Aircraft Transitions: Unravelling the complexity

Enda Clarke
Chief Technical Officer

10/9/2013
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Transitioning aircraft between leases can be complex and sometimes an emotive exercise for all parties involved. In this article Enda Clarke – Chief Technical Officer at Santos Dumont walks us through some of the key considerations in order to prepare to project manage an aircraft redelivery as smoothly as possible, on time and on budget.

Redeliveries

With the growing number of world’s aircraft fleet now under operating lease, an effective aircraft transition process has never been so vital for aircraft owners. Achieving a smooth transition between the current and next lessee is the ultimate aim of every lessor however, owners also need to examine three additional critical aspects: protecting the technical integrity of the asset, maintaining customer relations, and achieving process flexibility.

Situated at the coalface of the aircraft leasing industry, aircraft lease transitions are often a complicated, resource sapping and sometimes an emotive exercise. Lessor marketing and commercial personnel are often guilty of focussing on the achievement of key transaction economics such as rent while losing sight of the technical challenge that an aircraft transition brings. These technical challenges include aircraft specification issues, jurisdiction, operator capability, cost and timing. Execution of lease documents is sometimes the easy part however the aircraft transition process makes these transactions a reality and requires a huge level of technical knowledge, experience and capability.

Who’s involved?

Generally, three major stakeholders are involved in the aircraft transition process; the current lessee, the lessor, and the next lessee, all with interests generally aligned with the ultimate goal of the project – the efficient transition of the aircraft from the current lessee to the next. Examining in detail each stakeholder however reveals internal interests whose goals may not exactly align with that of their parent.

Taking the current lessee for example, the operations department may require that the transition aircraft remain in service to meet an unforeseen increase in demand or lack of aircraft availability. This may lead to the delay into end of lease check input and potentially loss of maintenance and paint slots. On the other hand, the maintenance department may require to temporarily ‘rob’ parts from the transition aircraft to expedite the return to service of another aircraft in the fleet. The return or replacement of these robbed parts may delay placing the aircraft in the redelivery condition required by the lease. Non-astute airlines make these decisions independently of rational consultation with other stakeholders in the organisation. Astute airlines weigh up the commercial and relationship ramifications of delaying an aircraft redelivery for operational gain.
Recognising complexities

Additionally, lessees are often guilty of underestimating the magnitude of the redelivery project and ultimately just want to return aircraft with the least amount of touch time. For some lessees redeliveries are sporadic in nature therefore do not form part of routine day to day technical airline operations. Resultantly airline technical departments do not have the resources or capability to adequately manage aircraft transitions. Lack of project planning, maintaining aircraft in service too long, lack of understanding of lease redelivery obligations and perception that redelivery is merely a “C” Check exacerbates the problems encountered.

Conflicting interests with the next lessee may include the lack of resource capability in the maintenance department to inspect and accept the aircraft, delaying onsite inspection. Conversely they may lack significant operating experience with the aircraft type or the delivery process. This can result in a “we need everything approach” and can significantly elongate the technical acceptance process, much to the frustration of the lessor. The next lessee sometimes fails to understand that the aircraft is still under the auspice of the current lessee until such time as it redelivers and delivers to them. Therefore they try to take the opportunity of the end-of-lease check to add to the workscope. This is an area which needs to be recognised and carefully managed by the lessor.

Critically the lessor needs to align the current lease redelivery conditions with the delivery conditions of next lease. Any gap between the two will have to be either facilitated by the current lessee or the lessor will have to accomplish itself. With respect to accepting aircraft from current lessee, it is crucial that the lessor protects the technical integrity of the asset whilst at the same managing both current and next lessee’s expectations. With respect to technical integrity, the lessor will rely on the redelivery conditions of the lease, ensuring that the aircraft complies with such conditions. It is often forgotten by lessees that the aircraft was delivered in a particular condition to them and return of the aircraft should be in a similar condition, a condition under which they themselves would accept the asset. Resultantly the lessor needs to manage the expectations of the current and next lessee. Inherent in completing this is ensuring that there is open communication between all parties such that all are aware of, clearly understand and, crucially, buys-in to the process.

Outside of the three main parties, lie minor but significant players which, without careful planning and communication, can have an inordinate effect on the success or failure of the project. The end of lease maintenance organisation plays a key role in order to keep to the schedule and apply sufficient resources but oftentimes is unaware that the aircraft is a transition aircraft and not just a regular “C Check”. The aviation authorities of both the current and next lessees are critical in order to, in the case of the former, issue the export certificate of airworthiness, and the latter, accept the aircraft onto the registry. Delay or miscommunication with either can lead to significant delays. Engine borescopic inspections, often the last item to be accomplished prior to the transition, can result in a delay of months to the transition.

Forward planning

Recognising that aircraft transitions are a resource sapping and complicated process is the first step for a lessor, and indeed lessee, to success. The next step is detailed project planning. Early in the process, up to one year in advance of the contractual redelivery date, the lessor should convene a
meeting with the lessee to understand the lessee’s competency for achieving an on-time delivery, outline the lessor’s expectations and open any discussions on exceptions to the redelivery condition and/or requirements the lessor may have at redelivery. A similar meeting should occur with the next lessee if known. A competent lessor will thereafter maintain regular communication with the lessee to receive progress update and maintain focus. Following these meetings the lessor should develop a detailed project plan outlining the process and key milestones and obtain buy-in from its transaction counterparties. This project plan will be further refined as the transition date nears. Due to the high number of variables and ‘known unknowns’ an additional and useful part of the planning process for the lessor is contingency planning and risk management.

Having formulated a concise plan for the project and communicated it clearly with the transaction counterparties, the lessor can concentrate on the fundamentals of transition management; ensuring technical integrity, maintaining customer relations and achieving process flexibility.

Understanding the Lease

From a technical integrity perspective, special attention should be granted to covenants relating to qualifying maintenance events and condition and certification of the airframe and various components at redelivery. In this instance a standard operating lease with stated lessor minimums will aid this process. Thereafter, experienced professionals are essential in order to correctly, rationally and objectively interpret these lease technical covenants and the operating standards, whether it is EU-ops or FAR 121, under which the asset is governed. Incorrect interpretation of either may result in unnecessary work or rework being carried out on the aircraft. At the same time omission or neglecting certain technical covenants may lead to great difficulty in selling or leasing-on the asset.

The option to retain flexibility is crucial to any process, but none more so to lessors during aircraft transitions where invariably decisions are made and calamities befall at the eleventh hour. In an ideal world, the next lessee has an agreed lease and arrived in well in advance of the delivery date to conduct a thorough inspection and ensure satisfaction. The reality of this highly competitive market however is that more often than not subsequent lessees only engaged very close to the scheduled delivery date and often require modifications to the aircraft for operational reasons. A lessor may not have any option but to incorporate the modifications prior to delivery. Provided the redelivery has been an amicable process with regular, open communication, an opportunity may exist to request the current lessee to incorporate these modifications. Alternatively, in the unfortunate event where the lessor has not yet struck a deal with a next lessee has at the time of redelivery, the current lessee may consider placing the aircraft in short term storage having achieved technical acceptance. It is this flexibility that significantly reduces risk and headaches for the lessor and can only be obtained through early engagement and open communication with the lessee.

Positive outcomes

While highly complicated and resource intensive, aircraft transitions are ultimately a process; a series of repeatable and measurable tasks. With detailed planning, open communication and experienced professionals driving the process, lessors can turn this historically complex process into an
opportunity for adding value and building relationships. Constant reinforcement of this practice and significant competitive advantage can ensue.

Santos Dumont manages redeliveries for a range of investor, lessor and operator clients.

For more information contact:

Santos Dumont
4th Floor, Grattan House
67-72 Lower Mount Street
Dublin 2, Ireland

Telephone: +353 1 808 0000
Email: info@santosdumont.com