

Private jets maintain altitude despite turbulent times



Romania's private jet (PJ) market was in full flight before 2009, but pundits say the business did not crash back to the ground during the financial crisis. The acquisition of private planes is not a luxury fad, but is often considered a long-term investment. *The Diplomat – Bucharest* talked to different PJ experts in order to find out more about bizjet purchase processes and ways to keep the sector alive.

By Alexandra Lopotaru

Although the difficult economic environment affected Romania's luxury and VIP travel segment, the market is steadily recovering and private jet demand is again growing, according to Patrick Artiel, Lufthansa's passenger sales general manager for Romania and the Republic of Moldova. The most popular destinations to and from Romania are countries such as Germany, Italy, Russia, France, Turkey, the United Arab Emirates and intra-North America. "The revival of the market gives us new opportunities to expand on this customer segmentation as well,"

Artiel tells *The Diplomat – Bucharest*. "In recent years, demand has tended to decrease in Romania. The travel policies of corporate [executives] who flew by private jet in the past have been revised, cutting such journeys to the minimum. For 2013, there are signs that the private jet market will be revived."

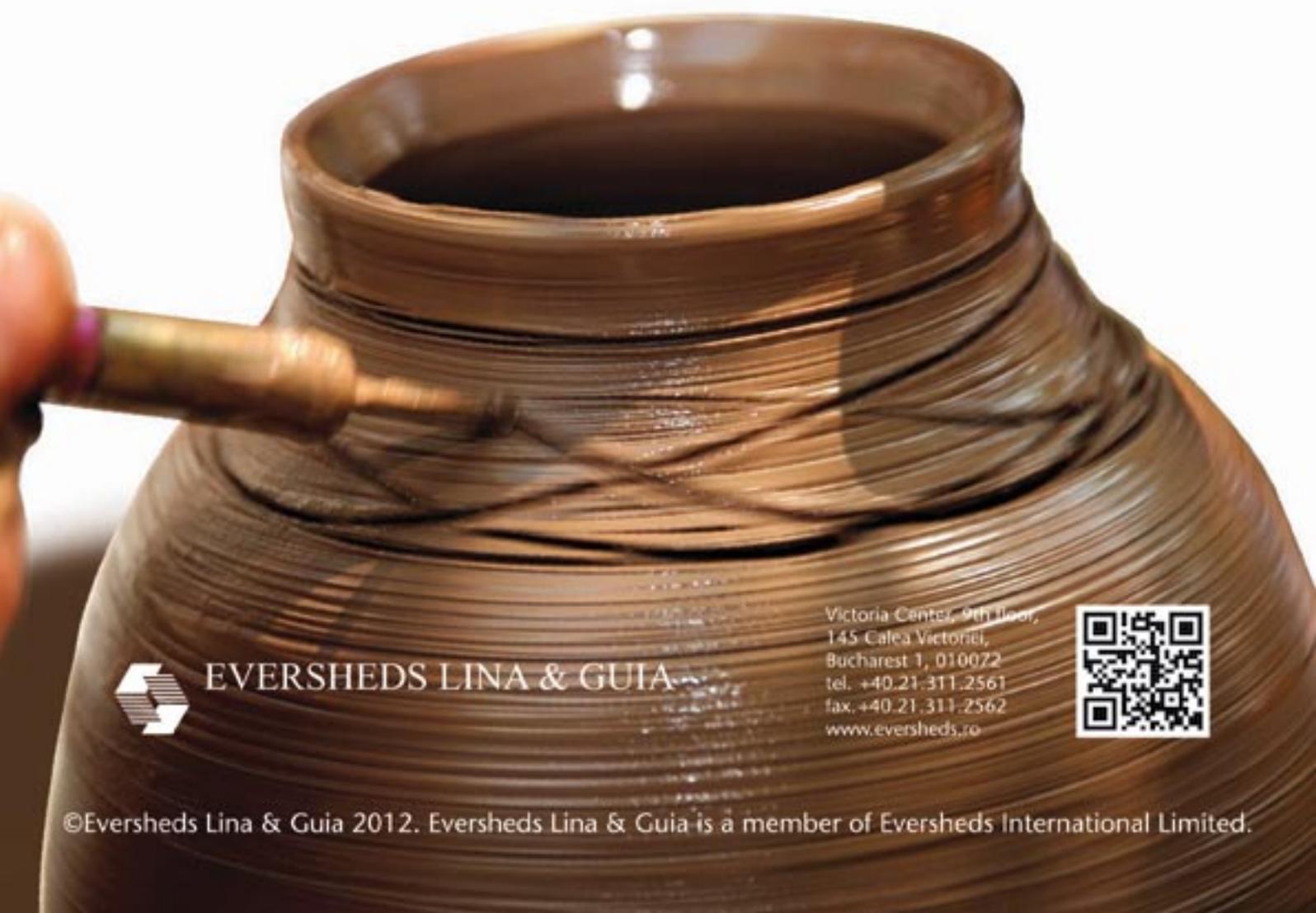
Flying high

Usually, business jets are divided into two major categories, namely propeller business jets (turboprops) and business jets, or just jets (turbofans). Both types of planes have several advantages and dis-

advantages, but jets are mainly the first option for clients, as they are more comfortable and faster. "The top altitude for a business jet is 55,000 feet [1 foot = 0.3048 meters] or 550 floors," Doru Matei, the founder and CEO of Aviation Consult Jetexpert, tells *The Diplomat – Bucharest*. "At this altitude, friction and fuel consumption are lower, and the speed is higher. To understand better, commercial airliners used in Europe fly at between 330 and 370 floors, while transatlantic flights reach 390-400 floors."

Bizjets vary in size but their passenger load is limited to 12-14 people. No

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more than 20 private jets are based or registered in Romania, owned by either Romanians or foreigners. Most of them are medium-sized planes. “Small private jets no longer exist in Romania,” says Matei. “Those who had such airplanes have gone bankrupt. Now, most such aircraft are medium and only two of the existing planes are large. We have the Bombardier Challenger 604, a large private jet, and the super-large Bombardier Global 5000, owned by Ion Tiriac, the largest airplane in Romania owned by a Romanian.”

Making money out of planes

Private jets are rarely purchased for personal use, but often become an important asset in developing a business. Since 2008, jet expert Doru Matei has sold between 12 and 15 airplanes on the local market, and believes that the PJ business can be profitable if properly managed.

Similar views on how the business works are shared by Adrian Iordache, partner at law firm Eversheds Lina & Guia, specialized in aviation, corporate and commercial and renewable energy, but from the perspective of aircraft owners. Iordache has assisted buyers with the purchase of private jets directly from American and Canadian manufac-

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ADRIAN IORDACHE, EVERSHEDES LINA & GUIA

turers, as well as from European private companies, in the midst of the economic crisis. He has advised clients on several private aircraft acquisition transactions and related matters in Romania in the past year and a half alone.

“The private jet is ultimately an income-producing asset,” Iordache tells *The Diplomat – Bucharest*. “It is typically acquired through a financing structure that involves either a mortgage or leasing (or both). Unless the buyer is an airline, the owner would then hand it onto a flight operator under an operating leasing arrangement, from which the owner derives the income, either a fixed regular sum or, more commonly, through some form of profit share arrangement. If you or your company needs access to the jet, you can make arrangements with your operator for a number of flight hours per month, for instance, or some other corporate jet package. The result is that you’ll be able to use the jet of your choice and, with a good operator and good financier, you’ll make an income that covers your bank repayments and brings in a profit. Financial institutions might also have an interest in being part of this market in order to consolidate their asset base,” says Iordache.

Buying an aircraft

There are two types of customers and PJ users: those who take charter flights once in a while and those who have their own aircraft or want to buy one. “In general, for needs of up to 200-250 hours per year, we advise customers to rent a plane, not to buy one,” says Matei. “If you require more than 300 hours per year, meaning at least one flight/week in Central Europe (five or six hours/week), we advise clients to purchase their own plane. This is a real

option for businesses that act as regional headquarters, for instance.”

There are as many acquisition structures as there are lawyers and accountants in private aviation. Depending on the owner’s priorities, private jets can be purchased either to diversify income streams, for tax optimization purposes or simply to gain access to the first-rate travel that a company aspires to.

“Aircraft deals typically involve unique cross-border complexities,” says Iordache, who is licensed to practice in both New York State and Bucharest. “However, in terms of the acquisition structure and risk management, there is no intrinsic difference between a major airline that buys a fleet of transatlantic jets, and a mid-size business or high-net-worth individual who buys a private jet.”

Of course, there will be a significant price difference, adds Iordache. “Whereas a private jet might cost EUR 15-20 million, depending on the specifications, a commercial airliner can cost in excess of EUR 80-100 million,” he says.

The conventional structure of the entire acquisition process involves a financier (either a financial leasing company or a bank or both), the borrower or lessee (who is ultimately the princi-



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DORU MATEI, AVIATION CONSULT JETEXPERT

pal interest holder) and a licensed flight operator.

For proper risk management, a buyer or seller will require solid professional support from specialized lawyers, tax advisors and, moreover, a professional broker, who not only markets the aircraft, but provides important technical assistance in what is a very niche and specialized commercial environment. For more complex deals involving commercial airliners, an insurance consultant should also be retained to advise on the adequacy of the insurance policies.

“Having identified the type and brand of the aircraft, we decide the budget. Then, I begin to search for the perfect plane on the PJ market, if I don’t already have it exclusively,” says Matei. “Airplanes are usually used or pre-owned, and when they are bought, customers look first at range [the distance an aircraft can fly between takeoff and landing] and the number of seats. Sometimes, they are interested in how many flight hours the jet has, in what year was it made or how many cycles (a takeoff and a landing) it has been through.”

The PJ acquisition process can seem complex, but is also guided by long-standing business customs and practices. Initially, the buyer pays about 10-15 percent of the price upfront, a refundable sum, which will be deposited in a special escrow account. Afterwards, both a visual inspection and a flight test are carried out. The most important step is a very thorough pre-buy inspection, done by a licensed repair and maintenance shop, usually at the buyer’s expense. During this pre-purchase inspection, the main objective is to detect airworthiness discrepancies. “If they exist, regardless of whether the business jet is bought or not, the aircraft owner must resolve them before being allowed to fly again,” says Matei.

The first payment becomes non-refundable when the purchase contract is signed and a second installment becomes payable. The closing phase is mediated by a specialized escrow agent. “The agent checks the compliance of all documentation sent in by the seller against the terms

of the purchase agreement,” says Matei. “While the seller presents the plane and its documentation, the buyer presents only two things: the balance of the purchase price and the aircraft insurance. It is standard that sellers be included as additionally insured persons on the buyer’s insurance for at least two years following the sale.”

“An aircraft is an inherently international asset,” says Lordache. While, under the Chicago Convention, an aircraft is technically domiciled in the country of its registration, by its very nature, the issue can raise complex legal and tax questions upon sale. Depending on the identity of the parties, place and terms of delivery, tax registration status and location of creditors, it is not uncommon for an aircraft deal to involve legal and tax due diligence and advice from several jurisdictions at once.

However, typically, for a second-hand aircraft, the acquisition process does not exceed two months. The time pressure has to do with the fact that every day an aircraft does not fly, it is a day that income is lost. “A plane is a valuable investment,” says Lordache. “That’s why it needs to be ‘put to work’ and cannot be kept on the ground for too long in a transaction. We, as lawyers, are mindful of this business constraint, and we work closely with our colleagues from the Eversheds offices around the world to provide the assistance in real time.”

PJ types and rental costs

Bizjet rental costs vary according to both the type of aircraft and the operators, but Doru Matei outlined to *The Diplomat – Bucharest* the typical rental prices:

- Very Light Jets (VLJ) such as the Cessna Citation Mustang and Embraer Phenom 100 (with four seats) – EUR 1,800 to 2,200/hour.
- Light Jets such as the Bombardier Aerospace Learjet 40, Learjet 45 and Cessna Citation CJ1, Citation CJ2 – EUR 2,500/hour.
- Mid-size Jets such as the Cessna Citation XLS + – EUR 2,700 to 3,500/hour (Romania has four mid-size jets).



- Mid-size to Super-mid-size Jets such as the Hawker 750/900 – EUR 3,500-4,000/hour.
- Super-mid-size Jets such as the Bombardier Challenger 300 – EUR 4,000-4,500/hour. (Romania has two super-mid-size jets)
- Large-Cabin Jets such as the Bombardier Challenger 604 – EUR 5,500/hour (Romania has one large-cabin jet).
- Super-large Jets such as the Bombardier Global 5000 – EUR 6,500/hour (Romania has one super-large jet).

German airline Lufthansa offers a wide range of options with four plane sizes to suit requirements: small-size for short flights within Europe or North America (aircraft accommodate up to seven passengers); mid-size, suitable for almost any destination in Europe and more than 3,000 destinations within North America (up to eight passengers); large-size for direct flights between different countries; and long-range for reaching business destinations around the world (up to 14 passengers).

“Through its relationship with NetJets, Lufthansa Private Jet provides access to the world’s largest and most diverse private jet fleet. The aircraft in the NetJets fleet vary in size and range to suit individual requirements, and include the light cabin Hawker 400XP, midsize cabin Cessna Citation X, and large cabin Gulfstream G450/G400/GIV-SP as well as the Gulfstream G550/GV which accommodates up to 14 passengers,” says Artiel. “Lufthansa introduced its premium Lufthansa Private Jet service to the North American market last year and it has already proved to be a success. We are confident that in the near future, Romania will also be on the map of success.” ■