BUSINESS AVIATION GRAHAM WARWICK / WASHINGTON DC

Fractionals see birth of new giant

Merger of Flight Options and Raytheon Travel Air is set to reduce costs and offer stronger competition to rivals

Flight Options and Raytheon Travel Air are to combine, creating the second largest business aircraft fractional-ownership firm. Privately owned Flight Options will hold 50.1% of the new entity, and Raytheon 49.9%. The company, still to be called Flight Options, will operate 200 aircraft on behalf of around 1,600 share owners.

Joe Moeggenburg, president of Aviation Research Group/US, says the alliance will create a strong competitor to Executive Jet's industry-leading NetJets scheme, which operates a fleet of 270 aircraft. The combined company will move into second place ahead of Bombardier FlexJet, which operates 110 aircraft, he says.

Waiting in the wings to become a major player is United Airlines subsidiary Avolar, which plans to operate 205-210 aircraft by the end of 2006.

The merger will also allow financially troubled Raytheon Aircraft to focus on its core aircraft manufacturing and support business. Under the agreement, expected to be finalised by the end of the first quarter, Raytheon will supply 115 new business jets to the new entity in a transaction valued at around $900 million over five years.

Flight Options sells shares in used aircraft and, since its formation in 1998, has become the fastest growing fractional-ownership programme. Raytheon Travel Air, meanwhile, sells shares in new aircraft. The companies' fleets overlap, with both operating Beechjet 400A light jets and Hawker 800 mid-size jets as well as large-cabin Bombardier Challengers.

The new combined fleet will consist of 25 Raytheon King Air B200 turboprops; 95 light jets (including 81 Beechjets); 65 mid-size jets; and 15 large-cabin aircraft. Raytheon Travel Air has Premier I entry-level jets and super mid-size Hawker Horizons on order, while Flight Options has ordered 25 Fairchild Dornier Envoy 7 large-cabin aircraft.

Moeggenburg says the alliance also provides an opportunity to reduce costs by eliminating duplicated infrastructures.

Flight Options says a consolidated operations centre will be established at its Cleveland, Ohio, headquarters by the end of the first quarter.

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ALLIANCES DAVID FIELD / WASHINGTON DC

American and BA ties now depend on EC/UK

British Airways' plan to expand its link-up with American Airlines into a full alliance is in the hands of the European Commission (EC) and UK authorities after it emerged that the most serious objection from the USA was surmountable.

Competition authorities at the US Department of Justice's (DoJ) antitrust division urged the US Department of Transportation (DoT) to impose slot divestitures and other conditions on the proposal, recommending BA and American be forced to give up enough London Heathrow slots for at least 126 transatlantic flights a week.

The conditions are considerably less severe than the 336 slots the US wanted divested when it opposed the original plan in 1998. Given this, American and BA "should be tickled pink", according to Global Aviation Associates managing director Jon Ash. This clears the way for a decision to be made by the UK's Office of Fair Trading and the EC, he says.

The DoJ has in effect set the parameters for bargaining between the two carriers and the DoT, which is due to make a ruling this month.

AA and BA said the DoJ filing was "not unexpected from an agency that has traditionally taken the hardest line" in airline competition, calling it "an outer limit of potential remedies", which suggests the DoJ is willing to bargain. The DoJ objection is by no means final: in the past the DoT has rejected its recommendations in some high-profile cases.

The DoJ also urged that the alliance not get pricing immunity on flights between London Heathrow and Chicago O'Hare and Dallas/Fort Worth because "even with slots other airlines would be unlikely to enter" these markets.

The slots to be given up would allow other carriers to operate seven daily roundtrips between Heathrow and New York and two between Heathrow and Boston.

The antitrust unit did not oppose a grant of antitrust immunity to United Airlines and BMI British Midland because BMI would not change the US/London competitive situation, it said.

The final decision on United and bmi will be made in the same DoT ruling that applies to American and BA.

ROCKET ENGINES

NASA backs air-breather

A Rocketdyne-Aerojet-Pratt & Whitney venture dubbed the Rocket Based Combined Cycle Consortium has won an initial $16.6 million contract from NASA's Marshall Space Flight Center to start developing a new rocket engine that could power a Space Shuttle replacement. The Integrated System Test of an Air-breathing Rocket (ISTAR) may lead to a $123.4 million Phase 2, involving ground testing in 2006 of an engine that could power an X-43C hypersonic testbed before 2010. ISTAR would accelerate the 4.2m- (14ft-) wide, 9m-long NASA Langley Research Centre X-43C from the ground to Mach 6.

DEFENCE

Boeing and IAI seal Arrow deal

Israel Aircraft Industries (IAI) has agreed that the Israeli-developed Arrow anti-tactical ballistic missile can be built by Boeing in the USA, with a deal due to be signed in the next few weeks.

The firms have spent months negotiating co-production for the Arrow, which is in service with the Israeli armed forces. A US partner will allow the Israeli air force to buy additional Arrow batteries using foreign military sales funds provided by Washington, and permit manufacture at a price that will enable it to be exported.

The USA provided most of the funds for Arrow development, so Washington will have to approve any export deal. The Israeli ministry of defence confirmed the contract will be signed "within days".