for its Cessna Citation Mustangs it had to lower rates. "It had a beneficial effect in terms of hours, but you can play on the margins like this only for a temporary period," Margetson-Rushmore told AIN.

LEA also operates a new Citation Excel and demand for this has also seen peaks and troughs. Part of the problem for operators today, said Margetson-Rushmore, is that it is hard to understand or predict when and why a particular aircraft will be

in demand, or not.

On the plus side, LEA has lately seen renewed interest from aircraft owners wanting to use its services for pure management (that is, without offering the aircraft for charter). That said, generally flying by aircraft owners has been down by as much as 40 to 50 percent over the past 12 months.

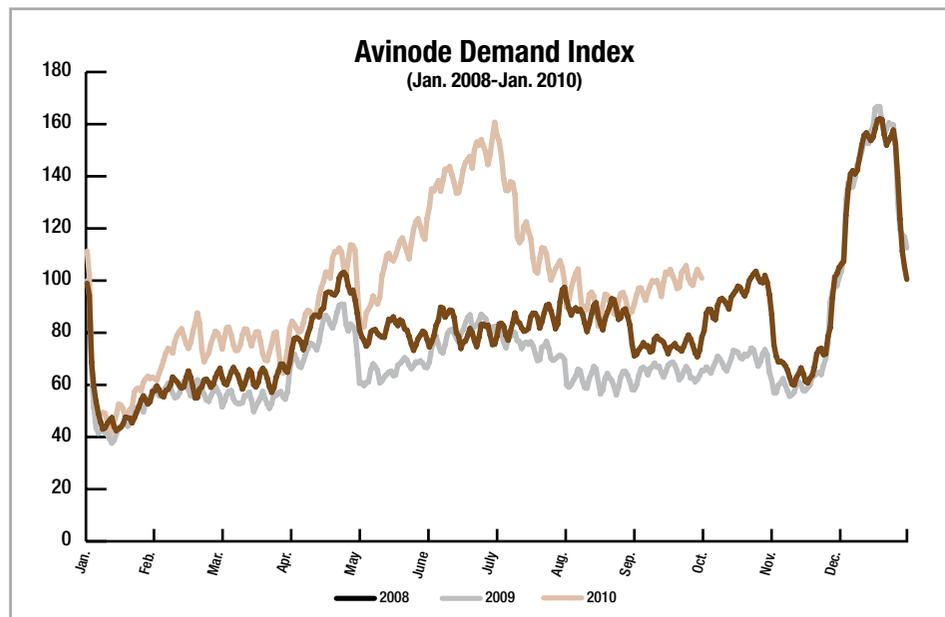
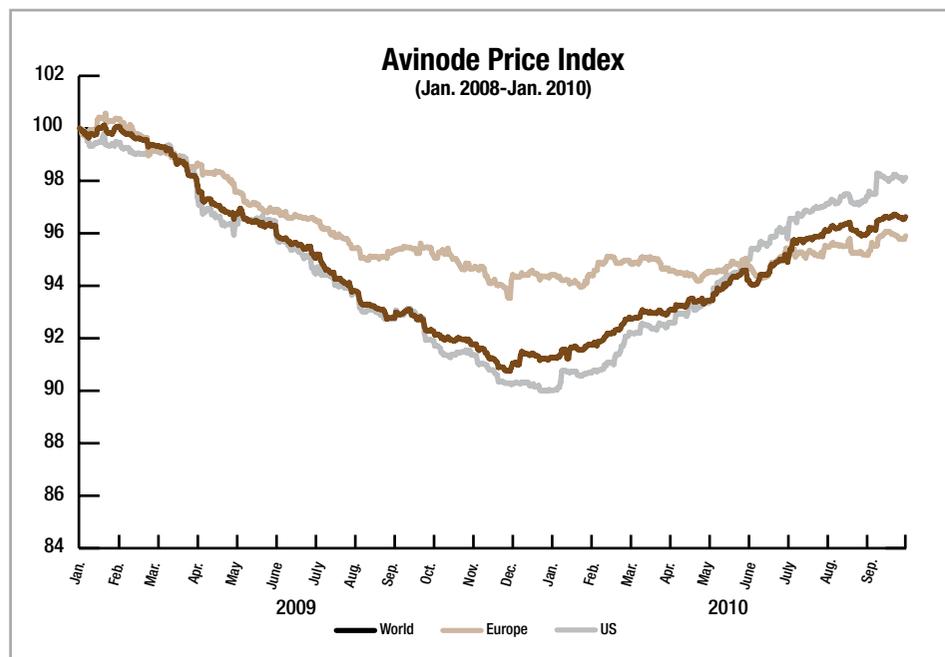
Operators in Europe have also had to contend with quite severe currency



CEO Patrick Margetson-Rushmore said London Executive Aviation lowered some rates to increase demand, but observed that companies can play on such margins for only a temporary period.

exchange rate fluctuations over the past two years, playing havoc with profitability and competitiveness at an already difficult time. Rising fuel prices have added more pressure.

"This is a volatile market we are in, largely due to things that are outside our control," concluded Margetson-



Avinode Data Confirms Uncertain Outlook for Charter Market

Price index data from online charter portal Avinode reinforces the impression reported by operators and brokers that the market has been making a slow and gradual recovery during the course of this year. Analysis of the company's price index since Jan. 1, 2009, shows a marked decline in expected rates for worldwide charter, as well as specifically within Europe and the U.S., followed by a slow recovery.

Through August 2009, all three of these sectors were declining at about the same rate. Then Europe started to flatten out, while rates for the world and the U.S. continued to fall until they reached a low point around the turn of the year. Since January, the figures for the world and the U.S. have shown a more pronounced upturn than those for Europe. As of September 30, the price index for the U.S. stood at 98.13—less than two points below the January 2009 baseline index of 100, while Europe and the world were not far behind at 95.90 and 96.63, respectively (see Price Index, left).

Avinode also generated data for AIN, breaking down flight requests by region (Europe, North America, the Middle East and the rest of the world), comparing last year and the first seven months of this year with a baseline of 100 as of January 1. By contrast with the price index data, these statistics show European demand accelerating beginning this spring. In all sectors, the recovery can be seen to take off from around October 2009, but the data then shows some fluctuation in the fortunes for the global numbers, as well as for those of the U.S. and the Middle East. By contrast, Europe's flight demand data continues to ascend (see Demand Index, left).

Studying Avinode average flight hour prices for three sample aircraft types over the past 12 months confirms the impression given by operators and brokers of a period of somewhat patternless, unpredictable price fluctuation—albeit within fairly narrow bands. Comparing average rates between October 2009 and the end of September 2010, those for the Bombardier Challenger 604, Hawker 800 and Cessna Citation Excel have increased modestly in the U.S. market, while falling slightly outside the U.S.

Within this time frame, rates fluctuated across the board and, generally, not in ways that fit the established demand patterns for operators being busier in the summer and fall months. At face value, the changes in flight-hour prices paid seem small, but to operators already struggling to achieve any sort of worthwhile profit margin even small shifts can seem critical. ■

Rushmore. Over the past year, LEA has confronted the factors it can control—restructuring its debts and reducing staffing and wage levels to the extent that it now feels it is “out of the tunnel.”

With charter operations across three continents—in the U.S., Europe and the Middle East—**Gama Aviation** has a fairly comprehensive perspective on the state of the charter market. “It’s slightly better than it was 12 months ago,” said CEO Marwan Khalek. “At that time we were wondering whether the market was bottoming out. Well, that uncertainty has now gone, so we probably were. Now we see a gradual trend in the right direction, but it will be a shallow climb, and there won’t even be a steady time for some time to come. There is simply no consistency in the market.”

The continued weakness in pre-owned aircraft sales means that few aircraft have left the charter market, preventing a correction in the supply-demand ratio that would have benefited operators. According to Khalek, demand has risen slightly in recent months, which has improved flight activity volumes and charter rates to some degree. “But over the past 12 months rates have been crazy,” he told **AIN**. “People were buying cash flow, and that’s just not sustainable. It’s not right for the [aircraft] owners. Management companies should be more responsible. Despite the softening in demand, some operators have focused on quality, standing firm on pricing, and this is not lost on the clients who will support it because they want value rather than just price.”

Gama’s response to the challenges thrown its way in the wake of the financial crisis has been to decelerate its growth plans to the extent that expectations and targets originally set for next year have now been pushed back to 2012 or 2013. The company opted not to cut back on the size of its operation last year, preferring instead to maintain its infrastructure. It still operates more than 72 aircraft.

“We have been through a testing situation that has made us take a hard look at the business and fine-tune things,” said Khalek. He added that Gama’s European

The Ten Most Requested Airports

Avinode also generated lists of the 10 most requested airports for passengers flying in Europe, the Middle East, North America and the rest of the world. The results are shown in the graph at right. Over the past 12 months, there was little change from the rankings from the previous 12 months. Somewhat amazingly, Moscow, Communism’s former global capital, is shown as accounting for more trip requests than New York, Los Angeles, London and Paris combined, but these are requests (not flights made) so possibly this reflects nothing more than the curiosity of the newly enriched. In fact, Avinode explained that Russian brokers tend to post more flight requests per flight made than their counterparts elsewhere and that this, combined with genuine growing interest in business aviation in the country, explains the apparent anomaly. —C.A.

operations have probably performed the most strongly over this difficult period and probably because it has the most balanced business model in terms of the aircraft size sectors in which it competes and because it has a healthy long-term contract business with aircraft management and maintenance income.

Gama broke into the promising Middle East market at the start of this year, securing a commercial air operator’s certificate in the United Arab Emirates in February. It now has four aircraft based in the region and expects to add one or two more by year-end.

“When things started to go south [in the charter market], there was a lot of nervousness and uncertainty as operators went into a defensive survival mode,” concluded Khalek. “There are enough signals now to suggest that this [current market conditions] is business as normal and that 2006 to 2008 were a boom period and it is not realistic to expect that we will come back to that. We are better off remembering that and reshaping ourselves to a posture of sustained growth. In fact, I am impressed at how resilient our sector has been.” □

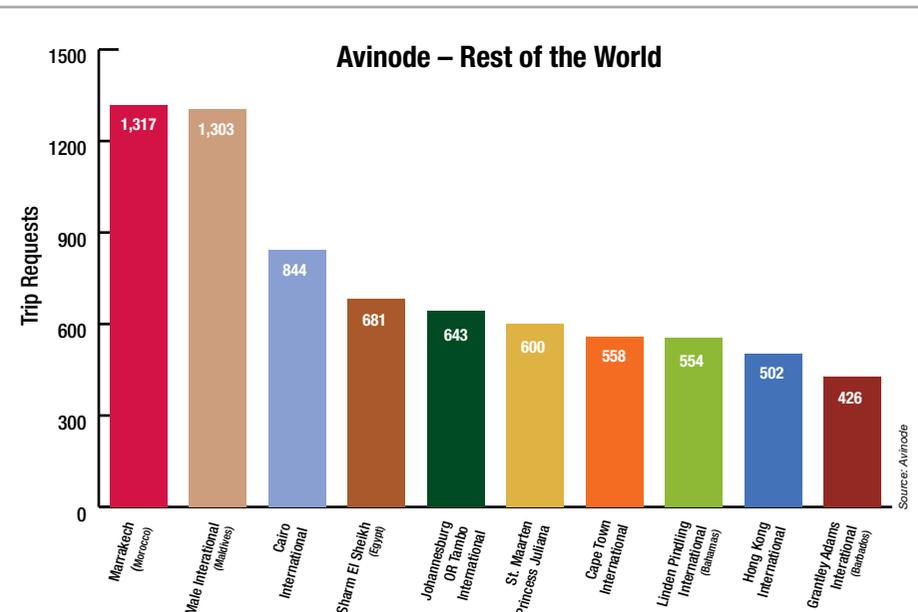
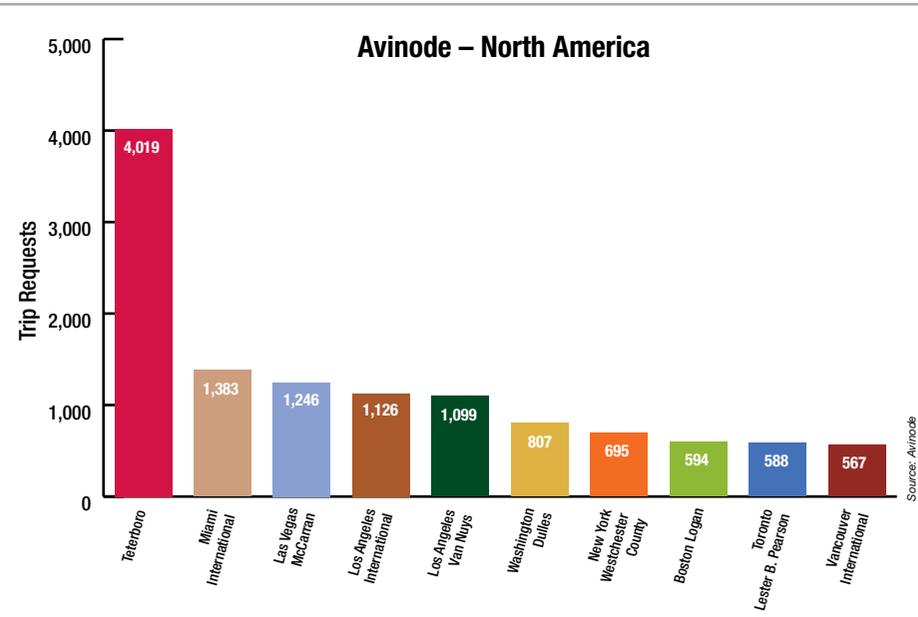
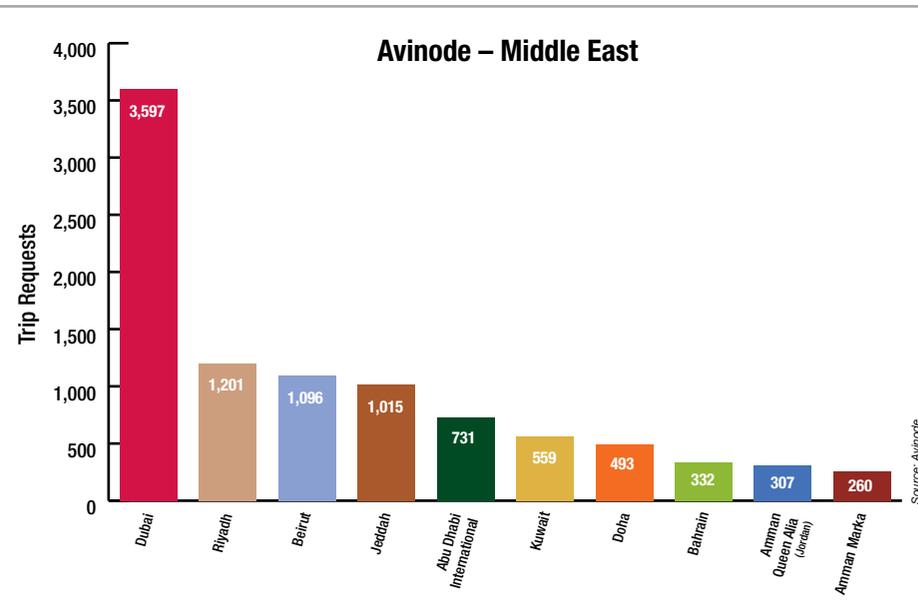
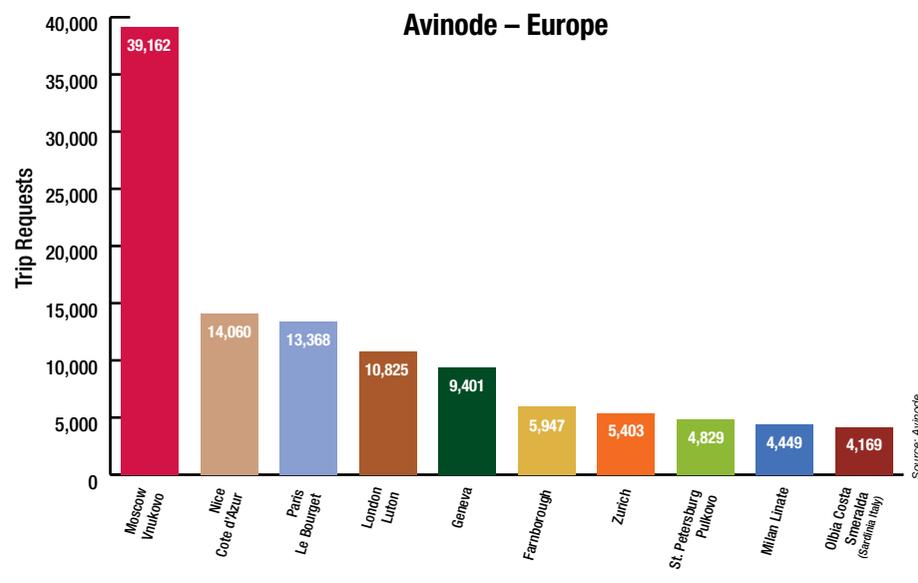
Survey: Charter Operators Are Sales Slackers

At a time when they can ill afford to miss out on any available business, charter operators are doing a poor job of responding to flight requests, according to a confidential survey conducted by UK-based operator Hangar 8. CEO Dustin Dryden anonymously made 40 flight requests covering four routes to 25 operators (including his own) and was disappointed to discover that he got a response from just over half of these and that only three quotations were effectively chased.

According to Dryden, the worst operators were those receiving requests via the Avinode online portal or from calls made outside normal office hours. “Avinode has been delivering as many as 90,000 inquiries per month over the past 12 months, but our conversion rate is bad,” he said. “This suggests a major lack of process in our sales and marketing departments.

“It is difficult to get straightforward answers from operators, and the quotes can be very different,” added Dryden, pointing out that significant inconsistencies in the terms and conditions offered by operators result in “nasty surprises” for clients. “We respond badly to requests such as kosher food and Russian-speaking crews; is it really too much hassle for us?”

Dryden concluded that size does matter in the charter markets, with larger operators better placed to offer the flexibility that customers need and provide comprehensive operational support with 24/7 staffing. He also urged operators to improve the way they communicate with clients, make better use of software and do everything possible to preserve the loyalty of charter brokers, who still account for some 90 percent of flight requests. —C.A.



Illegal ops compromise safety, costs

by Charles Alcock

Illegal charter flights are increasingly common, according to operators and brokers who spoke to *AIN*, most of whom declined to go on the record with specific accusations, but agreed that the practice is especially prevalent in emerging markets such as Russia and that, generally, the authorities are not doing enough to police the situation.

Essentially, there are two categories of illegal charter. The first, and most serious, occurs when flights on privately owned aircraft are offered for financial gain despite the fact that they are not registered under a commercial air operator's certificate (AOC). Another breach of the rules occurs when aircraft registered outside a market—most often in the U.S. or offshore registrations such as the Cayman Islands—are offered for hire in a market, such as Europe, where they are not entitled to fly commercially without permission.

According to Air Partner product director David Macdonald, the economic downturn has seen an increase in the number of aircraft offered for unlicensed charter. In his view, illegal charter flights are being promoted in the marketplace far more brazenly by what he characterized as “pseudo aviation companies.”

Legal Considerations

Apart from the potential safety risks to passengers and the unfair competition to which it subjects commercial AOC operators, illegal charter exposes just about everyone involved to potentially serious legal penalties and liabilities. Aviation authorities can impose stiff fines on people operating illegal charters, but liability issues could be even more serious in the event of an accident.

Macdonald said companies providing financing for aircraft must be more alert to this issue. “They need to realize that a lot of their precious assets are being touted illegally,” he told *AIN*.

According to Macdonald, illegal charter operations put pilots in a particularly difficult predicament. “The pilot [flying an illegal charter] has no operations manual to defend him if the flight is not for an AOC [operator], and this can put him under enormous pressure in a commercial situation,” he said, referring to customer demands to fly in dangerous weather conditions, for example. In addition, when officials conduct

ramp checks to ascertain whether the aircraft is legally cleared for charter flights, it will be the pilot who is first held accountable.

Not only can the illegal use of a privately owned aircraft for paid charter compromise financing, it could invalidate insurance coverage on the aircraft. “Insurance companies hate surprises, and [if they find out that a client has been conducting illegal charter flights] they will be less accommodating [in terms of issuing insurance coverage],” warned aviation attorney Tim Scorer of London-based Ince. He said the industry needs to be more willing to report suspicious activity to national aviation officials, who can ground aircraft and prosecute those involved.

Need To Catch the Thiefs

In practice, the task of policing the charter sector seems to be stymied by the need to catch culprits red-handed. Charter brokers and operators told *AIN* they reported specific planned flights to the authorities, who failed to get officials to the airport in time to conduct an inspection.

Air Partner's Macdonald said brokers can often tell when a legitimate operator has been undercut in bidding for a flight by an illegal alternative, and the illegal operator's intent to conduct a flight can be revealed by tracking tail numbers on Eurocontrol's central flow management system. Expressing frustration at the failure of regulators to crack down on illegal charter flights, Macdonald said that, in Europe at least, more effort goes into pursuing people selling counterfeit branded goods than in stopping illegal flights that could kill people.

Several operators and brokers complained to *AIN* about aircraft registered in the Isle of Man being offered for hire despite the fact that the offshore registry

includes only privately owned aircraft that cannot be covered by a commercial AOC. In some cases, these operators are alleged to be trying to bend the rules by offering flights covered by short-term leases that can span just a few weeks (even though the usual minimum term is one year). There are approximately 260 private aircraft registered in the Isle of Man.

However, Brian Johnson, the Isle of Man's director of civil aviation, said his department is unaware of any such activity and that owners joining the register are required to sign an assurance that they will not operate commercially. He added that his officials have investigated accusations of illegal activity and, despite checking aircraft technical logs and seeking information from the airports involved, have found no evidence to support the claims.

Under Isle of Man law, those convicted of operating illegal charters can be fined £5,000 (\$7,900) and jailed for up to two years. “Investigating false accusations like these is time consuming and costly,” Johnson told *AIN*. “Some AOC holders seem to want to blame anybody but themselves for losing charters.”

Gama Aviation CEO Marwan Khalek complained that enforcement of rules on commercial charters is “nonexistent” to the extent that there is “no serious disincentive” to break the rules. He said in some countries a lack of funding for aviation authorities is to blame, but he argued that enforcement could be self-funded through fines levied.

Khalek described “a worrying change of mindset” in which aircraft owners and operators convince themselves it is acceptable to offer non-AOC aircraft for hire. “It could be driven by harder trading conditions, but there is also a lot of confusion

about what you are and are not allowed to do,” he said.

Many operators identified Russia as a hot spot for illegal charters. “The problem in Russia is that charter is being heavily promoted there with third parties actively offering unlicensed aircraft,” said Macdonald.

Another key factor in Russia is that legal and tax restrictions on foreign-owned aircraft and the importation of foreign-made aircraft appear to have impeded the development of a soundly structured, well regulated charter sector. In the absence of what the industry would consider a rational and coherent legal structure, many see illegal or barely legal operations thriving to fill the vacuum.

One Operator Stands Out

However, at least one operator is trying to change this poor perception of the Russian charter industry—JetAlliance East, a Moscow-based joint venture between Austrian operator JetAlliance and Aeroflot Plus, the executive charter division of Aeroflot

Russian Airlines. In compliance with Russian law, Aeroflot holds the majority stake in the new business, with 51 percent of its equity.

A Cessna Citation CJ3 and a Citation Sovereign are due to be placed on JetAlliance East's AOC and registered in Russia this month. The company is already operating two Tupolev Tu-134 twinjets and a pair of Yakovlev Yak-42s, but these Russian aircraft are likely to be phased out of service and replaced by Western-built equipment.

JetAlliance East board member Sergei Koltovich told *AIN* that, over and above the legal requirement, it makes sense for Western operators to ally themselves with Russian partners who have better knowledge of the local market. He said there are widely held suspicions about illegal charter activity but emphasized that the details of the extent to which this is happening are hard to prove. One of the key motives for establishing the new joint venture between Aeroflot and JetAlliance is to assure Russian clients of access to a fully legal charter service. □

RUSSIA IN THE WRONG, BUT POINTS FINGER WEST

The Russian United Business Aviation Association is well aware of illegal charter flying in the country and is deeply concerned about it, according to the group's vice president, Eugeny Bakhtin. He told *AIN* the association is urging authorities to adopt Western standards to iron out legal anomalies that allow the so-called gray market to thrive there.

But while acknowledging Russian failings, Bakhtin accused supposedly respectable Western charter operators of hypocrisy in “dropping their noble principles” when it comes to flying customers into and within Russia. He alleged that both Russian and Western operators are prepared to operate outside the rules temporarily to get a job done.

For Bakhtin there are two core problems: the first is abuse of the cabotage rules that should control the ability of foreign operators to fly for hire within another state; the second concerns the legal difficulties relating to ownership of private aircraft in Russia that can make it hard for some to avoid operating illegally.

While Russian laws are strict in theory, explained Bakhtin, in practice there is the potential “for large irregularities.” Many operators wanting to fly in Russia simply declare flights to be private to avoid the complex web of rules that would have to be dealt with to be strictly legal. In doing so, said Bakhtin, it is not unusual for operators to offer customs and aviation officials inducements to turn a blind eye. In fact, sometimes even legitimate private fliers can feel the need to resort to such measures simply to avoid bureaucratic hassles.

Under current law, foreign-registered aircraft flying between two points within Russia are considered to be blocked under cabotage rules unless the operator can convince officials otherwise. In fact, cabotage applies even if an aircraft is flying from somewhere in Russia to a destination outside the country but makes a fuel stop in Russia en route.

The problem is further complicated by the fact that 99 percent of Russia's business aviation fleet is registered outside Russia by Russian owners. This means that Russian operators are technically blocked by cabotage rules on almost every flight they make. Customs and aviation officials are well aware of this and are proactive about checking flight documents. It falls to the aircraft owner and the operator to prove that the flight should not, in fact, be subject to cabotage.

Meanwhile, the Russian United Business Aviation Association is pushing for international best practices to be adopted in its country. It is making proposals to both the Rosaviatya civil aviation authority and the customs agency to adopt Western standards in its rules and the way they are enforced. —V.K.

How To Tell If a Charter Flight Is Legal

- ❖ Does the operator hold an air operator's certificate (AOC)?
- ❖ Is the aircraft being offered specifically registered to the AOC holder?
- ❖ Demand to see all documentation associated with the AOC and the aircraft registration.
- ❖ Are the aircraft and the operator insured to fly commercially? Demand to see full details of the insurance.
- ❖ What type ratings do the crew hold? Are they qualified to fly the aircraft?
- ❖ Is the aircraft cleared to fly in the territory in which the flight is to be made? Are there restrictions under cabotage rules that would prevent the aircraft flying for-hire, without specific clearance (for example, an N-registered aircraft in Europe)?

Asian business is good, but pricey

by Liz Moscrop

While the latest reports indicate a decline in the worldwide business jet charter market, certain parts of Southeast Asia are bucking the trend. Hong Kong, in particular, is flourishing. With

five locally based operators and several international charter brokers in situ, China's Special Administrative Region is bursting at the seams.

The Hong Kong Aviation

Group (HKAG) is the largest local player. A Kadoorie Group company, HKAG owns helicopter charter firm Heliservices and is the majority shareholder in the only executive aviation FBO in



Hong Kong Business Aviation Center, the sole executive aviation FBO on the island, owns the largest charter operator there, Metrojet, which manages a fleet of 20.

town, the Hong Kong Business Aviation Centre (HKBAC). It also owns Hong Kong's largest charter operator, Metrojet, which has a fleet of more than 20 managed aircraft. The company reported strong growth figures last year.

Sister company AsiaJet offers jet charter cards and has also seen its business expand, although it has discounted its prices slightly. It offers a three-tier card membership program and members also have access to Metrojet aircraft. Rates range from \$5,900 per hour for a Gulfstream G200 to \$7,200 for a G300.

By the first quarter of next year the company will manage more than 10 aircraft and says it is flying approximately 25 to 30 hours per aircraft per month. "Cards are becoming more and more popular here," said AsiaJet CEO Mike Walsh. "People were initially skeptical; it has taken time to build our market."

Jet Aviation also has a significant operation in Hong Kong, managing more than 10 aircraft under its air operator's certificate there.

TAG Asia also has a Hong Kong AOC. Jolie Howard, its director of business development in Asia, told *AIN* that the company was badly hit in last year's first half. However, she added that the market has picked up quickly and that the main problem regionally is lack of aircraft availability. "Clients who own aircraft don't always want to [make them available for] charter, so supply is a problem," she said.

Former Metrojet chief executive Chris Buchholz, who now heads Universal Weather & Aviation's operations in Asia, agrees. "The market has recovered well after last year," he commented. "Although there is lots of capacity, we need more to stimulate market demand." He pointed out that charter customers become discouraged if there are no aircraft to hire.

According to Buchholz, prices in Asia are typically higher than in other markets and have not dropped. The market comprises new aircraft, usually of a high standard. To earn their local AOCs players have all had to

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Brokers facing new regs decry inept confrères

by Matt Thurber

During a time when careful shoppers might be expected to make every effort to save money, the charter brokerage business has continued to grow, despite the fact that there is nothing stopping consumers from contacting charter providers directly and negotiating their best deal. Brokers clearly serve a purpose, but they are faced with possible new Department of Transportation (DOT) regulations, declining margins and fierce competition within their own ranks.

“Operators are held hostage by brokers,” said one charter operator. What is happening is that charter users call multiple brokers, all of whom source the same flight from multiple charter operators. The result is that prices get driven down. What charter users don’t know, he said, is that they could get the same price the broker pays by calling that operator—or presumably any other operator—directly. Brokers, he said, make about 5 percent on charters, but often they don’t reveal the amount they are paying for

the charter or whether or not they are paying the federal excise taxes (FET) required of charter flights. “We’re hoping there will be regulations on FET, [perhaps] requiring brokers to pay it,” he said.

“They fool the public into thinking they get a lower price,” he said. “It’s not a full-disclosure business.” Nevertheless, 80 percent of the company’s business is arranged by brokers, he acknowledged. “They’re bringing a lot of business. I think that will change as the economy gets better.”

Fed Regs in the Offing

Charter brokers are well aware that U.S. DOT regulations may be coming, and the DOT is reportedly developing rules that would regulate the broker industry. “Although everyone knows the DOT plans to publish a notice of proposed rulemaking,” said Wayne Rizzi, president and CEO of broker Air Royale International, “we don’t know at this point what that will entail.” Air Royale, headquartered in Los Angeles, is a member of the Air Charter Association of North America (Acana), which sets strict standards for brokers. “I’m all for some type of broker regulations, providing it will better serve the consumer but not become overly burdensome on charter broker companies,” he said.

“Most of us pros are tired of inept brokers,” Rizzi added, “those that slap up Web sites but have no office [and] are granted



In the interest of safe operations, professional brokers vet the charter providers they work with to confirm certification, aircraft and pilot airworthiness, insurance, company history and operational control.

free range without performing due safety diligence yet, frankly, know nothing about the business. Both 135 operators and brokers alike should live up to the highest standards possible.”

Organizations such as Acana are helping, Rizzi explained, “to bring notice to the consumer that there is a difference in the ethics and services a good, experienced broker brings to the table. Operators additionally are showing allegiance to the true professional broker and shying away from the inferior brokers.”

Professional brokers like Air Royale are responsible for vetting the charter providers they work with, including confirming certification, aircraft and pilot airworthiness, insurance, company history and operational control. Rizzi said that services such as CharterX/Wyvern and Argus are helpful for this research, “which means brokers must be willing to spend the money to collect current safety data on behalf of the consumer.

“The brokerage community should be acknowledged as a valuable part of the air charter community,” he said. “Both fellow

operators and consumers will then know the merits of what a regulated broker adheres to and which of us is approved to perform our valued service.”

Broker Dave Davis of Tour Jet, based in Chicago Park, Calif., specializes in moving large groups for the entertainment industry, including touring musical groups. Davis isn't a fan of the idea of regulating charter brokers but believes that industry associations like

isAcana are a better way to ensure that ethics and practices are held to high standards. “We've already got some pretty good regulations on operators, and they do protect the passengers,” he said.

Brokers serve an important role because charter users don't understand how to charter an aircraft, how to choose an appropriate destination airport and how to protect themselves with insurance in case of a

Asia business good

Continued from page 32

comply with the same standards as major airlines Cathay Pacific and Dragonair.

TAG Asia charges approximately \$5,000 per hour for a G400 or \$7,000 to \$8,000 for a Challenger 605. Howard concedes that the company has been “more flexible” with its pricing over the last few months. This depends on the location of its aircraft: for example a return trip to the home base of Hong Kong would cost less than a trip to Bangkok.

Walsh, Buchholz and Howard all claimed that Asia offers private charter service superior to that of most regions. “People here expect a certain level of service,” said Walsh. Both AsiaJet and TAG provide multilingual crew, for example. He added that locals prefer to own their jets and like to buy new, and that wealthy Chinese buyers have filled many of the vacated slots on OEM production lines.

However, staffing is a problem. “It is

difficult to find people qualified for Hong Kong requirements,” explained Howard. “Not many aircraft and facilities are approved by the Hong Kong Civil Aviation Department; for example there are only two Challenger 605 simulators we can use—in Montreal and Burgess Hill in the UK.” The Civil Aviation Department is deeply stretched with the proliferation of airlines and their requirements.

Another area of concern is the rise of an illegal gray market predominantly based on old aircraft (*see article on page 30*). “The space becomes cluttered and cowboys come,” said Howard. “It is important to educate clients. If a flight is \$200 per hour cheaper, is it worth the risk of going with that?”

“If there is an incident they may well hurt themselves, but they'd also hurt the whole market,” warned Buchholz. Walsh had exactly the same concern and cautions customers should be wary of operators proffering a “significant price difference.” □

catastrophe, according to Davis. “Flying is inherently one of the safest modes of travel,” he said, “but why not protect yourself if you're a high-net-worth client, in the event of anything happening? It's important to have that feeling of security.”

“I think the reason that [brokers] are not regulated is that the majority of brokers, the ethical ones, are members [of charter organizations],” said Nigel Harris, council member and past chairman of the Baltic Air Charter Association (BACA), which represents European brokers and charter providers. “[The authorities] are content that we police our organization, and if [any brokers are] unethical, we'll throw them out. We keep our house in order.”

Although BACA represents primarily European brokers and charter operators, companies from anywhere in the world can join, provided they meet the requirements. BACA has 160 members, and half of those are brokers, according to Harris. BACA members must agree to abide by a strict code of conduct and those that don't meet the standards will lose their membership.

BACA members work only with properly insured and certified holders of air operations certificates (charter certificate holders), according to Harris. Illegal charters are a concern the world over, and Harris believes

that brokers can help buyers find safe, legitimate charter operators. “The broker is in the best position to create a suitable marriage between the customer requirement and the [charter operator],” he said.

BACA also offers an escrow service to protect the customer's money should the charter operator go out of business before completing a paid-for trip. And of course the broker that arranged the trip can easily source another provider. So far, the escrow service hasn't been put to the test, he said, but customers do appreciate being able to protect their funds. “Some of these are big charters and there's a lot of money involved.”

Broker markups are about 7.5 percent for business jets, according to Harris, and 5 percent for larger charter aircraft. The services provided by brokers are more than just what anyone with a telephone and an Internet connection can provide. “By coming to

BACA they know [the provider] is properly licensed and insured. And we will match aircraft correctly. Non-professionals don't know how to match the aircraft to the job. Some are complex, such as pop tours or heads of government going to multiple countries.” Brokers also help keep charter prices down, he added. “We keep the price lower by virtue of making sure the suit fits. They're getting value for money by using a broker.” □



Nigel Harris
BACA