



AIRCRAFT LEASING COMPANIES LOOK FORWARD TO THE OPPORTUNITIES IN AN INDUSTRY EMERGING FROM COVID

By Declan Kelly, Chair, ALI (Aircraft Leasing Ireland)

Early in October 2021, ISTAT (The international society of transport aircraft trading) held its first European in-person conference since the start of the pandemic. The gathering in Edinburgh was almost at full capacity, with the mood around the fringes of the conference brimming with optimism about the prospect for a full recovery in aviation and how leasing will play a starring role.

A key feature around every ISTAT conference is networking and the queues for the coffee dock signify how much the attendees have missed those interactions in the last two years.

ALI is the body which represents the world's largest leasing companies. Like every other business involved in aviation, the last 18 months has been challenging for all of us. Responding directly to that challenge has marked my first year as the Chair of ALI, a period that has been dominated by working closely with our airline customers to manage rental deferrals and in some, but a limited number of cases, we have had the unenviable task to repossess aircraft.

I am now well into the second half of my tenure and despite new challenges with Omicron, we have seen recovery in the sector. While it's still too early to gauge the full impact of Omicron, there are some opportunities emerging for the leasing industry.

The Boeing 737 MAX aircraft has returned to the skies and domestic economies are recovering nicely with some economies like China experiencing numbers of flights that are higher than pre Covid levels.

There has been a plateauing recovery effect both domestically and internationally tracking global vacation rates, especially in the Asia Pacific region. Despite

Omicron and new variants which are causing more travel restrictions, we are hopeful that we can see global traffic continuing to recover in 2022.

Airlines are looking increasingly now to leasing as a solution as they try to manage cash flow. Over 40% of the world's fleet is leased with some commentators predicting that this will pass the 50% threshold before long, with lessors financing over 65% of all new deliveries since January 2020.

This is being driven by airlines that are looking for more sustainable options. Many have made the decision to retire older aircraft and opt for newer technology aircraft that are up to 15% more fuel efficient. For example, Boeing and Airbus have both reported increased demand for both the neo and max in the last quarter both from lessors and airlines alike. Airlines are issuing more RFPs and we can see healthy competition coming back into the sale-and-leaseback market.

Prioritising sustainability

One of the key themes that is dominating the leasing industry, like many others, is the debate around sustainability in aviation and where leasing fits into this.

Most downturns in the aviation industry have seen sustainability pushed to the bottom of the priority list but this time it is different. Sustainability is now leading the agenda aided by the IPCC review during the Summer and the publication of Europe's Fit for 55 programme.

It is widely acknowledged by lessors that we have a role to play in mitigating the effects of climate change and the debate has moved now on to the shape and scale of that role and how we can collaborate with our airline customers and the OEMs in determining the future landscape.

Aviation contributes 2.5% of all global emissions but this

“Over 40% of the world's aircraft fleet is currently leased.”

is set to increase over the coming years as other modes of transport decarbonise. However, aviation is termed one of those “hard to abate” sectors. Solutions are not imminent.

Sustainable Aviation Fuels (SAF) once it is sustainably sourced is one of the most attractive options for the aviation industry but at this point of time, it is more than twice as expensive as jet fuel and there is a scarcity of supply. The current availability of SAF is only about 0.1% of the world’s total requirement and it is about a decade away before we will see viable SAF options.

Electric and hydrogen powered aircraft will also form part of the solution, but many believe that this is still about 20 years away with Airbus stating that its new hydrogen aircraft, Zero-e, will not come on stream until about 2035.

Digitisation

The focus on sustainability has also created an opportunity to make progress in other areas within the industry. One of our key objectives in 2022 is to see further digitisation in asset management, especially

in the area of aircraft records which have been largely paper based. However, the pandemic has seen new developments in this area and the focus now is to move to a digitised maintenance registry.

Finally, as we focus on building back for the future, the industry is also playing its role in engaging in new ways of working and facilitating greater work life balance. These are important issues now that facilitate greater opportunities to attract more diversity into the industry.

While the pandemic has been challenging for all of us, the coming months present us with a window. Let’s take the chance now to collaborate to build back better, more sustainable businesses that are more resilient and make for a bright future for all of us.

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