

# Aviation & Finance

Thursday, January 25th, 2024 Editor Edel Morgan

A Special Report



Plotting the course to decarbonisation: can aviation reach its net-zero target?

## Growth trajectory resumes for Irish aviation leasing industry

Over half of the global aviation fleet is leased, and Irish-based companies account for 50 per cent of the market

Barry McCall

Around a quarter of the world's commercial aircraft are owned by companies based in Ireland. This is a powerful indicator of the scale and importance of Ireland's world leading aviation leasing industry.

"Irish aviation leasing remains a critical enabler of the global aviation industry and a highly valuable contributor to the Irish economy," says Elizabeth Bowen, director of Aircraft Leasing Ireland (ALI) the Ibec group representing the aircraft leasing sector. According to Bowen the industry is responsible for 8,543 full-time equivalent jobs, an economic contribution of \$975 million annually, and spending with Irish suppliers of \$327 million each year.

To put the scale of the Irish industry in context it is estimated that over half of the global aviation fleet is leased, and Irish-based companies account for 50 per cent of the market. That amounts to several thousand aircraft with a total value of anything up to a trillion dollars.

"The number of commercial aircraft in the world is not gigantic," says Dr Thomas Conlon, professor of finance at the UCD School of Business. "It's around 30,000. In terms of monetary value a new narrow-body aircraft will cost anywhere between \$60 million and \$110 million. We don't necessarily know what the different buyers pay because of the deals the bigger airlines and leasing companies get for ordering large numbers of aircraft."

### Temporary dip

There has been a slight dip in leasing's market share of late, but this is likely to be temporary.

"During the pandemic the operating leasing share of the global fleet was reported to have topped 60 per cent, but that share has reduced to circa 55 per cent," says Julie-Ann Sherry, aviation and international asset finance partner with Mason Hayes & Curran.

"The sustainability agenda, global macroeconomic factors and the geopolitical inflationary environment have eroded airline profitability despite their efforts to offset this by increasing yields," she says. "If these challenges persist, airlines' cash flows and balance sheets will weaken. It is anticipated that the operating leasing share of the global fleet will increase to pandemic levels of circa 60 per cent."

The Irish industry has



■ The Irish aviation leasing industry has emerged from the pandemic in a strong position. PHOTOGRAPH: ISTOCK

emerged from the pandemic in a strong position. "There have been many positives for leasing over the last 12 months, the primary one being the continued strong bounce back in customer demand," says Joe O'Mara, head of aviation finance with KPMG. "Global traffic is back above pre-Covid levels for the first time, driving a lot of demand for aircraft leasing groups."

Turbulence continues, however. "The key challenges have been the volatile interest rate environment and the supply chain challenges faced by the two aircraft manufacturers Airbus and Boeing," says O'Mara. "The scale of the pace of interest rate rises created difficulties in pricing transactions and raising capital. While the manufacturer issues have resulted in positive movements on aircraft values, which is generally positive for the lessors, it has had a

negative impact on the trading environment and negatively impacted on the growth potential for some leasing groups."

Leasing remains a very attractive option for the vast majority of airlines, as Conlon explains. "There are around 1,000 airlines in the world and only about 20 of them have an investment grade credit rating that allows them to borrow cheaply and gives them access to the capital markets on favourable terms," he says.

### Advantages to leasing

"For example, Ryanair doesn't need to lease aircraft because it has its own cash and is able to borrow cheaply if it needs to. Leasing might be the cheaper option for those without an investment grade credit rating. It can also be advantageous for them to do a sale and leaseback deal where they buy the aircraft and immediately sell it to a leasing company."

"The main attraction of leasing for airlines is that it enables the airline to operate aircraft without a huge capital investment," Sherry adds. "This re-

duces the initial outlay of the airline, but it also places the long-term ownership risk with the lessor."

There are other advantages, according to O'Mara. "Utilising the leasing channel provides airlines with significant flexibility

## 8,543

Irish aviation leasing is responsible for 8,543 full time equivalent jobs

ity in managing their fleet, can assist them in accessing newer technology aircraft, and can help them manage residual value risk.

"Running an airline is a very complicated business. You need to manage capacity in an environment where demand can fluctuate significantly, deal with significant labour challenges, and ensure you have an appropriate strategy for managing fuel costs, not to mention the ever-increasing regulatory framework they face. Given those issues it makes a lot of

sense to outsource the provision of your aircraft to specialists. This is why we have consistently seen the percentage of leased aircraft grow over time."

Looking to the future, Elizabeth Bowen sees the industry playing an increasingly important role in supporting the aviation sector in meeting its sustainability goals.

### Sustainable future

"In 2024 lessors will continue to support the wider industry to achieve net zero carbon emissions by 2050. As owners of almost half the global fleet of aircraft, the leasing community has the experience and global influence necessary to move the needle and drive aviation towards a sustainable future. The ALI Sustainability Charter demonstrates our community's leading position and commitment to supporting the wider aviation industry to achieve net zero carbon emissions by 2050."

O'Mara believes the industry outlook is positive. "Over the last number of months KPMG has interviewed the CEOs of

the major leasing groups, and the mood is cautiously optimistic. Demand continues to drive optimism, and while there are some concerns about a slowdown in the US and Europe there is an expectation that the recovery across Asia will continue strongly in 2024. The key headwinds are around the manufacturers, both regarding aircraft and engines, and their ability to deliver new aircraft to service that demand."

The fundamentals are certainly healthy and provide a sound foundation for continued growth. "Air travel levels are anticipated to exceed pre-pandemic level of 4.5 billion recorded in 2019," Sherry points out. "The International Air Transport Association (IATA) expects that some 4.7 billion people will travel in 2024, an historic high. The IATA also predicts that airline industry operating profits will reach \$49.3 billion in 2024 from \$40.7 billion in 2023 and total revenues in 2024 are expected to grow by 7.6 per cent year-over-year to a record \$964 billion."

## Green bonds rewarding sustainability in sector

SANDRA O'CONNELL

A record number of aircraft deliveries are expected over the next decade, with the worldwide commercial aviation fleet predicted to expand by a third.

With passenger and freight set for growth, plane makers are bullish. Airbus is forecasting demand for 40,850 new passenger and freighter aircraft deliveries over the next 20 years. Rival Boeing predicts the global fleet will nearly double to 48,600, expanding at a rate of 3.5 per cent a year. Given that each plane costs the guts of €100 million, funding this growth will be key.

"On the debt side, the larger investment grade lessors have an advantage as they can access the unsecured bond market, which is the deepest well of debt capital available," says Joe O'Mara, head of aviation finance at KPMG.

"The lessor bond market was relatively quiet in 2022 as lessors sensibly raised significant amounts of low-rate debt in the prior year. However, the large investment-grade lessors have all successfully tapped that market in 2023."

There are multiple other financing sources that lessors can access too, including the traditional aviation banks, which remain very active in the market, and an increasing trend of alternative lenders entering the space. "These are typically private equity-backed groups that are generally willing to provide many forms of debt, both secured and unsecured," he adds.

### Interestrates

The increase in interest rates caused some turbulence initially but the initial consternation is now in the rear-view mirror. "The pace and scale of the interest rate rises were challenging for the sector as it made it difficult to appropriately price transactions, both for new leases and for purchasing or selling aircraft. The rate environment has generally settled, with an acceptance that we are in a higher-for-longer period," says O'Mara.

"This, coupled with the strong airline demand, has resulted in lease rates increasing materially."

One development coming into view is the rise of green bonds, says John Cotter, professor of finance at UCD. These reward environmental initiatives, such as improvements in fuel efficiency, with cheaper loans. The sector can also benefit from making more generalised sustainabil-

ty improvements. While the E in ESG reporting refers to the environment, such sustainability-linked loans typically focus more on the S and G (social and governance).

While traditional green bond instruments focus on steps such as replacing existing fleets with more energy-efficient aircraft, increasing the use of sustainable aviation fuel or offsetting CO<sub>2</sub> emissions per passenger kilometre, sustainable linked loans are more broad-ranging.

### Landmark transaction

In December, for example, CDB Aviation, a wholly owned Irish subsidiary of China Development Bank Financial Leasing, a lessor, entered into its first sustainability-linked loan, anchored with a \$625 million syndicated term loan facility. In making the announcement CDB Aviation chief executive Jie Chen said the innovative facility marked a landmark transaction for the aviation finance space.

## 48,600

Boeing predicts the global fleet will nearly double to 48,600 in coming years

The SLL parameters of the facility are based on three key performance indicators. These include not just reducing the carbon intensity of CDB Aviation's fleet and focusing on the most fuel-efficient aircraft, increasing the share of new generation aircraft in the lessor's fleet, but also increasing the level of diversity, equity, and inclusion-related training for its workforce.

In October SMBC Aviation Capital closed a \$150 million sustainability-linked loan facility, with KPIs [key performance indicators] including the carbon intensity of its owned fleet and gender diversity across under-represented levels of seniority in the business.

Two years previously, Etihad Airways raised \$1.2 billion in a sustainability-linked loan. At the time, Adam Boukadida, chief financial officer at Etihad Aviation Group, said: "Financing our operations in a way that supports both our planet and the people in our local communities is the natural next step of our financing strategy." As well as committing to net zero targets by 2050, hitting key milestone goals along the way, it committed to increasing employment and upskilling of Emirati women in the aviation sector.

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# Plotting the decarbonisation course: how can aviation reach its net-zero target?

Advances are notable in areas like sustainable aviation fuel but production is low in the context of industry requirements

Danielle Barron

As the climate crisis finally begins to imbue us all with a sense of urgency, the pressure on the aviation industry to decarbonise and deliver on net zero ambitions is increasing every year. Advances are being made in areas like sustainable aviation fuel (SAF) but production is at minuscule levels in comparison to the industry's needs.

What is the industry doing to reach its net zero targets, how realistic are those targets, and what is the aviation finance sector doing to help?

According to Chris Brown, head of strategy at KPMG, other options are being worked on but the industry's "primary mantra" is SAF.

"Around the edges, start-up players make disproportionate noise around electric and hydrogen flight, but this is a distraction from meaningful decarbonisation through to 2050," he states.

And while the industry largely believes that SAF can deliver on meaningful decarbonisation, Brown says this is "optimistic", given the relatively small scale at which it is being produced.

Julie-Ann Sherry, partner in Aviation and International Asset Finance with law firm Mason Hayes & Curran, says the use of SAF could reduce CO<sub>2</sub> emissions by up to 80 per cent compared with traditional aviation fuel but admits there are significant barriers to this being fully realised.



## Reduction measures

"The overriding factors that will impact the ability of the industry to meet the ambitious target of net zero carbon emissions by 2050 is the speed of technology development, the capital investment required to scale them and the certification process for new technologies," Sherry also points out that for the aviation industry to achieve its net-zero targets, it will rely ultimately on the combined effect of multiple carbon emission reduction measures.

Bertrand Dehouck, head of transportation capital markets with BNP Paribas, agrees. He says all stakeholders in the aerospace industry are pursuing multiple paths to reach net zero, all of which will require significant technological development.

"We are seeing an increased pace in fleet replacement with newer, more fuel-efficient aircraft, coupled with an accelera-

tion in the development of next-generation platforms, with designs that bring the industry closer to a true e-fuelled net zero aircraft."

PHOTOGRAPH: ISTOCK

tion in the development of next-generation platforms, with designs that bring the industry closer to a true e-fuelled net zero aircraft."

Several avenues can be developed to provide quick wins over the medium term, Dehouck says, such as increasing the efficiency of airspace management, and air traffic control, coupled with improved airport and airline operations.

Brown is more pessimistic when it comes to these other avenues of sustainability. "The political will does not yet exist to push through the required airspace modernisation, including pragmatism around airspace sovereignty, for example, the failure of the European Sin-

gle Skies initiative, or the required investment in state air navigation service providers." Carbon offsets, while controversial, will always need to be a significant part of net zero for the sector, he adds.

Dehouck says the aviation industry must also look towards newer technologies and critical infrastructure systems to make aircraft more fuel efficient and more electric as well as air traffic management systems better able to bring flights to destination more efficiently, thus limiting their emissions.

"Streamlined flight and ground operations can drive small but material reductions in carbon emissions," adds Sherry.

But as one of the most heavily regulated industries in the world, innovation in aviation can be slow to rollout. Dehouck says this presents some "unique constraints in any new tech development", especially

when it comes to new propulsion systems and fuels. "No truly radical shift in tech level can be developed and deployed in the short or medium term therefore the industry must adapt to a continuous incremental pace of technological advancement."

## Contrail management

This view is echoed by Elizabeth Bowen, director of Ibec's Aircraft Leasing Ireland (ALI). "Aviation is a complex industry governed by an extensive regulatory environment," she says. "This means that the technological leaps required to address the climate threat are measured in decades rather than years and in turn means that our transition to carbon neutrality by 2050 is critically dependent on actions taken today, even though the results of those actions are not immediately apparent."

It is Brown's view that the



**“Technological leaps required to address the climate threat are measured in decades rather than years.”**  
— Elizabeth Bowen, director Aircraft Leasing Ireland

"single most realistic way" to make a meaningful dent in aviation's climate impact this decade would be through contrail management. This approach seeks to avoid the creation of

net warming contrails through small adjustments to flight plan altitude.

"The EU will require airlines to report on non-CO<sub>2</sub> impacts like contrails this decade," he explains. "Unlike SAF or airspace modernisation, however, contrail management is directly within the influence of airlines to make a difference."

Dehouck maintains that while net zero objectives are ambitious, with the right investments in the right areas they are "entirely achievable". He points to the work carried out by BNP Paribas and five other banks to help decarbonise the aviation sector through the formation of the Aviation Climate-Aligned Finance Working Group.

"The goal of the working group is to create a collective climate-aligned finance framework that defines common goals for action for aviation sector decarbonisation."

Sherry agrees. "There is no doubt that the net zero target by 2050 is a challenging one and will require significant collaboration across the whole industry to reach viable solutions."

## Sustainability Charter

This includes the aviation finance sector. Bowen explains that its members launched the ALI Sustainability Charter, the first set of ESG and climate-aligned principles for the aviation industry promoting collaboration and ambition among the lessor community, in October 2022.

"As owners of almost half the global fleet of aircraft, the leasing community has the experience and global influence necessary to move the needle and drive aviation towards a sustainable future," she says.

Ongoing research and innovation will be a critical element of this, and Bowen says ALI

members are supporting improvements in aircraft design and operational efficiency. For example, ALI is funding a new research project on SAF production in Ireland in collaboration with Trinity College Dublin and University of Limerick and is a member of the Government's SAF Taskforce looking to bring about the development of a national SAF policy roadmap.

But Brown says the aviation financing sector has yet to leverage its influence on aviation. "Given aviation finance knows the sector, they are the natural pioneers within the financial community in stimulating SAF supply, investing in disruptive technologies which reduce airport turnaround inefficiencies, which reduce airspace inefficiencies, and which tackle non-CO<sub>2</sub> factors. However, as of 2024, the number of lessors actively looking at these areas can be counted on one hand."

## Aircraft leasing – an industry almost born in Ireland

Legacy of Tony Ryan and GPA leasing business extends far beyond Ireland

### BARRY McCALL

Few individuals have had an influence as significant as the late Tony Ryan has had on the global aviation industry.

Not only did he found Ryanair, Europe's largest airline, but many believe he was single-handedly responsible for the creation of the Irish aviation leasing industry.

"You have to go quite a bit back to figure out how the Irish aviation leasing sector got to where it is today," says Dr Thomas Conlon, professor of Finance at UCD School of Business.

"In the 1970s, Aer Lingus took delivery of two Boeing 747 jumbo jets which it had no use for due to market conditions. They asked a young executive called Tony Ryan to figure out what to do with them. He found a home for them with Siam Air, now Thai Air, on a wet lease arrangement where the airline rented them from Aer Lingus complete with crew and maintenance contracts and so on.

"Ryan went back to Aer Lingus and said there might be a business in this type of arrangement but being a State-owned company, they weren't interested. He went off and set up the GPA aviation leasing business."

GPA effectively became the mother lode that fuelled the

growth and development of the industry to this day.

"The industry is only now beginning to move away from former GPA executives," Conlon notes. "The vast majority of the companies were founded by them and many of them are still led by former GPA executives."

GPA ultimately failed for a variety of reasons. "It split into two businesses, a good bank and a bad bank if you like," Conlon explains.

### Reunited

"The good bank part was taken over by GE and it became Gecas. The bad part was acquired by a number of different investors including Daimler and eventually became Aerpac. In 2021, Aerpac acquired Gecas from GE and reunited the two former GPA businesses to form the world's largest lessor."

The GPA legacy extends beyond Ireland, he argues. "In many ways, the global industry was created by GPA. There was only one other large aviation leasing business in the US at the time. That was the genesis of the industry before it became the behemoth we now have in Dublin."

Elizabeth Bowen, director of Aircraft Leasing Ireland (ALI), the Ibec group representing the aircraft leasing sector, also traces the industry's origins back to the foundation of GPA,



■ Tony Ryan in 1992. Not only did he found Ryanair, Europe's largest airline, but many believe he was single-handedly responsible for the creation of the Irish aviation leasing industry through his founding of GPA.

PHOTOGRAPH: ERIC LUKE

but other factors have contributed to its growth.

"Our rich aviation heritage, a highly skilled talent pool, a comprehensive double tax treaty network and pro-enterprise policies, along with a stable politi-



**“Ireland's success comes down to talent, track record and the tax environment.”**  
— Joe O'Mara, head of Aviation Finance at KPMG

cal and legal system, have allowed Ireland to develop an internationally orientated and fast-growing industry," she says.

Ireland's stable legal and regulatory framework, compared to other jurisdictions, has al-

lowed aviation leasing to become a significant and growing sector in the economy, she adds.

"In Ireland, there are several high-quality aviation courses on offer through various institutions across the educational spectrum," she continues. "Industry-supported apprenticeships ensure the continued supply of an appropriately skilled workforce."

### Tax regime

KPMG head of aviation finance, Joe O'Mara, points to the importance of the tax regime. "Ireland's success comes down to talent, track record and the tax environment," he says. "Focusing on the latter, the stable tax environment we have had in Ireland for decades has been the foundation which attracted capital to come here, allowing companies to flourish, creating high-quality jobs and generating huge value for the wider economy."

Those factors will remain important if Ireland is to retain its leading position, according to Bowen.

"To support and further develop the industry, government policy must focus on increasing its investment in skills, hous-

ing, productivity, and infrastructure," she contends.

"To remain competitive, we must maintain our competitive tax regime and better understand how international tax reform could affect the industry. In addition, Irish aviation lessors are committed to achieving net zero carbon emissions by 2050. To achieve this policy-makers both nationally and internationally must work with the aviation sector to bring about decarbonisation measures and supports."

A considered approach is required, says O'Mara.

"I spend a lot of my time talking to investors about 'Why Ireland?' and it very helpful being able to talk about a stable and non-concessionary tax regime, which is understandable and attractive for investment. Our regime is getting a lot more complex, with a level of change that is unprecedented."

"While most of that change is being driven from outside our borders, it's important our lawmakers are considered in how they implement required changes. We are talking about a mobile asset class, and maintaining our pro-business approach is critical to defending our world-leading position."

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# A lifeline during troubled times

The aviation leasing sector helped many airlines survive Covid shutdowns

DANIELLE BARRON

Bustling airports became eerily quiet and the familiar sight of contrails in the sky all but disappeared during the early months of the Covid-19 pandemic.

Now that passenger numbers are back to record highs it's almost hard to recall just how dire a time it was for the aviation industry. The business of aviation has been the victim of major disruptions before – Sars, 9/11, and after the 2008 global recession – but it has always come surging back.

And the robust business model of aircraft lessors ensured that they weathered this storm better than most, meaning that when it came to helping beleaguered airlines survive they were able to provide a lifeline to those seeking support. Throughout this time of travel restrictions, the aviation leasing sector helped customers to survive the Covid shutdowns via innovative solutions such as rescheduling leases, offering sale and lease back deals on airline assets and other measures.

“Covid was like somebody had pulled the handbrake in the middle of the motorway and stopped the entire industry. And yet we survived; most players are still broadly intact even if some underwent a little restructuring,” said Marc Larchy, partner at World Star Aviation, in November 2022.

And while many leasing companies experienced a significant drop in revenue as a result of rental deferrals and restructurings, many were also part of the solution, supporting airlines until such a time as we could all take to the skies again. Observers note that aircraft lessors enjoy at least par-

tial protection against defaults and deferrals of lease payments because of the security deposits and maintenance reserves they take from airlines.

Aircraft lessors played an important role helping airlines navigate the pandemic, says Julie-Ann Sherry, partner in aviation and international asset finance with law firm Mason Hayes & Curran. “Lessors provided assistance in the form of payment deferrals, restructuring leases and delaying delivery of aircraft.”

The SMBC Aviation Capital

**“Covid was like somebody had pulled the handbrake in the middle of the motorway and stopped the entire industry. And yet we survived”**

annual report for 2021 explains that during 2020 airlines began to restructure or else sought delivery deferrals or tried to raise funding. Others sought to keep aircraft past the lease expiry date. SMBC Aviation Capital worked with airlines in all of these situations, the report notes. “In particular, we assisted airlines in generating cash by stepping in to buy aircraft and leasing them back to our customers. We acquired some very attractive assets at competitive prices while the airlines generated much needed cash.”

Rent deferrals were a simple means of helping airlines struggling with cash flow and these continued through 2020

into early 2021 but tapering off as airlines saw a return of demand in the summer. A 2022 survey found that 86 per cent of lessors agreed deferred aircraft lease rentals with their airline customers during the crisis, although half of those expected these deferrals of lease rentals or power-by-the-hour (PBH) to be a short-term measure. Repossession was a last resort, although the same survey found that almost three out of 10 lessors had to take back more than 10 per cent of their fleet.

**‘Power-by-the-hour’**  
The pandemic also saw a trend towards amendments and variation of lease terms and temporary change to “power-by-the-hour” (PBH) payment arrangements. With PBH the airline pays rent only while the aircraft is operating, in marked contrast to the typical “hell or high water” clauses in leasing contracts. Lessors found these agreements, whereby some cash flow was still forthcoming, preferable in many cases to repossession, given the inherent difficulties in leasing airplanes to other customers at the time. In many cases this system also allowed airlines to continue to operate the aircraft to preserve access and slots in key international airports.

“The strength of relationships between aircraft lessors and airlines played a major factor in helping the industry weather the storm,” says Sherry.

This relationship will be key as demand surges. Bertrand Dehouck, head of transportation capital markets at BNP Paribas, says global passenger numbers, which had dropped to historic lows of 1.5 billion during the pandemic, are now projected to return to pre-pandemic levels of 4 billion annually by the end of 2024. “Projected forecast growth is matching pre-pandemic projections to a total of 8 billion by 2040.”

# Unprecedented challenge for asset recovery business

Deanna O'Connor

Only 10 per cent of leased aircraft lost to Russia since the Ukraine war began have been recovered

Since Russia's invasion of Ukraine, and the EU's subsequent sanctions against Russia, the aircraft-leasing industry has been facing an unprecedented challenge in asset recovery of aircraft and parts which had been leased to Russian airlines and were effectively stranded within Russia.

Jamie Ensor, partner and head of insolvency and corporate recovery at Dillon Eustace, says: “Reports indicate that, so far, only a small proportion of Western leased fleets have been recovered from Russian operators, and that the figure may be about 10 per cent of the total aircraft. We understand most of those were recovered in the immediate aftermath of the invasion in February 2022.”

Any early lease termination or repossession scenario is both complex and costly. Given the difficulty of recovering aircraft from Russia, many lessors looked to write off their losses and claim against insurance – huge amounts that insurance companies were understandably unwilling to part with, leading inevitably to legal battles.

**Litigation**  
Paul P. Jebely, chairman and founder of The Hague Court of Arbitration for Aviation (CAA), says: “The task of ensuring that a resolution in one jurisdiction holds force in another is no small feat, and often a prescription for failure.”

Little wonder that he would, under normal circumstances, proselytise in favour of arbitration, given his experience as an aviation lawyer, that litigation within the industry (particularly that involving multiple jurisdictions and complex engineering and technical subject matter) has frequently shown itself to be “ferocious, unedifying, publicly embarrassing and as-

oundingly expensive”.  
“When Russia invaded Ukraine, there were over 400 aircraft leased to Russian airlines,” says David McGovern, partner and head of the aviation and international asset finance team at Mason Hayes & Curran. “Global lessors took swift action to seek to recover aircraft wherever possible, and while they had some success, it is estimated that between \$12 billion and \$15 billion in aircraft assets remain within Russian territory.”

Reuters reported recently that Russian carriers had 541 Western planes in active service or under maintenance, as at May 1st, 2023, according to



**“It is estimated that between \$12bn and \$15bn in aircraft assets remain within Russian territory. – David McGovern, head of the aviation and international asset finance team at Mason Hayes & Curran**

data compiled by Swiss aviation intelligence provider Ch-Aviation.

The Irish Aviation Authority (IAA) lists a number of aircraft for which it has cancelled the Certificate of Airworthiness. However, it is believed that many of these Irish registered aircraft continue to operate in contravention of international rules and that they have been illegally re-registered.

Russian airlines can still fly freely both within Russia and to many other parts of the world including China, India, South America, and Africa, which are unaffected by EU and US sanctions, and according to Russia's Federal State Statistics Service, Russian airlines carried 10.1 million passengers in June 2023, a

13.9 per cent increase in passenger volumes year-on-year.

Irish lessor AerCap, the industry leader, was the most exposed in terms of numbers and value of aircraft affected (reports stated 152 aircraft believed to be valued at €2.1 billion were affected), although given the breadth of AerCap's business this represented less than 5 per cent of its overall fleet value.

“Over the last 12 months a number of aircraft lessors have been successful in agreeing Russian insurance settlements under certain airlines' insurance policies in respect of certain aircraft lost in Russia,” says McGovern. “There are certain



**“Reports indicate that, so far, only a small proportion of Western leased fleets have been recovered from Russian operators. – Jamie Ensor, head of insolvency and corporate recovery at Dillon Eustace**

conditions which need to be satisfied including compliance with multiple sanctions' regimes to achieve these settlements.”

In September 2023, AerCap reached a landmark agreement and settlement of €590 million from insurance company NSK in respect of claims for 17 aircraft and five spare engines leased to Aeroflot and its subsidiary Rossiya.

SMBC Aviation Capital won a similar settlement in October for 16 aircraft and engines, while in December last, AerCap received full settlement (approximately \$572 million) of claims against the policies of JSC Ural Airlines and JSC Siberia Airlines (S7), covering 18 aircraft and one spare engine and

29 aircraft and four spare engines respectively.

In its disclosures, AerCap stated: “While insurance settlement discussions are ongoing with respect to our remaining claims under the insurance policies of S7 and other Russian airlines, it is uncertain whether any of these discussions will result in any insurance settlement or receipt of insurance settlement proceeds and, if so, in what amount. In particular, it remains uncertain whether the necessary approvals and funding to complete any such further insurance settlements can be obtained.”

**Awaiting trial**  
Many other claims are still awaiting trial, as some insurers attempted to have cases tried in Russia, under whose laws the original contracts were signed.

Peter Bredin, partner in litigation and dispute resolution at Dillon Eustace, notes: “The lessors' claims under their ‘contingent and possessed’ insurance cover raise complex issues and are denied by the insurers on a number of grounds. The claims are being pursued in the Commercial Court, where the trial is due to start in June 2024 and may take three to six months.”

Looking at how this will affect the future of the industry, and risk pricing, Dr Thomas Conlon, professor of finance in the UCD School of Business, says: “As I see it, the challenge here is precedence. With Russia having been accused of breaking the terms of the Cape Town Convention, aircraft lessors and financiers will be less willing to provide aircraft to countries where there is any shadow of a doubt that the Cape Town Convention will not be upheld.”

“Currently, this is not so much of a problem. There is significant demand for new, efficient aircraft from high quality customers, and this is likely to remain the unchanged for the medium term in light of restricted supply of aircraft.”

“Historically, asset recovery in aviation was a difficult and risky business, with aircraft seized in volatile locations. This is less the case now, with recoveries usually carried out after significant, and expensive, legal wrangles.”


■ Reports indicate that, so far, only a small proportion of Western-leased fleets have been recovered from Russian operators.

PHOTOGRAPH: ISTOCK



■ A drive-thru Covid-19 testing facility at Dublin Airport in 2020. Aircraft lessors played an important role helping airlines navigate the pandemic. PHOTOGRAPH: DARA MAC DONAILL

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# Plane sailing: the importance of maintaining an aviation talent pipeline

Ireland is a world leader in aircraft finance and there are now a number of courses at third level and beyond to maintain that position

Sandra O'Connell

The Ryan Academy at DCU is named after the late Tony Ryan and focuses on teaching business to students. But Ireland's success in aircraft leasing is also referred to as the "Ryan Academy", at least within the industry.

It's an homage to the entrepreneur's outsized and lasting influence on the sector he invented, as founder of pioneering Guinness Peat Aviation (GPA) and, subsequently, Ryanair. As well as having been an astute businessman he is remembered as an unparalleled incubator of talent.

Because of his legacy, not alone is Ireland a world leader in aircraft finance, but Irish people have succeeded at top level across the wider aviation industry worldwide.

To maintain that momentum, Ireland needs to continue incubating aviation industry talent. It's why there are now a number of courses at third level and beyond including, most recently, UCD Smurfit School's new Professional Diploma in Aviation Finance.

The programme was developed with direct input from the aircraft finance and leasing sector, to ensure it fully addresses the needs of the industry.

Participants acquire a detailed understanding of the financial processes associated with the aviation finance sector including suitable risk assessment and aircraft asset management, accounting issues, financing and credit enhancement, leasing developments and insurance applications.

## Sustainability

There is a substantial focus on sustainability issues too, and how finance can support the sector's proposed decarbonisation targets. It's designed to help those on the course to develop the knowledge and skills to reach the highest level in the aircraft and airline financing industry.

Though a standalone diploma, it also forms part of the optional MSc in Business (Leadership & Management Practice) Pathway.

With demand for aviation finance skills set to grow in line with record levels of new aircraft orders predicted over the next two decades, it couldn't have come at a better time.

"One in two planes are now leased and this is a growing trend," says UCD's Prof John Cotter, who teaches a number of modules on the new course



■ Ireland needs to continue incubating aviation industry talent. The demand for aircraft finance skills is on an upward trajectory. Finance. PHOTOGRAPH: ISTOCK

and was involved in its development.

"Ireland is a leader in an industry that is growing. Not only is leasing expanding but already the top 14 companies in this sector in the world are headquartered in Ireland," says Prof Cotter, who likens the sector's success to that of iconic Irish consumer brands such as Kerrygold.

"The trend towards leasing is growing dramatically, which makes sense, given that a new plane costs around €100 million – a lot of money for any air-

line to have on the balance sheet. Leasing allows the airline to pay that down over 20 or 30 years, rather than all upfront now. I'd expect between 60 and 70 per cent of aircraft to be leased in the coming years," he says.

With the sector set for around three per cent growth in passenger numbers in the coming years, as well as growth in freight, the demand for aircraft finance skills is on an upward trajectory.

UCD's Professional Diploma in Aviation Finance comes in addition to its Master's Degree in Aviation Finance, established seven years ago. To date, more than 250 graduates have come through that programme, many of them from overseas.

Ireland competes not just with China and Singapore, its

main rivals for aircraft leasing, but increasingly with the Middle East too. Attracting international candidates to Ireland to become specialists in aviation finance is helpful in building a deep and diverse talent pool here.

## Talent

Talent is a key part of the success of the industry, and has been since its inception, says Prof Cotter. "It's about developing the talent hub. We want to ensure the talent is here."

That is borne out by the growing variety of courses on offer, both on a full- and part-time basis, online, in person and in hybrid format. University of Limerick's Professional Diploma in Aviation Leasing and Finance, set up in 2014 in partnership with Aviation Skillnet, was the



“Ireland is a leader in an industry that is growing. Not only is leasing expanding but the top 14 companies in the world are headquartered in Ireland,” – UCD professor John Cotter

first Level 9 university-accredited programme in Ireland tailored for the aviation Leasing sector and delivered online to for maximum flexibility.

Dublin Business School has a postgraduate diploma programme in aviation finance that is underpinned by a strong foundation in leadership. Delivered on a hybrid basis, it emphasises the development of effective financial management skills to structure aviation leases, including structured finance deals using special purpose vehicles, and managing aviation leases throughout the lease life cycle. It also ensures participants are well positioned to contribute to the digital transformation of aviation leasing.

DCU offers its highly regarded degree in aviation manage-

ment – a four-year degree programme that includes aircraft finance modules as well as the option for concomitant pilot or air traffic controller studies. The Carlow campus of SETU, long a bastion for aircraft maintenance training, also offers specialist industry programmes, ranging from a degree in aviation management to a certificate in aircraft acquisition and finance.

## Professional diploma

For those looking for a shorter burst, independent City Colleges runs a 10-session part-time professional diploma in aviation leasing and finance.

Subsidised employer-led training is also available through the Aviation Skillnet, part of Skillnet Ireland, the State's workforce learning

agency. Its courses can be tailored to meet the needs of companies throughout the aviation sector, from finance to maintenance, repair and overhaul (MRO), says Kumar Kaneswaran, the Aviation Skillnet network manager.

It can provide funding assistance for everything from third-level education to in-house training, as well as expert guidance in relation to talent development.

Skillnet is particularly attractive for small to medium-sized companies operating in this space, he points out. "Large players typically have resources in-house to do this, so we're really looking to raise awareness among smaller operators and start-ups to come to us for guidance, support and networking," says Kaneswaran.

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## How Irish aircraft maintenance sector supports the aviation finance industry

Maintenance, repair and overhaul services are on offer, but recruitment and retention of key personnel are vital to success

Ireland has been a global leader in the international aircraft leasing business since the 1970s and today approximately 50 per cent of the world's leased aircraft are leased or managed in this country.

Thanks to this global success story, the aircraft maintenance sector not only exists but thrives in Ireland and is a key reason for and support to Ireland's position as a leading aviation lessor. Aviation maintenance, repair and overhaul (MRO) is a strong industry and one that, presuming Ireland keeps its world-leading aviation status, continues to grow stronger and stronger.

As with any industry, there are highs and lows, but Dr Marina Efthymiou, associate professor in aviation management, and director of postgraduate aviation courses, Business School, Dublin City University, says that the sector is an excellent one, while still being open to improvement.

While there is no one-size-fits-all for any business, MROs tend to fit into six different business models depending on the airline/fleet owner – independent repair stations, fixed base operators,



■ Aircraft maintenance engineers are employed throughout the aviation industry. PHOTOGRAPH: ISTOCK

commercial airline hubs, regional airline facilities, military facilities and in-house corporate facilities where a corporation has a fleet of corporate jets that are managed by in-house staff. Different airlines will operate their own business model, depending on needs and the area being serviced.

Filling a much-needed pipeline Ireland offers excellent MRO services, but it suffers from the lack of a pipeline of human capital, says Dr Efthymiou. "More emphasis needs to be given on apprenticeships, but also upskilling and reskilling. The aviation industry is facing several challenges but also opportuni-

ties, and MRO professionals need to expand their skills on sustainability, digitalisation but also leadership."

The Irish Aviation Authority says that aircraft mechanics and engineers are employed throughout the aviation industry in a wide range of facilities designed to maintain light, rotary and large commercial aircraft. "Aircraft mechanics inspect, maintain and repair airframe structures, engines, electronic and avionics systems. The work is diverse, disciplined and highly regulated, both nationally and internationally."

"The aviation industry uses advanced technology and new aircraft, which with their increasing reliance on computerised flight control systems, means that the use of electronic and computer equipment is an important aspect of an aircraft me-

chanic's skills."

Apprenticeships are one of the main routes to becoming an Aircraft Maintenance Engineer (AME). Training is done both "off the job" with an educational body and "on the job" where the apprentice works with an aircraft maintenance company. In Ireland, the qualification takes four years to achieve. The licence is recognised internationally so can open the world up to those who obtain their qualification.

The aviation industry generally is male-dominated, with C-suite representation particularly low at 6-13 per cent, general employees at 33.9 per cent female and 94 per cent of pilot licences and 98 per cent of maintenance licences in Ireland being held by men.

"MROs need to become more diverse and include more females," says Dr Efthymiou.

"They can do that via targeted job adverts, encouraging young females and creating an inclusive culture to maintain any females in the industry and promote them."

MROs have also seen some significant technological innovations that can increase efficiency, but also safety, says Dr

“The aviation industry is generally male-dominated... 94 per cent of pilot licences and 98 per cent of maintenance licences in Ireland are held by men

Efthymiou. "The use of blockchain technology can support the mitigation of this threat. AI and machine learning can support inventory optimisation and the use of drones for inspections is proven to be revolutionary."

## Sustainable goals

It's probably more than fair to say that the aviation industry isn't an inherently sustainable sector, although strong strides have been made to support sustainability in the sector such as sustainable aviation fuel and commitment to reaching net zero by 2050.

"MROs are also making some small progress on sustainability, like aircraft modification for reduced emissions," says Dr Efthymiou. "More research and innovation is needed in this area not only in MROs but across the aviation system."