

ExpressJet Europe lets fly with new aviation model

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THE OLD MAXIM goes that the fastest way to become a millionaire is to start as a billionaire and then buy an airline. But the former chief operating officer of now defunct JetMagic, Jochen Schnadt, is confident that his latest venture, a new concept to the European airline industry, has a decent chance of success.

Schnadt, a native of Austria, has teamed up with a number of other executives who were involved in JetMagic to establish a so-called capacity purchase agreement (CPA) carrier in partnership with US-based ExpressJet.

The theory is straightforward. Major airlines buy seats in bulk from ExpressJet and the latter effectively operates as a regional airline, allowing the client carriers to focus on generating growth from other areas and to shift the risk of running a smaller airline to a third party.

In the US, ExpressJet generates almost all its revenue from some 270 aircraft by providing services to Continental Airlines, and in the year to the end of December 2005 reported net income of \$98m. ExpressJet is in dire need of diversification to reduce its dependence on one customer, and it is hoping that Europe will provide a route.

Schnadt and his team have spent the past year drumming up interest in Cork-based ExpressJet Europe, and he hopes to ink a deal by the end of the year or early 2007.

He said he is in various stages of discussion with 10 European carriers, which he declines to name, but that getting them to sign up is a tough final hurdle.

"There are two arguments to this proposal," explained Schnadt, who is managing director of ExpressJet Europe. "One is the commercial one and the other is political. We've won the commercial argument every single time when we've been promoting this. It's very straightforward.

"Politically, we need to find ways of creating labour relations and getting everyone to look at this proposal, and be satisfied that it's a benefit and a positive for everyone involved.

"I think that the political side to this is the main reason why we haven't signed a contract already. That said, I believe that, once this model takes a foothold in Europe, there will be a snowball effect."

From some perspectives, the model could, indeed, be attractive to major European airlines. As Schnadt points out, the cost and operational burden will lie with the CPA provider rather than its client, removing a potential sinkhole for cash. On paper at least, that would allow airline management to develop more lucrative parts of the business.

Schnadt foresees that if some regional carriers were subsumed into ExpressJet Europe, those entities would have stronger foundations from which to grow.

Many European carriers already own regional carriers and it can be a difficult enterprise, especially as Ryanair has come to have a dominant impact on the industry.

But profits can still be made. Dublin-based CityJet, owned by Air France/KLM, had revenues of e153m in 2003 and an operating profit of e6.5m.

"Most of the regional players in Europe have been bought by mainline carriers and probably for the wrong reasons," Schnadt claimed.

"What has happened since is that their cost base has gone up significantly because, all of a sudden, the regional carrier's employees became Lufthansa's or British Airways' employees.

"You can't have a low-cost operation with these models. The economics just aren't right with small aircraft, " said Schnadt. "What regionals are very good at, if allowed to operate independently, is being able to use assets very efficiently and at very low cost - with the CPA model you have a very lean cost structure and can also have the commercial strength that mainline carriers have, such as frequent fliers schemes and alliances."

ExpressJet has a 49% stake in the European venture and has stumped up \$700,000 so far to get the promotional campaign going. Schnadt said that an investment of "millions" of euro will be forthcoming from ExpressJet if contracts are signed.

The US parent already has a number of aircraft, Brazillian-made Embraers, that it could immediately make available to a European operation. A number of US and European finance institutions have also been approached, including Raymond James & Associates, which has a track record working with airlines.

"The first task is to gain credibility, " said Schnadt. "All the guys working for us (including JetMagic's former chief executive, Barry Perrot, who used to head up Flybe, and Terry Liddiard, a founder of Manx Airlines and British Regional), have very accomplished careers in the industry.

"People look at the venture from the outset and, if it looks credible, then they might think it might have a chance. If they think that, then it actually might."

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