

Canada Consortia Model Peaks Interest; Manager Says Cost Savings Anticipated

A lot is riding on FSM's making a success of this venture, because it could become a model for consortia operations in other countries.

The new manager of eight fuel consortia locations in Canada took over March 1, and carriers around the world are looking to the new model to assess its applicability in the other markets. The newly appointed manager, **FSM Management Group**, a division of Vancouver-based **PLH Aviation**, is now handling various duties previously performed by airlines that make up the executive committee at each consortium.

In addition to taking a significant weight off the shoulders of consortia chairs and fuel committees, FSM is expected to find significant cost savings that will

offset some of the fees incurred by airlines for FSM's services. That, coupled with the fact that many airlines no longer have the wherewithall or the will to handle the complex consortia operations, is making airlines sit up and take notice. A lot is riding on FSM's making a success of this venture, because it could become a model for consortia operations in other countries.

James Fee of **Air Canada**, who previously was sole officer and director of the eight Canadian consortia involved, is breathing a sigh of relief that the burden has been

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Airports Take On More Responsibility For Fueling And Ground Handling

In a federal court decision earlier this month, **Naples Airport Authority** (NAA) has retained the right to remain as sole supplier of aviation fuel at Naples Airport. The NAA successfully disputed a challenge from **Jet 1 Center**, which argued the authority didn't have a right to monopolize aviation fuel sales on airport property.

The ruling reinforces the Naples Airport Authority's position as sole provider of jet fuel, a right it has held for more than three decades. The airport is in a unique position of being able to provide a full range of services to airlines, including fueling and ground handling.

"The ability to have the fuel concession and to generate revenues

allows us to do everything and anything we need to do to maintain our airport in a very upscale and positive manner," says **Theodore Soliday**, executive director.

That's not to say that the fueling is used to gouge airlines. In fact, Soliday says the airport's fuel charges routinely come in within the lowest quartile when compared with costs at other airports. And the fueling business, along with terminal concessions and related revenue generators, allows the airport to offer deals almost unheard of in the industry.

Soliday says the airport handles all the ramp operations for its

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“The people now who are coming to the meetings often really don’t have a clue about what’s going on.”

lifted. He says that while airline costs might increase slightly, the new model will benefit airlines in the long run.

“This has been a bit of a change in thinking,” he says. “It’s taken a while to convince airlines that there is real value in doing this. But I think a lot of them are realizing that there is, especially in the US where you see so many of the key people leaving, those that know the business and know the operations. The people now who are coming to the meetings often really don’t have a clue about what’s going on.

“I’m still a strong believer in the consortia model,” he continues. “It can serve the airlines really well. But it’s more sophisticated now and you have to be prepared to provide the resources to properly manage it.”

Consortia Problems

One reason that several fuel executives are eyeing the Canada solution closely is that things aren’t working as well as they used to. Much of it has to do with the lack of manpower at major airlines. With airlines cutting costs wherever they can, fuel departments have been trimmed and then trimmed some more. The result is executives taxed beyond their limits.

“I see a real problem regarding the inner workings of the consortiums,” one US fuel executive notes. “I think it might move toward a situation like in Canada, where Air Canada said lets get the heck out of managing these consortiums. I could see that happening in the States. It could be more beneficial to have a third-party operating one of these things that can take an arms-length view of the system.”

One executive at a European carrier agreed, noting that many times he sends a proxy rather than attending the myriad meetings required. “It doesn’t make sense to try to go to all these meetings,” he says. “Most of the time you don’t get most of the people to attend, instead they send proxies. You can’t justify the time and many times these days they erupt into shouting matches and little gets accomplished.”

Edward Pinion of Hawaiian Airlines is a strong proponent of fuel consortia, but he admits that hiring a management company could be a good move. “You have to have professional people with technical expertise running these things,” he says, “but it might work that we just oversee what they are doing.”

Pinion notes that cost could be an issue. “It’s not going to be free but it might be more efficient. We could meet once or twice a year just to oversee and direct, instead of everybody be-bopping to all these meetings.”

Fee agrees, noting that “you can’t justify spending a day and a half to attend a two or three hour meeting, and most of the decisions are made by the executive committee anyway.”

Under the contract, FSM is mandated to find \$1.9 million a year in efficiencies, Fee says. “That’s quite a challenge for FSM, and there is a penalty if they don’t meet their goals,” he says. “If they achieve that \$1.9 million it will be almost a wash. It is costing a little bit more money, but spread across the whole country we see it as good value.”

Creating Efficiencies

With some airline fuel executives at least open to considering management options, FSM is cognizant that much is riding on their performance over the next several months. “We’ve certainly had interest expressed by the European, the Asians and the American carriers,” notes **Lloyd Peddle**, president and CEO of FSM Management. “I’m sure a lot of these folks are looking at this and wondering how it’s going to go. I think a year or two out we will have proven to them that it is a do-able project.”

Peddle notes that “It’s about a C\$60 million (US\$49.8 million) million business to operate these fuel systems annually. It’s a fair chunk of change.” But within that his company sees myriad ways to cut costs and increase efficiencies.

Noting that FSM is essentially performing the role formerly undertaken by the consortia chair,

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Peddle says the management company has a much wider support network. “The advantage that we have is that we have a staff of technical folks on board, which the chairman didn’t have,” he says. “He depended on the operators’ technical people to provide input and give guidance on engineering, environmental issues, fleet service, plant maintenance, that sort of thing. Now we have amalgamated all these folks...and we can shift the staff that we have, which couldn’t be done because each operator employed their own.

“If we have an engineering problem anywhere in any of the eight consortia, then we can direct our whole force on it,” Peddle continues. “It’s the same with environmental and the same with the fleet management of some 300 pieces of fueling equipment. There is an enormous advantage and scale of economies.”

The three main operators in Canada, in order to keep costs down, had to limit their on-staff engineers and environmentalists. That meant projects were often delayed or outside consulting firms brought in, Peddle notes. FSM will have such specialists located in Vancouver, Calgary and Quebec to respond to needs at any of the eight consortia locations. Still, consultants may be needed on some projects, and FSM plans to tender a contract for a consultant on a national basis to provide service across the system.

FSM also expects considerable cost savings through a strategic purchasing plan. “Before, the individual operators didn’t have the critical mass to negotiate contracts with the various suppliers of aviation equipment,” Peddle says, adding that the firm expects volume discounts on purchases. Another money-saving measure will be limiting the duplication of spare parts at individual airports, he says.

Longer term, the eight consortia plan to move toward a standard specification for the roughly 300 pieces of fueling equipment used at the eight Canadian locations. “We’ll come up with a common specification for hydrant carts, for tanker trucks and standardize the fleet over time,” he says. “Also, the number of pieces of

equipment that each airport has been allotted quite possibly has a lot of redundancy built into it.”

FSM’s management role will also eliminate the need for individual operators to provide 5-10 year capital plans, which Peddle says often languished for lack of availability of technical people to assess the pros and cons, or airline managers to review.

And for major projects, FSM will provide project management services. Three projects are currently underway – at Vancouver, Toronto and Montreal – and Peddle says airlines will benefit from FSM’s strict adherence to budgets.

Finally, FSM will take on accounting functions. “The fuel facilities corporations that own each of the eight fuel facilities have previously been contracting out their accounting,” Peddle says. “And more than accounting. There has been consultation with the various chairmen, providing them with hard copy facts and comparisons on all the bits and pieces you need to make a fuel system work. FSM has taken this over from the various accounting firms. It’s going to provide the airlines with some considerable savings.”

Less than a month into the contract, Peddle says the transition was smooth and it is full speed ahead. “Our commitment to the carriers...was that on the cutover date (March 1) our forces would be able to hit the ground and run, and not have to go through a learning curve,” he says. “We’ve done that. All these projects are in gear and running.” And airlines are watching closely to see if this management structure could be a model for other fuel consortia. **JFR**

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one scheduled carrier, Delta Connection, free of charge. "That's something relatively new to bring the airlines back in," he says, noting that the airport had lost scheduled service after 9/11.

In addition to that perk, the airport also offers no landing fees and no terminal rents for a two-year period. "Because we have revenue generation capability we can charge zero rent, zero landing fees and handle the aircraft on the ramp at no cost to them."

Few airports in the US have thus far delved into the fueling business. One exception is **Quad City International** in Moline, Illinois, which has handled all fueling at the airport for roughly two years. And some airports, such as **Tucson International Airport**, provide fueling through a third party company. But for the most part airports have left fuel facilities management and into-plane operations squarely in the hands of airlines and their third-party operators.

That could change in the future; however, as airlines look to outsource more of their non-core activities and airports look to take more control over activities taking place on their property. While not a full-fledged trend, certain airports around the country are dipping their toes into the operations waters by providing certain services previously handled solely by airlines or their third-party contractors.

"Airports have discovered that control of airport operations can be a significant factor in luring new carriers, particularly low cost carriers to their airports," says John Armbrust, president, **Armbrust Aviation Group**. "Airlines are under enormous pressure to lower costs and airports that can offer airlines a turn key alternative for operations have an advantage over the traditional model."

Take the **Jacksonville Airport Authority (JAA)**, for example, which has contracted with **Fraport Ground Services USA** to provide ground handling services for new or existing carriers to the market. Fraport's service options run the gamut from baggage handling to ticket counter services to cargo handling.

"The approach is for the JAA to take a pro-active role in being able to lower the cost for airlines coming

into our community," says **Rosa Beckett**, vice president of strategic planning and consultative services for **JAA's Enterprise Division**, which focuses on non-traditional business models. "The cooperative agreement (between JAA and Fraport) means that if an airline -- either existing in Jacksonville or coming into Jacksonville -- wants to outsource their ground handling they would enter into a contract with JAA. We use Fraport like a subcontractor to deliver that service."

JAA leases all the ground handling equipment and provides the space, while Fraport provides the expertise and the actual service. The model was given a trial run during this year's Super Bowl, when Fraport handled several charter flights at the airport. But now the focus is on signing up scheduled carriers.

"We have gone out jointly with Fraport and collaborated in presenting to airlines, explaining to them that this option is available and how we're working together to actually reduce the costs and the risks for airlines coming into the market," says Beckett.

Bernard Jungbluth, president and CEO of Fraport Ground Handling USA, says the model presents a cost-savings opportunity for airlines, particularly those with limited service. "Here at Jacksonville we have all major airlines working," he says. "But some have just a few flights here and they need the full operation -- they need service below and above the wings. They have a lot of equipment here, which they wouldn't need under our model. We are able to cross-utilize both our employees and the ground handling equipment, which could be a benefit, especially from an economic standpoint."

The JAA hopes to generate some revenue from these operations, but Beckett says the model will likely end up saving carriers money as well. "We understand some of the financial challenges airlines are faced with, and if we are able to get this model up and running we would be able to let the airlines enjoy some economies of scale. If they're doing it independently and they only have five flights a day, they have to have their staffs there the whole day. Centralized ground

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"It's a new model for US airports, but the model we have here (in Jacksonville) is common within the European Community, especially in Frankfurt."



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handling operations allow us to cross-utilize those personnel."

Fraport's Jungbluth says the company will be making a major push with other airports to partner and provide such services. The company has a proven track record at Germany's Frankfurt International, and Jungbluth believes US airports are moving toward providing such services. "It's a new model for US airports, but the model we have here is common within the European Community, especially in Frankfurt," he says. "So we're doing nothing new." But he says airports are beginning to look for non-traditional revenue sources, and ground handling fits the bill. "Jacksonville is for Fraport the showcase of how business could work in an organization like this," Jungbluth says.

For JAA, the move is a first step outside the traditional role of an airport authority. "The whole strategy of the airport authority is to try to expand our services beyond just an airport operator and a landlord and be progressive," says Beckett. "We're pretty positive that if we market it correctly and we have a service provider with a proven record that we can actually sell the airlines and get it up and running shortly."

Going It Alone

Jacksonville has Fraport to handle the nuts and bolts of providing the actual service, but other airports are actually getting involved in the business themselves. Much like Quad Cities did with its fueling, **Mobile Regional Airport** took the reins on providing ground handling services in order to retain air service that otherwise would probably have ended.

Bay Haas, executive director of the **Mobile Airport Authority** said that in order to retain crucial **US Airways** service, the airport proposed a plan to take over all ground handling and counter service functions for US Airways, then billing them on a per-tum basis. That plan was put into operation in 2002. US Airways had previously utilized **United Express** staff for those functions before the latter pulled out of the market shortly after 9/11. Reluctant to incur the costs of staffing up a station themselves, US Airways agreed to the innovative

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solution.

"US Airways has no employees in Mobile, Alabama," notes Haas. "We run the entire station for them. We have the ticket counter people, the baggage people, ground handling...." Haas say the carrier contracts with a local fixed-base operator for fueling services.

At press time, Mobile was on the verge of announcing a new airline to the market, which will utilize the airport authority's services, and Haas says the option is a key selling point with the airlines.

"First, you've got to be able to put enough people in the seats at a fare where the airline can make money," he says. But after that hurdle, Haas maintains that minimizing the normal start-up costs airlines incur when opening up a new station means they're much more likely to consider service. "If they're looking at coming into a market that they don't currently serve, it means they have to buy equipment, they have to hire people or transfer people. That's a pretty substantial barrier that they have to climb over to initiate service into a new market."

"Under our system, all they've got to do is fly the planes in," Haas continues. "(The ground workers) are our employees, we already own the equipment, we're ready to go. Airlines don't have a big fixed cost. It also means that should the service not work, they're not stuck with employees they have to transfer...and they don't have all this equipment that they've got to figure out what to do with."


Haas says Mobile had only minimal startup costs because it was able to purchase some of United Express's old equipment when the carrier left. And the airport isn't making any money on the service. "We're just passing on the costs," he says. "That means that the more airlines I can get under that system, the less it costs all of them."


Mobile's model recently came to the attention of airport officials at **Roanoke Regional Airport**, which is considering creating "airline stations" offering services similar to Mobile. A spokesperson for the airport said the model is under consideration as a way to lure new carriers to the market.

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World Jet Fuel Prices

Spot Cargoes												Trend 		
Rotterdam			Mediterranean			Middle East			New York			US Gulf Coast		
3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4
545.0	529.8	511.7	538.6	520.9	498.3	64.56	62.77	60.50	159.6	154.5	148.6	157.4	152.0	145.6
Chicago			Los Angeles			Pacific NW			CIF Japan			Singapore		
3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4
156.8	152.3	147.9	171.1	166.6	163.9	171.9	167.9	168.8	68.41	66.33	63.17	66.27	64.17	61.40

Futures/Differentials												Trend 		
IPE Gasoil*			NY Heating Oil			WTI Crude			Brent Crude			Rott Jet/IPE Gasoil		
3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4
497.7	495.5	491.2	162.1	156.0	155.1	56.40	54.43	53.05	55.06	53.05	51.85	48.0	34.3	20.5
NY Jet/Heating Oil			Gulf Jet/NY 2 Oil			Gulf/Los Angeles Jet								
3/18	3/11	3/4	3/18	3/11	3/4	3/18	3/11	3/4						
5.00	3.22	2.82	2.63	0.93	1.01	-13.68	-14.53	-18.40						

Key: U.S. weekly averages cents per gallon, WTI Crude, Asian jet in \$/barrel, Europe, Medd \$/Ton

Sources: Opus Jetfax, JFR

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And the AEA argues that the airlines' role in increasing tourism to developing nations is far more effective in promoting prosperity than a tax on jet fuel -- which would dampen demand due to higher prices -- would be.

Support for the tax is so far weak outside the European Union. Laszlo Kovacs, the European Commission's tax policy chief said in a news conference that a jet fuel tax would need to be broad based in order to reach the desired goal. "The question

is whether we can come to an agreement with other countries like the United States, Canada and Japan... because if we introduce a tax only on the European scale it can result in a deterioration of the competitiveness for the EU countries' airlines." The US government has spoken out against such a tax.

ASIG Appoints Operations Executive For N. America

Orlando... ASIG has appointed **Michael J. Snyder** as senior vice president, operations for North

America. He will direct the company's regional vice presidents in meeting the company's safety, service, financial and growth objectives. The company said Snyder will "play an integral role in ASIG's commitment to continuous quality improvement by implementing additional service delivery metrics and team building strategies." Snyder has worked for Airnet Systems, Federal Express, Polar Air Cargo and other aviation and transportation-related firms. **JFR**

