

TYPES OF AIRCRAFT LEASE

Aircraft Lease Definition

As provided by GlobalPlaneSearch.com (GPS), this definition is a helpful guide to different types of aircraft leasing options.

ACMI - Aircraft, Crew, Maintenance & Insurance

The LESSOR provides the aircraft, one or more complete crews (flight deck, cabin attendants and engineers) including their salaries but usually not their daily allowances, all maintenance for the aircraft and insurance, which usually includes hull and third party liability. The LESSOR will charge for the block hour (choc off to choc on) and depending on the aircraft type, sets a minimum guaranteed block hours limit per month. If the airplane flies or not, the LESSEE must pay the amount for the minimum guaranteed block hours. The period can go from one month to usually one to two years. Everything less than one month can be considered as ad-hoc charter.

The LESSEE has to provide all fuel, landing/handling/parking/storage fees, crew HOTAC including meals and transportation as well as visa fees, import duties where applicable, as well as local taxes. Furthermore, the LESSEE has to provide passenger/luggage and cargo insurance and in some cases need to cover the costs for War Risk.

The LESSEE has also to pay the over flight/navigation charges. *This point can be a bit complicated.* When flights are operating they use a flight number, which is issued to airlines by the ICAO. In order to cover the costs of air traffic control services, states over flown will send a bill to the owner of the flight number, which can be readily identified by its code. The aircraft owner will probably have a code, but will not want to use it because he will end up paying the bills. Therefore, an ACMI lease requires that the LESSEE provide his own flight number, so that the bills can be directed to him. Thus, an ACMI lease can usually only take place between two ICAO member states airlines unless other arrangements have been made between LESSOR and LESSEE.

Wet Lease

Over the years aircraft leasing has gone through many changes and so today the terminology may not always reflect the service provided. In the UK for instance, Wet lease use to mean, quite logically, 'including fuel'. To our knowledge, generally only a charter service will include fuel in the price. Today, ACMI, Damp and Wet Lease are interchangeable and a rate quoted will usually not include cabin crew (except for the legal requirement of a supervising purser), see Damp lease below.

Damp Lease

Is similar as ACMI and Wet leasing, however the term usually meant 'without cabin crew' (in some countries it was referred to as Wet Lease 'without fuel'). Under Damp lease, the LESSEE will provide the cabin crew. This can only be done if the cabin crew receives SEP (Safety and Emergency Procedures) training by the LESSOR, in order to be acquainted with the differences of the aeroplane. Nevertheless, the Lessor will provide a supervising cabin purser. This term is not often referred too these days, the term ACMI now covers this.

Dry Lease

Is the lease of the basic aircraft without insurances, crew, maintenance etc. Usually dry lease is utilized by leasing companies and banks. A dry lease requires the LESSEE to put the aircraft on his own AOC and provide aircraft registration. A typical dry lease starts from two years onwards and bears certain conditions as far as depreciation, maintenance, insurances etc. are concerned. This depends on the geographical location, political circumstances etc.

There is generally two types of dry lease, an Operating Lease and a Finance Lease.

Operating Lease: generally a lease term that is short compared to the economic life of the aircraft being leased. An operating lease is commonly used to acquire aircraft for a term of 2-7 years. With an operating lease the aircraft doesn't appear on the LESSEE's balance sheet.

Finance Lease: also known as a capital lease, is defined when one of the following conditions are met:-

1. at the end of the lease term the LESSEE has the option to purchase the aircraft at an agreed price.
2. the lease payments are more than 90% of the market value of the aircraft.
3. the term of the lease is over 75% of the aircraft's usable life.

With a finance lease the aircraft appears on the LESSEE's balance sheet, as it is viewed as . a purchase